Varengold

BANK

Annual Report

2022

Key Figures of Varengold Bank AG

Key figures per share	31.12.2022 in EUR	31.12.2021 in EUR
Earnings per share	0.90	1.71
Market capitalization	57,245,186	44,390,126

Gewinn- und Verlustrechnung	01.01.2022 to 31.12.2022 in TEUR	01.01.2021 to 31.12.2021 in TEUR
Interest income	13,598	6,750
Current income from shares and other non-fixed income securities and shares in affiliated companies	302	1,243
Commission income	65,303	45,145
Other operating income	-4,872	-1,231
Administrative expenses	-35,704	-22,876
Depreciation and value adjustments	-8,184	-7,627
Holding in the fund for general banking risks	-5,000	0
Income from normal business operations	25,443	21,403
Annual profit	9,057	17,166

Balance sheet	31.12.2022 in TEUR	31.12.2021 in TEUR
Total assets	1,421,365	1,466,744
Net assets	64,888	55,831

Preliminary remark

The chapters contained in this annual report are exclusively the mandatory information in the context of the publication of the annual financial statements for the 2022 financial year. The voluntary content that has always been published in the annual reports of Varengold Bank AG in recent years unfortunately needed to be omitted when preparing this annual report. The reason for this is the significant delay in the audit of the annual financial statements and thus the certificate, leading us to fulfil the publication obligation as quickly as possible on the basis of the minimum requirement.

At the time of writing this annual report, a special audit of Varengold Bank AG's business operations was being carried out by the Federal Financial Supervisory Authority in accordance with § 44 para. 1 sentence 2 of the German Banking Act (KWG). Two of a total of three audit items had been completed at the time of writing this report. The bank has yet to be notified of a specific end date for the ongoing special audit.

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01 Letter to the Shareholders

Dear Shareholders,

When we look back at the 2022 financial year, which is now quite a long way behind us, we can clearly say that this will be remembered as a successful year for Varengold Bank, in which we managed to further increase performance. Net income increased significantly by around 52% to EUR 84.3 million compared to the same period in 2021 (EUR 55.6 million). Earnings before taxes (EBT) also improved and were nearly 19% higher than in 2021, amounting to EUR 25.4 million (previous year: EUR 21.4 million). As part of this development, our Transaction Banking proved to be a reliable growth driver thanks to the steady acquisition of new customers and the expansion of business activities within the existing network. Moreover, we successfully continued the expansion of our services in the Marketplace Banking business area and gained additional business partners in the Lending and Banking-as-a-Service divisions.

In addition, digital transformation was a key driver of success in the year 2022. The aim is always to provide meaningful support to the Bank's business areas and to satisfy customer expectations of a modern institution. We expect that the level of digitization in the financial industry will continue to develop towards full automation including the use of artificial intelligence in certain processes and that an intensive immersion into this trend is essential. Based on the Bank's cultural transformation in recent years, the focus in 2022 was also on internal collaboration and communication - both projects that have been successfully integrated into everyday life and continue to promote the flow of information and collaboration in the Bank to this day. The existing New Work concept was incrementally further implemented and the employer profile was sharpened in various angles. The Bank also continued to devote itself intensively to the topic of sustainability. We are convinced that environmental protection and social inclusion should always be given great importance and we try to make our best possible contribution in these areas.

This was also a fundamental idea and partly the basis of the strategic business decision to support people who do not have access to banking services due to difficult regulatory requirements, political motives or other restrictions. This is why the Bank supports exporters and importers in the Commercial Banking business area, as well as the integrated Transaction Banking area with for example, payment processing for humanitarian goods (food and medicines), including those to importers in high-risk third countries.

If we now turn our attention to the already passed 2023 financial year, the planned growth project needed to be put on hold. As part of a special audit of business operations ordered by the Federal Financial Supervisory Authority in December 2022, in accordance with § 44 para. 1 sentence 2 of the German Banking Act (KWG), the Payment Transactions business / Transaction Banking, among other items, were intensively examined. An interim result of the auditors announced at the beginning of June 2023 led to restrictions and restructuring measures in the Payment Transactions business due to possible compliance violations. This in turn led to a significant loss of commission income and thus a deterioration in the earnings situation in relation to the Bank's previous business planning. The Bank immediately initiated short-term restructuring measures, a stronger expansion of the Marketplace Banking core business area with a focus on the lending area was undertaken and a cost-cutting program was implemented.

The audit parts 2 (Bulgaria) and 3 (money laundering) of the special audit have now been completed; the audit in audit area 1 (taxes) is ongoing. The Bank is of course continuing to cooperate professionally and within the framework of all legal obligations with the auditors involved, but is critically questioning the process and individual partial results of the audit and reserves the right to take legal action.

Due to this special audit and the resulting interim results, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, as auditor for the 2022 financial year, was unable to complete the required audit procedures at the bank within the originally planned time frame by June 2023, which is why the audit certificate was not issued until June 18, 2024. After the original preparation of the 2022 annual financial statements, positive and negative value-enhancing factors needed to be taken into account in the closing work, which impacted the 2023 annual financial statements. The preliminary and as yet unaudited result for the 2023 financial year shows an EBT of EUR 25.8 million. The forecast for the current 2024 financial year is a profit before taxes of EUR 9 to 13 million.

We would like to thank you for your trust in Varengold Bank and would especially like to thank our employees for their hard work and exceptional commitment during these difficult times. You have made it possible to maintain the trusting relationship with our business partners and customers and to also establish new business relationships. We will probably face one or two challenges in 2024, but we are ready to face them and look forward to the coming period with confidence and enthusiasm.

Hamburg, in June 2024

Board of Directors of Varengold Bank AG

Dr. Bernhard Fuhrmann

Frank Otten

02 Supervisory Board Report

Varengold BANK

Dear Shareholders,

The year 2022 was challenging for both private individuals and companies. Also, for credit institutions, the year was initially plagued by the economic aftermath of the Covid 19 pandemic and Russia's war of aggression against Ukraine. This war has already caused great human suffering and has had a significant impact on global economic development, not least through increased energy prices, supply bottlenecks and inflation. As a result, there was also a clear reversal in the interest rate landscape.

New legal and regulatory requirements for credit institutions were also initiated or implemented. With regard to the upcoming changes in legislation, such as the Corporate Sustainability Reporting Directive, Varengold Bank is already actively taking the necessary measures, as the topics of corporate culture and sustainability in the sense of Environmental, Social and Governance (ESG) have been a focus of the Bank's strategic activities for several years. Digital transformation and process optimization were also further advanced in 2022. The entire Varengold team worked together to keep the company on a growth path in 2022 and the Supervisory Board closely monitored this development and monitored and controlled the Management Board in the performance of its executive activities.

The following year, 2023, was again a major challenge for the Bank, marked by the ongoing special audit pursuant to 44 of the German Banking Act (KWG), loss of earnings in commercial banking, restructuring measures and delays at various levels. This also led to retrospective effects on the 2022 annual financial statements, which could only be determined significantly later in June 2024. Details can be found in the following passages. These temporal effects will continue to be reflected in the development of the current year and have also led, for example, to the audit of the 2023 annual financial statements by PricewaterhouseCoopers GmbH only being able to start in June 2024.

Cooperation of the Supervisory Board and the Management Board

In the 2022 financial year, the Supervisory Board performed the duties according to the law and the Company's Articles of Association. It focused extensively with the company's business and strategic development and intensively monitored the management of the business by the Management Board in fulfilling its advisory and supervisory function. The monitoring objectives were based on the legal requirements and, if necessary, were adjusted during the year to align with internal and external developments. The benchmark for this monitoring was the legality, regularity, expediency, strategic importance, sustainability and economic efficiency of the management of the company by the Management Board. In addition, the Management Board's rules of procedure contain a catalogue of transactions and measures for which the Management Board must obtain the approval of the Supervisory Board. Such transactions and measures were discussed in detail between the two bodies and examined by the Supervisory Board.

The committee was always kept up to date on business activities and received materials including written reports on the monthly financial situation and quarterly information on the Bank's risk situation. In addition, all internal audit reports and compliance reports and, depending on the individual case, additional documents were sent to the Supervisory Board. The information provided to the Supervisory Board was explained and discussed in the Supervisory Board meetings, in the context of circular resolutions, as well as in individual discussions. The Management Board's constant, comprehensive and timely written and oral reports to the Supervisory Board complied with the requirements of § 90 of the German Stock Corporation Act (AktG).

The members of the Supervisory Board and the Management Board were also in close contact outside of the meetings in order to question and discuss strategic options and current issues of business policy. The Management Board always answered and explained the Supervisory Board's questions thoroughly and to its satisfaction. In order to broaden the information base and gain its own impressions of the company's development, the Supervisory Board also made inquiries outside the Management Board, including from senior managers of the bank, the internal audit department and external consultants.

Over the course of 2022, the Supervisory Board was satisfied as to the suitability and reliability of the members of the Management Board through regular exchanges with the individual members of the Management Board, as well as through targeted question responses. The Supervisory Board itself regularly subjects its work to an efficiency review.

Audit Committee

Effective January 1, 2022, the Supervisory Board of Varengold Bank AG established an Audit Committee on the basis of the Financial Market Integrity Strengthening Act (FISG) which is automatically formed by the Bank's three incumbent supervisory members. The Audit Committee derives its responsibilities from those of the Supervisory Board and, in accordance with § 100 (5) AktG, includes two financial experts on its board (one for accounting and one for auditing). The Audit Committee is responsible for monitoring the quality of the annual financial statement audit and checks the independence of the annual financial statement auditors. The Audit Committee has the right to obtain information directly from the Bank's middle management.

In the 2022 reporting year the Supervisory Board decided not to form any additional committees due to the size of the Company and the fact that the Supervisory Board only consists of three members.

Supervisory Board Meetings 2022

A total of four ordinary Supervisory Board meetings were held in the past financial year, which took place on 21 March 2022, 20 June 2022, 24 August 2022 and 5December 2022. All meetings were attended by all members of the Supervisory Board, both members of the Management Board, the Chief Operating Officer/ General Representative and, depending on the topic, guest speakers from the respective departments. To the delight of all participants, the meetings were no longer held exclusively virtually, but could also be held in person again and were thus characterized by personal contact. However, the option of hybrid meetings also continued to be used when this was deemed appropriate or beneficial.

In principle, at each meeting the Management Board reported to the Supervisory Board on the current development of the financial and economic situation and provided a status update, with a particular focus on risk controlling and compliance matters.

The main agenda items for the meeting on 21 March 2022 were business development and key company figures for the previous 2021 financial year. In addition, the 2022 business strategy was discussed and the 2022-2024 business plan and the 2022 risk strategy were discussed by the Management Board and subsequently approved by the Supervisory Board. Moreover, the participants discussed, among other things, the 2021 compliance report, the existing remuneration system and its implementation, and the possible effects of the Russia-Ukraine conflict on Varengold Bank AG.

In the meeting on 20 June 2022, in addition to a review of business developments in the first half of 2022, the agenda focused in particular on the 2021 annual financial statements (in direct discussions with the responsible auditors of PricewaterhouseCoopers GmbH). In addition, the non-audit services of the auditing firm PricewaterhouseCoopers GmbH and current developments in the area of risk controlling and compliance were explained.

The meeting on 24 August 2022 primarily concentrated on business developments in the respective business areas and an update of the 2022 business strategy. In addition, the Supervisory Board, in its capacity as Audit Committee, discussed the quality and independence of the auditors of the annual financial statements.

At the last meeting of the year, on 5 December 2022, the bank's earnings performance to date in 2022 was reviewed and initial plans for the 2023 financial year were discussed. Other key topics of the meeting included the Bank's shareholding structure and personnel development.

In addition to these four joint meetings of both bodies, the Supervisory Board also held occasional telephone and video conferences in order to follow up on the topics from the joint meetings and to prepare the topics for upcoming joint meetings. In addition, further resolutions were passed by circulation in accordance with § 12 para. 2 of the Articles of Association of Varengold Bank AG.

Award of the audit contract to Pricewaterhouse-Coopers GmbH

On 24 August 2022, the auditing firm PricewaterhouseCoopers GmbH (PwC), Hamburg, was elected as auditor for the 2022 financial year at the Annual General Shareholder's Meeting of Varengold Bank AG. The Supervisory Board then awarded the audit contract to PricewaterhouseCoopers GmbH. The contract itself contained, among other points, clear regulations on the scope of the audit, the conduct of the audit and the goal-oriented cooperation. Before the Supervisory Board recommended the election proposal to the Annual General Meeting, the auditor declared that no business, financial, personal or other relationships existed that could give rise to doubts about its independence.

Annual audit 2022 – influenced by special events in 2023

The events and developments of 2023 have had a significant impact on the course of the 2022 annual financial statement audit and ultimately led to a serious delay. The original preliminary meeting of the audit report on the 2022 annual financial statements prepared by PwC took place between the Management Board and the auditors on 26 May 2023, with the Chairman of the Supervisory Board also taking part.

Based on the retained profit for the 2022 financial year, the Management Board and Supervisory Board initially planned to propose a dividend distribution of approximately EUR 3.6 million (36 cents per share) to the Annual General Meeting, which had previously been scheduled for August 2023, and to carry the remaining amount forward to new account. In the course of a special audit of business operations ordered by the Federal Financial Supervisory Authority in accordance with § 44 para. 1 sentence 2 of the German Banking Act (KWG), the Bank's Payment Transactions business was examined intensively, and an interim result from the auditors involved led to restrictions and restructuring measures in this business area at the beginning of June 2023. These measures were due to possible compliance violations and resulted in a significant deterioration in the earnings situation due to a lack of commission income. This was subsequently followed by short-term restructuring measures and the development of restructuring parameters at the overall Bank level. The Supervisory Board itself has also independently engaged a legal firm to conduct additional forensic investigations with respect to the Management Board based on a data review and data audit.

Furthermore, on 16 June 2023, the Management Board and Supervisory Board decided, for the purpose of precaution and to strengthen the capital base, to carry forward the retained profit for the 2022 financial year in full to new account with the approval of the next

Annual General Meeting and thus not to pay out the planned dividend for 2022.

Due to the special audit and the resulting interim results, PwC as auditor was unable to complete the required audit procedures for the 2022 financial year as scheduled and had to suspend the audit in the meantime. After the original preparation of the 2022 annual financial statements, positive and negative value-enhancing factors had to be taken into account in the further course of the final work.

The audit was able to be continued in October 2023. PricewaterhouseCoopers GmbH, Hamburg, has conducted a final audit of the annual financial statements as of 31 December 2022 (consisting of the balance sheet, profit and loss statement, notes) and the Management Report for the 2022 financial year, which were prepared in accordance to the provisions of the German Commercial Code (HGB). In preparation for the Supervisory Board meeting on 20 June 2024, the Supervisory Board received the draft audit report on the 2022 annual financial statements for review and audit. On 17 June 2024, the final meeting of the audit report on the 2022 annual financial statements took place between the Management Board and the auditor, with the Chairman of the Supervisory Board in active participation. All outstanding questions were clarified in the Supervisory Board meeting with the Management Board and the auditors of PricewaterhouseCoopers GmbH who were present. After its own examination, the Supervisory Board agreed with the result of the audit.

By unanimous resolution of the Supervisory Board on 20 June 2024, the audited annual financial statements of Varengold Bank AG as of 31 December 2022, which were provided with an unqualified audit opinion by the auditor, were approved in accordance with § 12 in conjunction with § 22 of the Articles of Association of Varengold Bank AG after the final audit by the Supervisory Board and are thus adopted.

Personnel

The Supervisory Board member in office in 2022, Mr. Francesco Filia, resigned from his mandate for personal reasons effective 25 February 2023. The Supervisory Board thanks the former Supervisory Board member Mr. Filia for his valuable contribution and trusting cooperation. At the request of the Management Board, the Hamburg District Court, by order of 6 February 2023, appointed Mr. Florin Isac as a member of the Supervisory Board with effect from 26 February 2023 until the end of the next ordinary or extraordinary general meeting of the company.

Unfortunately, Mr. Isac had to resign from his position prematurely for personal reasons, effective 5 July 2023. At the request of the Management Board, the Hamburg District Court, by order of 3 July 2023, judicially appointed Mr. Marcus Columbu as a member of the Supervisory Board with effect from 6 July 2023 until the end of the next ordinary or extraordinary general meeting of the company.

After many successful years of growth well into 2022, the Bank has had a difficult year 2023. We as the Supervisory Board have closely monitored the events relating to the special audit and the resulting consequences and have proactively initiated our own independent investigations. It is and remains a particular concern of the Supervisory Board at this point to express our appreciation to the employees and the current Management Board of Varengold Bank for their personal commitment. We would also like to thank the shareholders, business partners and customers for the trust they have placed in Varengold Bank AG.

Hamburg, 20 June 2024

For the Supervisory Board:

Dr. Karl-Heinz Lemnitzer
Chairman of the Supervisory Board

03 Annual Report

according to the German Commercial Code (HGB)

For the business year from 1 January 2022 to 31 December 2022

Varengold Bank AG
Große Elbstraße 39
22767 Hamburg

Varengold Bank AG, Hamburg

Balance sheet as of 31 December 2022

Assets		Euro	Financial Year Euro	Previous year TEuro
1.	Cash reserve			
	a) Cash reserve	1,816.49		3.1
	b) Credit with Central Banks	13,897,868.28		956,263.0
	- of which:		13,899,684.77	956,266.1
	With the German Central Bank: Euro 13,826,497.63			(954,717.8)
2.	Loans and advances to credit institutions			
	a) Due on demand	783,805,107.57		8,297.6
	b) Other receivables	7,040.83		5.5
			783,812,148.40	8,303.1
3.	Customer receivables		432,932,058.64	304,094.2
	- of which:			
	Secured by mortgages: Euro 43,664.44			(43.7)
	Municipal loans: Euro 191,290,541.74			(93,963.5)
4.	Bonds and other fixed-income securities			
	Securities			
	a) Bonds and debt			
	aa) From public issuers	25,808,310.51		28,462.7
	- of which:			
	Acceptable as collateral at the German Central Bank: Euro 25,582,721.46			(28,295.0)
	ab) From other issuers	2,086,705.27		0.0
	- of which:			
	Acceptable as collateral at the German Central Bank: Euro 2,071,195.00			(0.0)
			27,895,015.78	28,462.7
5.	Shares and other variable-yield securities		100,255,615.94	122,657.1
6.	Shareholdings		3,988,906.90	660.7
7.	Shares in affiliated companies		500,000.00	500.0
8.	Trust assets		39,406,243.65	42,379.4
	- of which:			
	Trust loans: Euro 39.406.243,65			(42,379.4)
9.	Intangible assets			
	a) Internally generated industrial property rights	86,027.00		157.2
			86,027.00	157.2
10.	Fixed assets		180,395.50	229.0
11.	Other assets		18,299,405.80	2,720.2
12.	Accruals and deferred income		109,513.09	314.1
Total assets			**1,421,365,015.47**	**1,466,743.8**

Liabilities		Euro	Financial year Euro	Previous year TEuro
1.	Liabilities to banks			
	a) Due on demand	121,144,113.87		120,308.3
	b) With agreed maturity dates or periods of notice	2,962,762.25		28,620.5
			124,106,876.12	148,928.8
2.	Amounts owed to customers			
	a) Other liabilities			
	aa) Due on demand	845,386,093.59		854,781.2
	ab) With agreed maturity dates or periods of notice	299,825,642.40		343,546.2
			1,145,211,735.99	1,198,327.4
3.	Trust liabilities		39,406,243.65	42,379.4
	- of which:			
	Trust loans: Euro 39,406,243.65			(42,379.4)
4.	Other liabilities		1,098,575.50	4,285.2
5.	Accruals and deferred income		686,996.40	313.4
6.	Provisions			
	a) Reserves for pensions and similar obligations	1,294,006.00		231.8
	b) Provisions for taxes	5,885,692.46		504.0
	c) Other provisions	28,786,566.45		10,942.4
			35,966,264.91	11,678.2
7.	Instruments of additional regulatory core capital		5,000,000.00	5,000.0
8.	Fund for general banking risks		5,000,000.00	0
9.	Share capital			
	a) Subscribed capital		10,043,015.00	10,043.0
	b) Capital reserves		44,705,492.65	44,705.5
	c) Retained earnings			
	ca) Legal reserves	1,700.00		1.7
	cb) Other retained earnings	16,700.00		16.7
			18,400.00	18.4
	d) Net profit		10,121,415.25	1,064.5
			64,888,322.90	55,831.4
Total liabilities			**1,421,365,015.47**	**1,466,743.8**
1.	Contingent liabilities			
	a) Liabilities from guarantees and indemnity agreements		50,000.00	50.0
2.	Other liabilities			
	a) Irrevocable loan commitments		46,027,219.10	38,087.3

Varengold Bank AG, Hamburg

Profit and loss statement

For the period from 1 January 2022 to 31 December 2022

		Euro	Euro	Financial year Euro	Previous year TEuro
1.	Interest income from				
	a) Credit and money market transactions	15,288,165.82			8,927.2
	less negative interest from bank balances and customer credits	-3,182,880.96			-4,113.0
		12,105,284.86			4,814.2
	b) Fixed-income securities and debt register claims	524,541.63			458.7
	less interest	0.00			0.0
		524,541.63	12,629,826.49		5,272.9
2.	Interest expenses	-2,413,046.89			-2,541.8
	less positive interest from open market operations and banking business	3,381,311.68			4,018.4
			968,264.79		1,476.6
				13,598,091.28	6,749.5
3.	Current income from				
	a) Shares and other variable-yield securities		302,307.72		792.5
	b) Shares in affiliated companies		0.00		450.0
				302,307.72	1,242.5
4.	Commission income		72,777,482.00		49,025.8
5.	Commission expense		-7,474,405.76		-3,880.5
				65,303,076.24	45,145.3
6.	Other operating income			5,123,659.87	2,471.6
7.	General and administrative expense				
	a) Personnel expense				
	aa) Wages and salaries	-12,050,802.35			-9,881.3
	Social security contributions and expenses				
	for pensions schemes and support	-2,539,105.23			-1,403.2
	- of which: for pensions: Euro 1,446,465.15		-14,589,907.58		-11,284.5
	b) Other administrative expenses		-21,113,813.11		-11,591.8
				-35,703,720.69	-22,876.3
8.	Depreciation and amortization of intangible assets and property			-116,072.34	-113.6
9.	Other operating expenses			-9,996,158.18	-3,703.4
10.	Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business			-6,828,570.60	-7,512.9

		Euro	Euro	Financial year Euro	Previous year TEuro
11.	Holding in the fund for general banking risks			-5,000,000.00	0.0
12.	Depreciation and value adjustments on holdings, Shares in affiliated companies and securities treated as fixed assets			-1,239,374.29	0.0
13.	**Income from ordinary business activities**			**25,443,239.01**	**21,402.7**
14.	Taxes on income and earnings		-16,386,311.76		-4,237.2
15.	Other taxes, as long as not posted under position number 9		-10.00		-0.0
				-16,386,321.76	-4,237.2
16.	**Annual net profit / loss**			**9,056,917.25**	**17,165.5**
17.	Profit (previous year loss) carried forward from the previous year			1,064,498.00	-16,101.0
18.	Net profit			10,121,415.25	1,064.5

Varengold Bank AG, Hamburg
District Court, HRB 73684

Notes

For the financial year from 1 January 2022
to 31 December 2022

Preliminary remark

At the time of preparing these notes, a special audit of Varengold Bank AG's business operations was being carried out by the Federal Financial Supervisory Authority in accordance with § 44 para. 1 sentence 2 of the German Banking Act (KWG). Details can be found in the supplementary report under No. 6.7. The bank has yet to be notified of a specific end date for the ongoing special audit; two of the three audit items had been completed at the time of preparing this report.

Due to this audit and the resulting interim results, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, as auditor for the 2022 financial year, was unable to complete the required audit procedures at Varengold Bank AG within the originally planned time frame by June 2023. After the original preparation of the 2022 annual financial statements, positive and negative value-enhancing factors needed to be taken into account in the continuing course of the final work and until these notes were prepared.

1 General information

The annual financial statements are prepared in accordance with the German Commercial Tax Code (HGB), the Stock Corporation Act (AktG) and the Regulations on Accounting for Banks (RechKredV).

Entries which apply to multiple posts to improve precision and clarity continue to be displayed in general posts, different to § 284 para. 1 sentence 1 HGB.

As all subsidiaries according to § 296 para. 2 HGB, even when combined are of lesser importance for an accurate view of the group's asset, financial and earnings position, use is made of the exemption clause on the preparation of consolidated financial statements pursuant to § 290 para. 5 HGB.

2 Accounting and valuation methods

The accounting and valuation methods remained unchanged compared to the previous financial year.

For a better overview, specific unused items on the balance sheet and the profit and loss statement are presented in accordance with § 265 para. 8 HGB.

Assets and liabilities are – unless otherwise stated above or below – valued according to the requirements of §§ 252 ff. HGB and additionally to the supplementary provisions of §§ 340 ff. HGB.

The cash balance and credit to Central Banks are recorded at nominal values. We would like to point out that overnight balances at the German Central Bank are to be reported as claims on credit institutions; see also the explanations in § 4.1.2.

Claims to banks and customers including trust loans are generally recorded at nominal value. When necessary, possible credit default risks are carried by the forming of an individual value adjustment account. The amount of risk provisioning for each case of default risk is measured by the difference between the book value of the claim and the probable recoverable amount. Bad debts are written off. The latent credit risks are carried through the creation of value adjustments. For comparable risks arising from irrevocable loan commitments, a provision was created for the first time in the interim financial statements as of 30 June 2022 and continued in the annual financial statements as of 31 December 2022. They are determined according to RS BFA 7 on the basis of an estimate of the expected loss from a non-contractual fulfillment of capital and interest obligations in the originally agreed upon amount or to the originally agreed payment date over the remaining term (expected loss); revenues from the valuation of credit securities are taken into consideration in the determination.

The structured financial instruments contained in the loans and stock options against cash payment without an exercise obligation are accounted for uniformly in accordance with IDW RS HFA 22, as both the underlying instrument and the derivative are subject to uniform risks. When the options are exercised, the acquisition costs of the assets are determined by the cash payment for exercising the option.

On the balance sheet date, there are open stock option transactions without an exercise obligation; these options are not used to cover interest rate, exchange rate or market price fluctuations and are not used for trading purposes; but are rather intended to be exercised to acquire investments.

Bonds and other fixed-income securities, when assigned to fixed assets, are balanced according to the moderate lowest value principle. When allocated to liquidity reserve, they are balanced using the strict lowest value principle. On 31 December 2022 no items were allocated to fixed assets.

Shares and other variable-yield securities which are assigned to fixed assets are balanced according to the moderate lowest value principle. When allocated to liquidity reserve, they are balanced using the strict lowest value principle. Fixed assets include an inventory of TEUR 63,098 (book value).

The investments and shares in affiliated companies are measured in accordance with the rules for acquisition costs or less potential value impairments at the lower of cost or market at the reporting date.

Trust assets and obligations are listed at nominal value.

Intangible assets (software) and fixed assets are valued at acquisition cost, reduced by scheduled straight-line depreciation in accordance with the useful life. To determine expected useful life, fiscal depreciation rates according to AfA guidelines for asset depreciation (depreciation for wear and tear) are used.

Low value assets are recorded in accordance with the provisions of § 6 para. 2 and 2a EStG. The low value assets purchased at acquisition costs of between EUR 250 and EUR 1,000 are then bundled into a compound posting, which is of secondary importance and is written off in the financial year of formation and in the following four financial years at one fifth each. Assets with a value of less than EUR 250 are treated as immediate operating expense.

Other assets are valued at their nominal value. Individual value adjustments of TEUR 1,000 were made for doubtful items. There were no such postings in the previous year.

Active prepaid expenses are recorded in accordance with § 250 para. 1 HGB.

Liabilities are recognized at their settlement amount.

Deferred income (discount income from forfaiting transactions) is formed in accordance with § 250 para. 2 HGB and dissolved over the term of the underlying business.

Pension provisions, which depend upon provisions for dependents, are calculated according to actuarial principles using the guideline tables of 2018G from Klaus Heubeck in accordance with the provisions of § 253 para. 2 HGB. The valuation method used was the projected unit credit method according to IAS 19, which represents a refinement of the modified going concern method used in previous years. The calculation was based on an interest rate of 1.78% (previous year: 1.87%), each as an interest rate based on the 10-year average for bonds with a term of 15 years, a salary and career trend of 2.0% and, depending on the beneficiary group, an average (previous year: individual) fluctuation of 10% or 15%.

Provisions, including provisions for taxes, are measured at the amount expected to become payable according to reasonable professional judgement. When estimating, past experience is used, as well as findings from comparable situations in the banking or related business environment.

The relevant instruments regarding additional regulatory core capital are valued at their nominal values. Interest is accrued in accordance with contractual agreements and reported under other liabilities.

In the reporting year, the company created a fund for general banking risks for the first time in accordance with § 340g of the German Commercial Code (HGB).

The interest-related transactions in the bank book are examined annually in their entirety for excess liability. For this a present value-based approach to the expected incidental risk and administrative expenses is utilized. The assessment determined that no excess liability related to the interest-related business of the banking book (interest book) exists, and therefore there is no need of a provision for contingent liabilities.

The contingent liabilities and other obligations, as well as all other balance sheet items are stated at nominal value, unless otherwise noted.

Income and expenses are recognized on an accrual basis.

Negative interest from the lending business and positive interest from liabilities are recorded as a reduction of the interest income or, respectively, interest expense and is shown separately in the profit and loss statement.

The Bank exercises its right to vote on the cross-offsetting option in accordance with § 304f para. 3 HGB in conjunction with § 32 RechKredV and § 340c para. 2 HGB in conjunction with § 33 RechKredV.

Due to an adjustment of previous year amounts in the profit and loss statement, please refer to section 5.3.

For computational reasons, tables may contain rounding differences in the amount of +/- one unit.

3 Currency translation

Receivables and liabilities are valued upon entry at the current exchange rate according to the ECB.

There are positions with and without special coverage.

The company manages its currency hedging through a treasury fund.

For transactions without special coverage, the results from currency translation are not offset by hedging transactions in the income statement. For these items, currency results are taken into account in other operating expenses.

Any exchange rate-related excess of the acquisition costs for these items is compensated by creating a liability adjustment item in accordance with the IDW statement on accounting for special features of commercial foreign currency accounting at institutions (IDW RS BFA 4, item 21) (as of 18 August 2011), which is included in “other liabilities”.

However, some of the receivables in foreign currency are also transactions that are specially covered in foreign currency as understood according to § 340h HGB.

For both the expenses and income from currency translation were recognized in profit or loss. In accordance with IDW RS BFA 4, the conversion results from the currency conversion of the specially covered transactions are included in the other operating income.

Income and expenses incurred during the year are included in the income statement at the respective daily rates. Foreign currency items are converted into euros at the ECB reference rates as of the balance sheet date in accordance with § 256a HGB.

As of 31 December 2022, the following balance sheet items include the foreign currency amounts listed below:

	31.12.2022 TEUR	31.12.2021 TEUR
Balances with Central Banks	71	1,545
Receivables from credit Institutions	8,219	7,192
Customer receivables	59,711	7,063
Shares and other variable-yield securities	37,158	37,082
Shares in affiliated companies	921	611
Other assets	43	45
Liabilities to customers	61,085	73,417
Other liabilities	11	17

4 Notes to the balance sheet

4.1 Overall disclosures

4.1.1 Relationships with affiliated companies

The subsidiary Elbe2021 Incubator GmbH changed its name to VARP Finance GmbH at the beginning of 2023. The company name valid on 31 December 2022 is still used throughout these notes.

	31.12.2022 TEUR	31.12.2021 TEUR
Customer receivables	432,932	304,094
of which from affiliated companies	1,186	0

The “of which” position represents receivables from Elbe2021 Incubator GmbH.

	31.12.2022 TEUR	31.12.2021 TEUR
Customer receivables	1,145,212	1,198,327
of which to affiliated companies	170	11

The item “of which” position as of 31 December 2022 consists mainly of liabilities to Elbe2021 Incubator GmbH. The values as of 31 December 2021 resulted from liabilities to Varengold Verwaltungs AG i.L. and Varengold Capital Investment Company Limited, British Virgin Islands.

4.1.2 Breakdown of residual terms

The loans and advances to credit institutions include overnight deposits at the German Central Bank amounting to TEUR 774,575 (previous year: TEUR 0).

	31.12.2022 TEUR	31.12.2021 TEUR
Loans and advances to credit institutions	783,812	8,303
Due on demand	783,805	8,298
Up to three months	0	0
Over three months to one year	7	5
Customer receivables	432,932	304,094
Due on demand	21,776	11,729
Up to three months	134,649	78,861
Over three months to one year	127,567	155,204
More than one year to five years	148,882	58,070
More than five years	58	230
Bonds and other fixed-income securities	27,895	28,463
Up to three months	128	130
Over three months to one year	10,510	9,542
More than one year to five years	17,257	18,791
Loans and advances to credit institutions	124,107	148,928
Due on demand	121,144	120,308
Up to three months	24	0
Over three months to one year	71	0
More than one year to five years	2,868	28,525
More than five years	0	95
Customer receivables	1,145,212	1,198,327
Due on demand	845,829	854,781
More than three months	31,152	33,249
More than three months to one year	106,372	168,608
More than one year to five years	157,160	141,024
More than five years	4,699	665

4.1.3 Securities

	31.12.2022 TEUR	31.12.2021 TEUR
Bonds and other fixed-income securities	27,895	28,463
Unlisted	0	0
Listed	27,895	28,463
- of which: publicly listed	27,895	28,463
Shares and other variable-yield securities	100,256	122,657
Unlisted	86,418	88,332
Listed	13,838	34,325
- of which: publicly listed	3,837	3,838
Shares in affiliated companies	500	500
Unlisted	500	500
Listed	0	0
- of which: publicly listed	0	0
Holdings	3,989	661
Unlisted	3,640	312
Listed	349	349
- of which: publicly listed	0	0

4.1.4 Trust assets and trust liabilities

Since May 2020, the bank has been granting credit to customers within the KfW Rapid Credit Program. These are trust loans. Amounts owed to the KfW for this program are reported at the same amount under trust loans. The trust loan receivables and trust loan liabilities as of 31 December 2022 are TEUR 39,406 (previous year: TEUR 42,380).

4.2 Individual post disclosures

4.2.1 Customer receivables

The receivables from customers of TEUR 432,932 (previous year: TEUR 304,094) consist mainly of customer loans (TEUR 249,692, previous year: TEUR 214,803) and municipal loans (TEUR 191,291, previous year: TEUR 93,964), each before deduction of value adjustments. In addition, accrued interest and cash accounts are included.

4.2.2 Bonds and other fixed income securities

The position of bonds and other fixed-interest securities amounts to TEUR 25,808 (previous year: TEUR 28,463) in bonds and debentures from public issuers. Other issuers account for TEUR 2,087 (previous year: TEUR 0).

4.2.3 Shares and other variable-yield securities

The balance sheet item includes shares in investment funds and exchange-traded bearer bonds amounting to TEUR 99,907 (previous year: TEUR 122,308).

The amount of TEUR 96,218 (previous year: TEUR 97,232) relates to investment assets in which the bank holds shares of more than 10% and which include the following:

in TEUR	**Investment objective**	**Book value**	**Market value**	**Hidden reserves/ Charges**	**Distribution in 2022**
Dalma Corporate Bond Fund	Real estate	16,964	17,877	913	0
Quintar STFF, vormals Varengold Fixed Income Fund SP	Trade finance	19,994	19,994	0	0
Varengold Spezial I	Pensions	49,260	46,774	-2,487	35
nordiX European Consumer Credit Fonds	Consumer credits	10,000	10,141	141	150

The return option for “Dalma Corporate Bond” funds is possible within three months and the “Quintar STFF” within 90 days to the end of a month. “Varengold Spezial I” funds have no restriction regarding the daily return option. The “nordiX European Consumer Credit Fonds” has a return option deadline of three months to 30 June or 30 December one year prior for pools of funds of more than TEUR 100.

The valuation of the Varengold Spezial I fund already includes write-downs to take account of risks arising from the fund’s commitments in Russia. According to internal assessments, there is just a low probability that losses will be realized from the additional burdens on the fund. The reduction of the market value is only a temporary reduction in value.

The fixed assets include fund shares with a book value of TEUR 62,749 (fair value TEUR 60,816) (previous year: TEUR 63,989 and TEUR 64,646). In addition, shares with a book value of TEUR 349 (previous year: TEUR 349) are included; the fair value of which amounts to TEUR 414 (previous year: TEUR 1,238).

4.2.4 Participations and shares in affiliated companies

Varengold Bank AG has the following unlisted partial holdings with a participation rate of more than 20 % each. The investment in Lava Trading Limited, which was included here until the previous year, has been eliminated following the company’s dissolution (“strike off”). The previously included investment in Klear Lending AD, Sofia, has fallen below 20%.

Company	**Participation rate**		**Equity capital**	**Results**
	direct %	**indirect %**	**31.12.2022 TEUR**	**2022 TEUR**
Elbe2021 Incubator GmbH, Hamburg	100		460	-30
Hanseatic Brokerhouse Securities AG, Hamburg	33		-3,044	-59

According to § 285 No. 11 HGB, in conjunction with § 271 HGB, holdings under 20 % have been omitted.

4.2.5 Gross assets analysis

The fixed assets are shown in the fixed assets statement below. Of the bonds and other securities, as well as the shares and other variable-yield securities, only those that are allocated to the fixed assets are taken into account. The remaining securities are allocated to current assets as part of the liquidity reserve.

	Purchase costs				Cumulative depreciation				Residual book value	
		Accruals	Uses			Annual depreciation	Uses			
	01.01.22	2022	2022	31.12.22	01.01.22	2022	2022	31.12.22	31.12.22	31.12.21
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Intangible assets										
Self-created industrial and similar rights and assets	388	0	0	388	388	0	0	388	0	0
Acquired con-cessions, intellectual property rights and similar rights and assets, as well as licenses to such rights and assets	2,421	0	179	2,242	2,264	71	179	2,156	86	157
Fixed assets	744	11	28	727	515	45	13	547	180	229
Total	**3,553**	**11**	**207**	**3,357**	**3,167**	**116**	**192**	**3,091**	**266**	**386**

	Change*)	31.12.22	31.12.21
Bonds and other fixed-income securities	0	0	0
Shares and other variable-yield securities	-1,239	63,098	64,337
Participations	3,328	3,989	661
Shares in affiliated companies	0	500	500

*) In accordance with § 34 para. 3 RechKredV, the permissible summary of financial information was utilized.

The intangible assets are primarily comprised of acquired software and licenses. The fixed assets include operating and office equipment (including leasehold improvements) which are used by the company.

4.2.6 Other assets

The amount of the position in the reporting year is characterized by a claim for repayment after termination of a fund share of the liquidity reserve in the nominal amount of TEUR 16,566 (previous year: EUR 0), for which an individual value adjustment of TEUR 1,000 (previous year: TEUR 0) was made. In addition, the item mainly includes claims from tax refund claims in the amount of TEUR 1,454 (previous year: TEUR 1,937), from claims for return against third parties in the amount of TEUR 728 (previous year: TEUR 0), from assigned claims in the amount of TEUR 233 (previous year: TEUR 450) and claims from deposits paid in the amount of TEUR 140 (previous year: TEUR 262). The tax refund claims arise from sales tax for the current and previous years in the amount of TEUR 654 and TEUR 666 (previous year combined: TEUR 1,937). In addition, there are reimbursement claims against foreign tax authorities amounting to TEUR 65 (previous year: TEUR 0).

4.2.7 Deferred income

The deferred income item mainly includes prepaid licenses of TEUR 86 (previous year: TEUR 129). There are no remaining deferred remunerations (previous year: TEUR 168).

4.2.8 Loan and advances to credit institutions

Liabilities to banks include liabilities to 13 banks that are due on demand and amount to TEUR 121,144 (previous year: TEUR 120,308).

In addition, there are liabilities to the German Central Bank from open market transactions of TEUR 2,590 (previous year: TEUR 28,440) with remaining terms of up to five years. The bank repaid this liability early in February 2023. Negative interest was deducted in the amount of TEUR 7 (previous year: TEUR 199).

In addition, there are liabilities to KFW in the amount of TEUR 380 (previous year: TEUR 380) from a loan that was transferred from the “Corona Emergency Aid” program (trust loan) to the “Entrepreneur Loan” program.

4.2.9 Liabilities to customers

The liabilities to customers position includes liabilities due on demand amounting to TEUR 845,829 (previous year: TEUR 854,781) and liabilities with an agreed term or notice period amounting to TEUR 299,383 (previous year: TEUR 343,546). The liabilities consist of time deposits (TEUR 299,826, previous year: EUR 343,546), current accounts (TEUR 679,488, previous year: TEUR 693,440), overnight money (TEUR 135,491, previous year: TEUR 121,779), security deposits (TEUR 25,973, previous year: TEUR 35,044) and other items (TEUR 4,435, previous year: TEUR 4,435). Accruals for negative interest on loans to customers (previous year: EUR 83) no longer exist.

4.2.10 Other liabilities

The other liabilities all have a remaining term of up to one year and primarily include a passive balancing item in accordance with the statement of IDW RS BFA 4 in the amount of TEUR 447 (previous year: TEUR 725) and accounts payable from trade and services in the amount of TEUR 274 (previous year: TEUR 1,739). This item also includes liabilities from tax matters in the amount of TEUR 325 (previous year: TEUR 1,325).

4.2.11 Reserves for pensions and similar obligations

Pension accruals were created for the benefit of dependents. The considerable increase is related to the expansion of agreements.

The difference between the valuation of pension provisions using the 10-year average interest rate (TEUR 1,294) and the 7-year average interest rate (TEUR 1,431) amounted to TEUR 137 (previous year: TEUR 10) and was subject to a distribution ban (§ 253, para. 6, sentence 2 of the German Commercial Code). The actuarial interest rate was 1.78% (average market interest rate from the past ten financial years). The interest expense from the compounding amounted to TEUR 57 in 2022 (previous year: TEUR 3).

4.2.12 Provisions for taxes

In addition to amounts from previous years (totalling TEUR 1,673; previous year: TEUR 433), the tax provisions include provisions for corporation tax (tax rate 15% plus 0.825% solidarity surcharge) amounting to TEUR 2,046 (previous year: TEUR 188) and trade tax provisions (tax rate 16.45%) of TEUR 2,146 (previous year: TEUR 214) created in the reporting period.

Moreover, there are tax provisions for pro rata profits from the London branch for 2022 and for previous years in the amount of TEUR 7 (previous year: TEUR 18). An income tax rate of 20% was used here as a basis. In addition, there is a provision for the tax on the result of the office in Sofia in the amount of TEUR 14 (previous year: TEUR 53), which was calculated using a tax rate of 10%.

4.2.13 Other provisions

The breakdown of this posting is as follows, accounting for rounding adjustments:

	31.12.2022 TEUR	**31.12.2021 TEUR**
Costs of special audit according to §44 KWG	7,000	0
Provisions for legal proceedings	4,093	2,725
Possible fines	4,000	0
Variable remuneration	3,260	2,728
Reclaim claims tax administration capital gains tax 2016	3,100	3,100
Commissions and rebates	3,077	0
Audit and annual report costs	1,629	700
General value adjustment for irrevocable credit commitments	360	0
Legal and consulting costs	322	410
Costs of tax audits (internal and external)	300	300
Vacation and overtime provisions	222	193
German Bank Compensation Scheme	126	200
Archiving costs	99	84
Severance payments	84	0
Other	1,115	502
Total	**28,787**	**10,942**

For the costs of the special audit pursuant to § 44 of the German Banking Act (KWG), please refer to section “0. Preliminary remarks” at the beginning of these notes. As a result of the results of the special audit, the company may be subject to fines. The legal team estimates these at EUR 4 million.

The tax authorities’ claim for reimbursement (decision 22 December 2021) is based on the fact that a fund in which Varengold AG was involved and which was terminated in 2016 failed to deduct capital gains tax including the solidarity surcharge, which the tax authorities consider necessary. An appeal was lodged against the decision. Suspension of enforcement was granted. For the first time, the provision for the general value adjustment on irrevocable loan commitments is included. In addition to the amounts for annual recurring audits in the reporting year, the provisions for financial statement preparation and audit costs include amounts for irregular audits by the tax authorities.

The provision for legal risks explained in the Management Report and created as a precautionary measure due to a possible proportional conviction of Varengold Bank AG in the context of the Caceis legal dispute is included in the item “Provisions for legal proceedings” and amounts to TEUR 3,868 (previous year: EUR 0).

In 2022, a provision of TEUR 2,500 (previous year: EUR 0) created in 2020 from a legal dispute was released due to the significantly changed risk assessment. Varengold Bank believes that a claim is no longer to be expected.

4.2.14 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional tier 1 bonds (“AT1 bonds”) in the amount of EUR 5 million. The additional AT1 bonds represent unsecured and subordinated bonds of Varengold Bank. The semi-annual interest payments for these bonds are based on their nominal amount and the development of the EURIBOR. The bond conditions contain regulations according to which Varengold Bank can be both obliged and has the comprehensive right to make its own decision not to pay interest at any time. Interest payments are not cumulative and will not be higher in subsequent years to catch up on any interest payments that may not have occurred in previous years. The bonds have no maturity date. They can first be terminated by Varengold Bank five years after their issue and thereafter on each interest payment date. They can also be terminated early under certain conditions. The bond conditions stipulate, among other things, that Varengold Bank can only terminate the bonds in full and not in part if there are specific supervisory or tax reasons for doing so. Any premature termination requires the prior approval of the responsible supervisory authority. The repayment amount and the nominal amount of the bonds can be reduced if there are triggering circumstances. A triggering situation would be the drop in Varengold Bank’s Tier 1 core capital ratio to below 5.125 %. The bonds can be assigned if under certain conditions a triggering event occurs.

The accrued interest expense for these bonds on 31 December 2022 is TEUR 7 (previous year: EUR 0).

Additional Tier 1 Notes outstanding as of 31 December 2022 (here without interest):

Currency	Amount in EUR	Type	Date of issue	Interest	Maturity
EUR	5,000,000	Variable interest, cumulative subordinate	19 August 2014	Variable	No expiration date

Reference should be made to the resolution of the Annual General Meeting of 24 August 2022, which could have enabled the issuance of another “Tier 1 bond” (see 4.2.16). The bond was not issued.

4.2.15 Fund for general banking risks

In the reporting year, the company made a first-time contribution of TEUR 5,000 to the fund for general banking risks in accordance with § 340g of the German Commercial Code (HGB).

4.2.16 Share equity

The fully paid share capital TEUR 10,043 (previous year: TEUR 10,043) is divided into 10,043,015 no-par value registered shares on the reporting date.

In the last five financial years the capital reserve from the distribution of new shares developed as follows:

Year	New shares	Premium	Reserve
2018	2,070,141	1.80	3,726,253.80
2019	3,105,211	1.50	4,657,816.50
2020	727,381	2.85	2,073,035.85
2021	0	0	0
2022	0	0	0
			10,457,106.15
As of 31.12.2017			34,248,386.50
As of 31.12.2022			**44,705,492.65**

In January 2020, the share capital was increased by EUR 621,000.00 by a partial implementation of the “Authorized Capital 2018” and by EUR 106,381.00 with a partial utilization of the “Authorized Capital 2019.” After which followed the “Authorized Capital 2018” of EUR 2,484,211.00 and the “Authorized Capital 2019” of EUR 1,446,225.00. At the Annual General Shareholders Meeting on 25 November 2020, the cancellation of the “Authorized Capital 2018” and the “Authorized Capital 2019” occurred, and subsequently the new “Authorized Capital 2020” in the amount of EUR 5,021,507.00 was approved.

According to the resolution passed by the Shareholders at the Annual General Meeting on 8 August 2012, “Conditional Capital 2012 II” continues to exist. At the time, the share capital was conditionally increased by up to EUR 140,000.00 through the issuance of up to 140,000 no-par value bearer shares. The conditional capital increase was related to a stock option program that provided for the issue of shares until 8 August 2017. Of the 140,000 possible subscription rights, 128,750 have been accepted by those entitled to do so, but have not been exercised and these subscription rights have now expired. A further 11,250 subscription rights expired after 14 January 2023.

In 2022, no stock options were issued by the end of the reporting period.

The following resolutions were passed at the Annual General Meeting on 24 August 2022:

- A (conditional) cash capital increase of up to EUR 1,004,301.00 with an issue price of at least EUR 10.00 per share; this resolution was not implemented and therefore expired on 24 February 2023.
- Authorization of the Management Board to issue profit participation rights and other hybrid bonds of up to EUR 2 million that meet the requirements for regulatory recognition as instruments of additional Tier 1 capital; no profit participation rights within the meaning of this resolution were issued until 31 December 2022.
- Carry forward of the retained earnings for the 2021 financial year in the amount of EUR 1,064,498.00 to new account.

4.2.17 Contingent liabilities

As of 31 December 2021, there were liabilities from guarantees and warranty agreements, mainly in the form of guarantee credits, in the amount of TEUR 50 (previous year: TEUR 50). The risk of claims is classified as low. The guarantees are fully collateralized by cash, liquid securities, or a combination of both.

The risk of losses from the use of contingent liabilities is primarily based on the credit risk of the client. The bank estimates the risk that a loss will result from the use of a contingent liability before entering into a binding obligation as part of a credit check of the client and, where appropriate, based on an assessment of the expected fulfilment of the underlying obligations by the respective client.

As of 31 December 2022, there were other commitments in the form of irrevocable loan commitments in the amount of TEUR 46,027 (previous year: TEUR 38,087) to customers, who can draw on partial amounts as required. Credit contractual disbursement requirements apply to these claims, compliance with which is checked before the respective disbursement. The bank assesses the risk of a loss resulting from the utilization of the irrevocable loan commitments before committing to its obligation as part of the credit check. In the interim financial statements of 30 June 2022, a provision was created for the first time to take account of a general impairment and carried forward in the annual financial statements (TEUR 360; previous year: EUR 0), see also section 4.2.13.

4.2.18 Transferred collateral

According to the conditions for open market transactions, the German Central Bank was provided with collateral in the form of securities (ECB eligible bonds), as well as primarily promissory note loans totaling TEUR 12,104 (previous year: TEUR 31,117), see also section 4.2.8.

5 Notes to the Profit and Loss Statement

5.1 Interest income

Interest income mainly consists of income from loans granted and fixed-income securities. Negative interest paid (mainly incurred by the German Central Bank and for deposited collateral) is deducted openly from interest income.

Interest expenses mainly include interest on customer deposits (on demand, fixed term, and time deposits). In addition, the current interest rate situation includes for the first time in interest expenses for the “Tier 1 bond” issued in previous years. Negative interest received for deposited customer collateral and customer deposits is openly deducted from interest expenses. These negative interest rates were higher than the interest expenses in the reporting period, so the “interest expenses” represent income.

5.2 Current income from shares and other variable-yield securities or from shares in affiliated companies

Income from equities and other variable-yield securities includes exclusively distributions from fund investments.

5.3 Provision income

With regard to the “Commission income” and “Other operating income” positions, there was a change in the allocation of partial amounts in the reporting year. The previous year’s figures were adjusted and now amount to TEUR 49,026 for commission income instead of TEUR 48,519 and TEUR 2,472 for other operating income instead of TEUR 2,979. In terms of content, this essentially is due to the reclassification of fees that the bank received from fronting services.

Commission income mainly includes income from commissions consisting of payment transactions of TEUR 68,280 (previous year: EUR 44,408), credit business of TEUR 1,442 (previous year: EUR 2,148), guarantee and letter of credit business of TEUR 1,773 (previous year: TEUR 1,892) and revenue from fronting services in the Marketplace Banking business of TEUR 1,193 (previous year: TEUR 507).

The commission expenses mainly relate to brokerage fees for transactions in the Transaction Banking business area.

	2022 TEUR	**2021 TEUR**
Provision income	72,778	49,026
Provision expense	7,474	3,881
Provision surplus	**65,304**	**45,145**

5.4 Other operating income

Other operating income mainly includes income from the reversal of provisions of TEUR 3,174 (previous year: TEUR 272) and income from the passing on of consulting expenses of TEUR 1,107 (previous year: TEUR 1,142). In addition to income from the reversal of provisions, it also includes income from other periods of TEUR 85 (previous year: TEUR 552), of which TEUR 85 (previous year: TEUR 236) is from the write-off of liabilities and EUR 0 (previous year: TEUR 316) from income from sales tax claims for previous years.

The income from the release of provisions includes a partial amount of TEUR 2,500 (previous year: EUR 0) for a legal dispute in which the assessment of the risk situation has changed significantly. Varengold Bank no longer expects that a claim will be made.

5.5 Personnel expenses

	2022 TEUR	2021 TEUR
Wages and salaries	12,050	9,881
Social benefits	1,093	949
Expenses for pensions and support	1,446	454
Total	**14,590**	**11,284**

The increase in personnel expenses is mainly due to a further increase in the number of employees, performance-related remuneration and pension expenses. The significant increase in pension expenses is due to the expansion of agreements.

5.6 Other administrative expenses

	2022 TEUR	2021 TEUR
Audit costs § 44 KWG	7,000	0
Consulting, accounting, and auditing costs	4,534	3,446
IT expenses	4,154	3,436
Other services	1,829	1,459
Premiums and insurance	1,457	1,230
Occupancy costs	682	755
Communication expenses	500	382
Advertising, entertainment, and travel costs	403	180
Office supplies, magazines, and training	267	372
Vehicle costs including leasing (excluding road tax)	44	40
Other administrative expenses	244	292
Total	**21,114**	**11,592**

Regarding the costs of the special audit pursuant to § 44 of the German Banking Act (KWG), please refer to section “0. Preliminary remarks” at the beginning of these notes.

“Other services” includes the purchase of services from third parties that cannot necessarily be assigned to one of the other categories.

5.7 Other business expenses

In the reporting period, the main expenses were for possible fines following the special audit pursuant to § 44 of the German Banking Act (KWG) amounting to TEUR 4,000 (previous year: EUR 0). Moreover, a provision in the Caceis legal case in the amount of TEUR 3,868 (previous year: EUR 0) was added. For information on these expenses which are not related to the accounting period, see also the explanations in section 4.2.13 “Other provisions”.

In addition, there were expenses for the creation of individual value adjustments on receivables outside the banking business of TEUR 1,000 (previous year: EUR 0), expenses unrelated to the accounting period of TEUR 618 (previous year: TEUR 3,372), interest on tax arrears of TEUR 229 (previous year: EUR 0) and expenses from currency conversion of TEUR 178 (previous year: TEUR 293). Expenses unrelated to the accounting period include primarily invoices received late and the reversal of accruals.

5.8 Transfer to the fund for general banking risks

In the reporting year, the bank deposited an amount of TEUR 5,000 into the fund for the first time.

5.9 Taxes on income and profits

The assessment basis for income taxes in the reporting year is predominantly determined by the allocation to the fund for general banking risks according to § 340g in the amount of TEUR 5,000 (previous year: EUR 0), the provision for possible fines in the amount of TEUR 4,000 (previous year: EUR 0), the provision for legal risks in the Caceis case previously mentioned in section 5.7 in the amount of TEUR 3,868 (previous year: EUR 0), tax expenses for previous years in the amount of TEUR 2,212 (previous year: TEUR 263) and other significant influencing factors such as non-deductible value adjustments, depreciation and contributions in the amount of TEUR 3,980 (previous year: TEUR 2,330). In the previous year, a loss carryforward also impacted results.

The tax result results primarily from domestic corporate tax including solidarity surcharge for the reporting year in the amount of TEUR 7,401 (previous year: TEUR 1,928) and from trade tax for the reporting year amounting to TEUR 6,774 (previous year: TEUR 2,046). In addition, there are back payments or refunds for previous years for domestic and foreign taxes with a net expenditure of TEUR 2,212 (previous year: TEUR 263).

6 Other information

6.1 Institutions

6.1.1 Supervisory Board

Dr. Karl-Heinz Lemnitzer Chairman
Independent tax advisor and auditor

Mr. Vasil Stefanov Deputy Chairman
Management Board, Euro-Finance AD; Head of M&A, Euroins Insurance Group AD

Mr. Francesco Filia (to 25.02.2023)
CEO Fasanara Capital Ltd.

Mr. Florin Isac (from 26.02.2023 to 05.07.2023)
Head of Corporate Finance at Swiss Capital S.A., Management consultant

Mr. Marcus Columbu (ab 06.07.2023)
Attorney, Partner at act AC Tischendorf Rechtsanwälte Partnerschaft mbB

6.1.2 Management Board

Dr. Bernhard Fuhrmann
Back Office

Mr. Frank Otten
Market

Dr. Bernhard Fuhrmann and Mr. Frank Otten are each entitled to represent the company together or with another board member or an authorized representative.

6.1.3 Mandates on Supervisory Boards

The following entries are current as of the reporting date 31 December 2022:

Dr. Lemnitzer has no other appointments to statutory supervisory boards or comparable control bodies as defined by § 125 para. 1 sentence 5 AktG.

Mr. Stefanov is, as of the reporting date, in addition to his role as a member of the Supervisory Board of Varengold Bank, also a member of the Supervisory Board of the Insurance Company Euroins Georgia JSC (Tbilisi), a member of the Board of Directors of Euro-Finance AD (Sofia), Deputy Chairman of the Supervisory Board of Electrohold Sales EAD (Sofia), a member of the Board of Directors of Quintar Capital

Limited (Hong Kong), a non-executive Director of Hanson Asset Management Limited (London) and a co-owner of Arkont-Invest Ltd. (Plovdiv). Mr. Stefanov is also a member of the Management Board of the "Multi-Sport Student Club at St. George Private School" in Sofia.

Mr. Filia holds the post of Chairman of Fasanara Capital Ltd. (London) in addition to his post as Supervisory Board member of Varengold Bank AG on the reporting day.

Mr. Columbu is Chairman of the Supervisory Board of FiNet Asset Management AG (Marburg), as well as a member of the Supervisory Board of Varengold Bank.

Dr. Fuhrmann is engaged in the role of liquidator at Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg on the reporting day. Moreover, he is the Chief Executive Officer of JUCLA Invest GmbH, Hamburg. Dr. Fuhrmann is also a member of the Supervisory Board for "coinIX COINVEST Investmentaktiengesellschaft mit Teilgesellschaftsvermögen", Hamburg.

Mr. Otten serves as Chief Executive Officer (CEO) at the management consultancy Arensburg Consult GmbH, Molfsee, and is Chairman of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg in addition to his role as a member of the Board of Directors of Varengold Bank AG. He is also a non-executive Director of Hanson Asset Management Ltd., London.

Mr. Lukas Diehl and Dr. Volkart Tresselt, authorized representatives of Varengold Bank AG, are also members of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg. Mr. Lukas Diehl is also Managing Director of VARP Finance GmbH (as of the reporting date still Elbe2021 Incubator GmbH), Hamburg.

6.1.4 Board member remuneration and loans

With regard to the disclosure of the total remuneration of the Board, according to § 285 No. 9a HGB, as well as that of surviving dependents in accordance with § 285 No. 9b HGB, the protection clause per § 286 para. 4 HGB is utilized.

The members of the Supervisory Board received total remuneration of TEUR 405 (2021: TEUR 403) for their work in the reporting period. This includes remuneration for activities of TEUR 400 (2021: TEUR 400) and TEUR 5 (2021: TEUR 3) of incurred travel expenses.

On the reporting date there are no loan receivables from the members of the Supervisory Board or the Board of Directors.

6.2 Employees

The average number of employees employed in the reporting period was 114 (2021: 99), including 46 female employees (2021: 40). With the exception of 20 employees (2021: 17), all employees work in Germany. Seventeen employees work part-time (2021: 17). Seven senior employees have been granted power of attorney. Mr. Kai Friedrichs has also been given general power of attorney as an authorized signatory.

6.3 Other financial obligations

Other financial obligations mainly include costs for software, hardware and services, especially for ongoing IT operations, amounting to TEUR 3,503 (previous year: TEUR 1,843), obligations from space rental agreements amounting to TEUR 1,479 (previous year: TEUR 2,021) and obligations from leasing agreements in the amount of TEUR 171 (previous year: TEUR 109). The remaining terms for the largest individual amounts are between 12 and 48 months.

6.4 Auditor's fees

The total fee charged to the auditor for the reporting period pursuant to § 285 No. 17 of the German Commercial Code (HGB) amounts to TEUR 1,378 (previous year: TEUR 775). An amount of TEUR 1,263 is attributable to audit services (of which TEUR 90 for previous years) and an amount of TEUR 127 is attributable to other confirmation services (audit review of the half-year financial statements, audit pursuant to Section 89 of the German Securities Trading Act, audit of reports in accordance with the requirements for TLTRO transactions). The corresponding amounts in the previous year were TEUR 498 for audit services and TEUR 88 for other confirmation services. In the previous year, amounts for ongoing tax consulting services amounting to TEUR 189 were also incurred. In the reporting year, however, expenses amounted to only TEUR 60. These result from providing information to the new tax consultants on declarations and assessments from previous years, not prohibited consulting services.

6.5 Notifications according to § 20 AktG

During the reporting year, no notifications pursuant to § 20 para. 1 AktG were sent to Varengold Bank AG and therefore no announcements pursuant to § 20 para. 6 AktG were published in the Federal Gazette.

6.6 German Corporate Governance Code

From 20 March 2007 to 28 February 2017, the Varengold Bank AG stock (ISIN DE0005479307) was listed in the Entry Standard of the German Stock Exchange. After the closing of Entry Standard, the Varengold stock has been listed on the Basic Board of the Open Market since 01 March 2017. Varengold Bank AG is not obliged to publish a declaration of compliance with the German Corporate Governance Code (§ 161 AktG), as the company is not listed according to § 3 para. 2 AktG.

6.7 Supplementary statement

By decision of 22 December 2022, the Federal Financial Supervisory Authority ordered a special audit of Varengold Bank AG pursuant to § 44 (1) of the German Banking Act (KWG), which has been carried out since January 2023 by an external law firm commissioned by BaFin. The law firm asserted possible compliance violations in an interim report dated 12 April 2023. In a letter dated 01 June 2023, BaFin required several supervisory measures to Varengold, based on the findings of the interim report. As a result, Varengold Bank immediately restricted payment transactions with some of its international corporate customers in the Commercial Banking division. The Commercial Banking division has since been undergoing a reorganization, and to compensate for the significant loss of commission income, a decision was made to further expand the Marketplace Banking division with a focus on lending services. At the same time, a cost-cutting program was initiated. Short-term savings were implemented at the material and personnel cost level – various projects were stopped until further notice and roughly 22% of the workforce had to be laid off.

In a letter dated 6 June 2023, BaFin also announced that an external auditing firm should be appointed as a special representative to monitor, among other aspects, the transaction bans issued, as well as additional reporting obligations regarding liquidity, assets and earnings, and equity capital. By decision on 27 June 2023, KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as special representative.

In addition, BaFin has increased the capital adequacy recommendation (formerly: capital adequacy target ratio) from 2.7% to 6.5% due to the planned adjustments to the business strategy and the future earnings situation. Varengold Bank is in a position to meet these increased requirements.

Mr. Isac was appointed to the Supervisory Board by court effective 26 February 2023 and resigned from his position for personal reasons on 5 July 2023. At the request of the Management Board, the Hamburg District Court, by order of 3 July 2023, judicially appointed Mr. Marcus Columbu as a member of the Supervisory Board effective 6 July 2023 until the end of the next ordinary or extraordinary general meeting of the company.

There were no other events of particular importance that occurred after 31 December 2022. The resolutions of the Annual General Meeting of 24 August 2022 were already referred to in section 4.2.16.

7 Profit allocation proposal

As part of the special audit explained under No. 6.7, supervisory measures were taken that will lead to a significant loss of commission income in the future and thus, contrary to previous business planning, to a reduction in the Bank’s earnings situation. For precautionary purposes and to strengthen the capital base, the Management Board and Supervisory Board therefore intend to carry forward the retained profit for the 2022 financial year in full to new account with the approval of the next Annual General Meeting and thus not to pay a dividend for 2022.

Hamburg, 17 June 2024

Varengold Bank AG

Dr. Bernhard Fuhrmann

Frank Otten

Management Report

Preliminary remark

At the time of preparing this Management Report, a special audit of the business operations of Varengold Bank AG was being carried out by the Federal Financial Supervisory Authority in accordance with § 44 (1) sentence 2 of the German Banking Act (KWG). The bank has yet to be notified of a specific end date for the ongoing special audit; two of a total of three audit items were completed at the time of preparing this report. This Management Report contains information on the status of the special audit and forward-looking statements that are based on current plans, objectives, forecasts and estimates of the Board of Management of Varengold Bank AG. These statements only take into account findings that were available up to and including the date of preparation of the 2022 annual financial statements or the preparation of this Management Report.

A. Fundamentals of the Varengold Bank

Varengold Bank AG is a German credit institution that was founded in 1995 and has had a full banking license since 2013. In addition to its headquarters in Hamburg, the Bank has an office in Sofia. Varengold Bank is registered with the Federal Financial Supervisory Authority (BaFin) under number 109 520. Varengold shares (ISIN: DE0005479307) have been listed on Open Market of the Frankfurt Stock Exchange since 2007.

The core business areas of the Varengold Bank are Marketplace Banking and Commercial Banking (Transaction Banking).

In Marketplace Banking, the focus lies in the collaboration with credit platforms and young European FinTechs. They operate in the asset classes of receivables finance, real estate finance, trade finance, consumer finance or SME finance. Varengold Bank generally supports its customers in the early stages of their business activities or in the start-up phase. Varengold Bank positions itself as a partner of the mostly young marketplace operators. An anchor product in Marketplace Banking is structured financing (lending). In addition to debt and equity capital markets products, the portfolio also includes banking-as-a-service (BaaS). The BaaS area was previously referred to as fronting services for products requiring a banking license. For this, components of the Bank's own banking license are "loaned" to lending marketplaces, which have customers and a good product idea, but do not have a banking license. In addition to lending, factoring and leasing, relevant areas for these services include credit card receivables, deposit business and account management or payment services.

The second core business area of Varengold Bank is Commercial Banking (Transaction Banking) with the areas of international payments and trade finance. Varengold Bank supports corporate customers worldwide in their global trading and investment activities. In the area of trade finance, Varengold Bank bundles selected solutions for financing, as well as bank guarantees and letters of credit. In addition to classic payment guarantees, the guarantee business also includes warranty guarantees and delivery and performance guarantees. With the help of customized products and solutions, Varengold Bank offers its customers the opportunity to process transactions and trading activities safely, efficiently and transparently across national borders. The focus of trading is on the Eastern European and Middle East regions.

The customers in this area are mainly producers and global wholesalers of food and medicines. Varengold Bank has been active in this area for many years and its expansion is based on a strategic business decision to support companies that do not have access to banking services due to difficult regulatory requirements, political motives or other restrictions. In this context, the bank supports exporters and importers, for example, in processing payments for humanitarian goods, including to importers in third countries with increased risk. In the core business area of Commercial Banking, for example, around three quarters of Varengold Bank's customers have a connection to Iran.

In the area of deposits, German private customers are offered daily, free call money accounts with monthly interest credits. The bank also offers time deposit accounts with terms from between one and ten years. In addition to the deposits of payment transaction customers, some of which are invested as German Central Bank balances, Varengold Bank refinances itself predominantly through call and time deposits which customers make available to the bank.

B. Economic report

1. Macro-economic and industry-related conditions

The year 2022 was marked by historic events that lefts their marks around the world. War events in the heart of Europe, the energy crisis and inflation dominated the macroeconomic environment, which had already been under severe strain since the outbreak of the Covid19 pandemic. Scenarios of stagflation or general recession were discussed and caused even more uncertainty.

Overall, global gross domestic product grew by 3.78%[1] in 2022 compared to the previous year and was therefore relatively strong. Within the EU, gross domestic product increased by 1.7%[2] in the fourth quarter of 2022 compared to the same quarter last year. However, ongoing supply bottlenecks and raw material shortages resulting from the Covid19 pandemic continued to manifest in significant price increases. These were further aggravated, particularly in the energy sector, by the invasion of Russian troops into Ukraine in February 2022. The escalation with Russia accelerated the already pronounced trend of an economic crisis, once again weakening consumer confidence, and causing inflation rates to continue to rise unabated since the beginning of 2022. In addition, Western sanctions against Russia and counter-sanctions exacerbated the already tense political situation.

Inflation rose sharply in many economies in 2022, reaching record levels and exceeding the target inflation rates defined by the relevant central banks for their currency area. In December 2022, consumer prices in Germany rose by 8.1% compared to the same month last year, after the inflation rate peaked at 8.8% in October[3]. The inflation rate in the Eurozone rose to nearly 10.6% in October 2022 compared to the same month last year, making it the highest level since the founding of the Eurozone. At the end of the year, the inflation

1 https://de.statista.com/statistik/daten/studie/159798/umfrage/entwicklung-des-bip-bruttoinlandsprodukt-weltweit/#:~:text=Das%20weltweite%20Bruttoinlandsprodukt%20(BIP)%20hat,2%20Billionen%20US%2DDollar%20erh%C3%B6ht
2 https://de.statista.com/statistik/daten/studie/38319/umfrage/veraenderung-des-bip-in-eu27-und-er17-gegenueber-vorquartal/
3 https://de.statista.com/statistik/daten/studie/1045/umfrage/inflationsrate-in-deutschland-veraenderung-des-verbraucherpreisindex-es-zum-vorjahresmonat/

rate then decreased to 9.2%[4]. In addition to high commodity prices and disrupted supply chains, the shortage of labor also had an accelerating effect on inflation and caused companies in some sectors to fear not only for their profit margins.

This increasing inflationary pressure also affected the central banks, with the Federal Reserve Bank and the European Central Bank (ECB) ended their bond purchase programs earlier than originally planned. They also reversed their stance on interest rate policy and the ECB raised the key interest rate for the first time in more than ten years. In July 2022, the key interest rate rose unexpectedly sharply from 0% to 0.50% in a first step, and the negative interest rate for parked funds was abolished. A further increase of another 0.75% then took place at the beginning of September 2022 due to the prevailing record inflation, so that a fixed interest rate of 1.25% applied to the main refinancing operation for the Euro area. By the end of the year, the key interest rate was increased two more times, finally reaching 2.5% in December 2022[5]. On the one hand, the departure from the long-standing low-interest rate environment in conjunction with a steeper interest rate curve is a very positive development for the banks in view of the currently under pressure interest income of most institutions. On the other hand, there is still a risk that economic momentum will weaken further. In addition, banks are also feeling the effects of rising inflation rates in related to material and personnel expenses, not least in the context of digitization projects.

Overall, the German economy held up well in this mixed situation. For 2022, price-adjusted GDP increased by 1.8% compared to the previous year[6]. The slight recovery of the German economy is due, among other contributors, to the lifting of pandemic protection measures, which resulted in growth in the services sector, and most importantly, in private consumption.

Stock markets in both the US and the Eurozone ended 2022 with deep losses in some areas, and investor appetite generally declined over the course of the year - not least due to macroeconomic developments. The German leading index DAX ended the 2022 stock market year at less than 14,000 points[7]. The main reasons for this were the high-risk aversion in the wake of the Russia-Ukraine conflict, sharply increased inflation rates and the associated interest rate increases by central banks. Both stocks and bonds have posted losses, which can also be attributed to the stagflationary environment and emerging concerns about a potential recession.

The deterioration of the macroeconomic conditions has also hit FinTechs particularly hard, causing valuations to decline and making access to financing and especially equity more difficult. In the second half of 2022 in particular, investments in FinTech startups fell significantly worldwide, resulting in mass layoffs and in some cases bankruptcies.

With the challenging market environment and negative economic effects, the regulatory requirements for banks increased again last year. As part of the SREP process, the ECB not only closely monitored Covid19 and the effects of the Russian war of aggression in Ukraine, but also increasingly focused on reviewing risk management. Other core topics for the ECB included interest rate risk, IT and cybersecurity, and sustainability

4 https://de.statista.com/statistik/daten/studie/72328/umfrage/entwicklung-der-jaehrlichen-inflationsrate-in-der-eurozone/
5 https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungsgeschaeft-seit-1999/
6 https://de.statista.com/statistik/daten/studie/2112/umfrage/veraenderung-des-bruttoinlandprodukts-im-vergleich-zum-vorjahr/
7 https://de.statista.com/statistik/daten/studie/162176/umfrage/monatliche-entwicklung-des-dax/

(ESG - Environment, Social, Governance). With regard to the implementation of regulatory requirements, German banks in particular once again incurred additional operational expenditures, the implementation of which now permanently ties up both financial and human resources. This is a challenge especially in the area of digitalization, because on the one hand, digital transformation is modernizing the technologies of financial institutions, which accompanies the development of contemporary structures and products. On the other hand, legislators are drafting increasingly specific sets of rules to which institutions have to adapt their internal processes accordingly which sometimes requires a great deal of effort.

2. Business development

After the previous record year of 2021, Varengold Bank was able to improve its performance again in 2022. Net income increased again significantly compared to the same period last year (EUR 55.6 million) to EUR 84.3 million (+51.6%). This increase is based on both the interest result (+101%) and the commission result (+45%).

Administrative expenses and other operating expenses amounted to EUR 26.6 million in the previous year. In the reporting year, additional costs from the special audit pursuant to § 44 of the German Banking Act (KWG) are included in other administrative expenses of EUR 7 million and in other operating expenses of EUR 4 million. Taking these additional costs into account, the following values and rates of change result in the total of administrative expenses and other operating expenses:

In EUR million	2022 final	Change from previous year	Included additional costs § 44 KWG	2022 adjusted	Change from previous year
Total	45.7	71.8 %	11.0	34.7	30.5 %

The result from ordinary business activities (equivalent to EBT) was 18.9% higher than in 2021. It amounted to EUR 25.4 million (previous year: EUR 21.4 million), just below the EBT forecast of EUR 28 to 32 million for 2022, which was increased during the financial year. The result includes a net allocation to risk provisions of EUR 13.1 million (previous year: EUR 7.5 million), including the first-time allocation to the special item “Fund for general banking risks” in the amount of EUR 5.0 million in accordance with § 340g of the German Commercial Code (HGB).

Due in particular to its strong network in both core business areas, the bank was able to remain on a growth path during 2022, even during these volatile times. The scope of all business activities is closely coordinated internally and continuously adjusted to market developments with the fundamental goal of creating real added value for customers. Transaction Banking grew thanks to the constant acquisition of new customers and the expansion of business activities with existing customers and once again proved to be a growth driver in 2022. The share of Iran-related business in the total income of core business area Commercial Banking of EUR 73.3 million was 92%.

However, the Marketplace Banking area also provided noticeable impetus and its product range was expanded as needed and symbioses were created between the individual products and services. New customers were acquired in both lending and banking-as-a-service areas. Varengold Bank now holds investments in six market partners with EUR 3.9 million, of which EUR 3.3 million was acquired or increased in the 2022 financial year.

From Varengold Bank's point of view, digital transformation is a key driver of success to meaningfully support the Bank's business activities and satisfy today's customer expectations of a modern institution. The developments within administrative expenses show that Varengold Bank kept an eye on costs despite the increases in EBT and net income. Personnel expenses rose by 27% to EUR 29.2 million in the reporting period (previous year: EUR 22.9 million) due to further staff increases of EUR 3.3 million (+29%) and investments in the bank's infrastructure. As of 31 December 2022, the number of employees at all locations was 120 (as of 31 December 2021: 107). Meanwhile, the only reduction in staff numbers was at the London location, where one person had been recently employed. The bank made the strategic decision to manage the UK business and the British customer base from its headquarters in Hamburg in the future. The London branch was closed in the second half of 2022.

In order to cope with the bank's growth to date and to be perceived as innovative and "state-of-the-art" in the context of recruiting skilled workers, the bank continued to shape its cultural change in 2022. The existing new work concept was continuously implemented, the employer profile was further refined on various channels and a recruiting film was developed. An internal project team also defined basic "rules of cooperation" and, among other activities, the implementation of feedback training was initiated.

The new world of work is more technology-driven and dynamic than ever, as well as characterized by value orientation and self-determination. The bank has integrated this into its work philosophy and was recognized as excellent by Handelsblatt in 2022 with the Mindshift Award in the "Innovative Workplace - Office" category. The bank also received the Corporate Health Award from Handelsblatt and the market research institute EUPD Research for its equally "excellent" company health management. The award recognizes high quality standards and its requirements serve as guardrails to be competitive as an employer in the face of current and future social challenges. Furthermore, Varengold Bank has been a member of the "Fair Company" initiative founded by Handelsblatt since 2020 and is one of the largest employer initiatives in Germany that is committed to fair working conditions in the long term.

Another very important topic for Varengold Bank in 2022 was sustainability. As a central component of the business strategy, activities in this area that had already been initiated in 2018 were further expanded. The bank considers the measures it has taken with a view to economic, social and ecological interests. In addition to raising awareness, the bank focuses primarily on resource efficiency and environmental protection, as well as social commitment. Varengold Bank outlines the details of the individual measures annually in a separate sustainability report. At the beginning of the reporting period, an Environmental Social Governance (ESG) questionnaire was also created, which is made available to Varengold Bank customers. This instrument serves as the basis for creating a meaningful scoring model that helps the bank to control and align the customer portfolio with regard to ESG factors in all business activities. In addition, the ESG aspect is also included in the internal rating assessment of customers.

Based on the expected net profit for the 2022 financial year, the Management Board and Supervisory Board announced at the beginning of 2023 their intention to propose a dividend distribution of approximately EUR 3.6 million (36 Euro cents per share) to the Annual General Meeting in August 2023. As part of the special audit of business operations ordered by the Federal Financial Supervisory Authority on 22 December 2022 according to § 44 (1) sentence 2 of the German Banking Act (KWG), the payment transactions business in the core business area of Commercial Banking, among other aspects, was intensively examined. At the beginning of June 2023, an interim result of the auditors involved was announced and led to restrictions and restructuring measures in the payment transactions business due to possible compliance violations. This in turn causes a significant loss of future commission income and thus a deterioration in the future earnings situation in relation to the bank's previous business planning.

The developments within the framework of the ongoing special audit and an order issued by BaFin required short-term restructuring measures and the development of restructuring parameters at the bank-wide level. In addition to the longer-term processes of reorganizing the core business area of Commercial Banking and increasing the expansion of the core business area of Marketplace Banking, a cost-cutting program was immediately implemented. Material and personnel costs were therefore reduced in the short term by stopping various projects until further notice and laying off around 22% of the workforce.

For precautionary purposes and to strengthen the capital base, the Management Board and the Supervisory Board therefore intend to carry forward the retained profit for the 2022 financial year in full to new account with the approval of the next Annual General Meeting and thus not to pay a dividend for 2022.

3. Position

The following information may include rounding errors.

3.1 Financial position

The Company's interest income increased from TEUR 5,273 in 2021 to TEUR 12,630 in 2022. The interest income includes negative interest on German Central Bank balances in the amount of TEUR 3,183 (previous year: TEUR 4,099). The increase in interest income is mainly due to the increased business volume in Marketplace Banking and the turnaround in the interest on balances at the German Central Bank. Moreover, the turnaround in interest rates also had a positive effect on the variable loan interest rates.

Interest income continues to include interest from fixed-interest securities. After a decline in the previous year, an increase from TEUR 459 to TEUR 525 in 2022 was posted.

As in the previous year, interest expenses of TEUR 2,413 (previous year: TEUR 2,542) were more than offset by negative interest rates, particularly on customer deposits, resulting in interest income amounting to TEUR 968 (previous year: TEUR 1,477).

There was net interest income result of TEUR 13,598 (previous year: TEUR 6,750).

Current income from shares and other variable-yield securities declined from TEUR 793 to TEUR 302 and is characterized by the reduced distributions from investment funds. Liquidation-related income from shares in affiliated companies was not recorded in the reporting year (previous year: TEUR 450).

With regard to the items “Commission income” and “Other operating income”, there was a change in the allocation of partial amounts from the Marketplace Banking area in the reporting year. The previous year’s figures were adjusted and now amount to TEUR 49,026 for Commission income instead of TEUR 48,519 and TEUR 2,472 for Other operating income instead of TEUR 2,979. In terms of content, this is due mainly to the reclassification of fees that the bank received from fronting services.

Commission income significantly increased once again, from TEUR 49,026 to TEUR 72,778. The main driver of this strong increase (+48%) is the payment transaction business, in which commission income was increased from TEUR 44,408 to TEUR 68,280. The share of this commission income in the payment transaction business related to Iran was 99%. Around 80% of the increase was achieved through higher business volumes with existing customers. In addition, the customer base was expanded by around 19% through consistent new customer acquisition. At the same time, commission expenses rose from TEUR 3,880 to TEUR 7,474, resulting in a commission surplus of TEUR 65,303 (previous year: TEUR 45,145).

Other operating income of TEUR 5,124 (previous year: TEUR 2,472) was significantly influenced in the reporting year by the reversal of a provision for legal risks created in 2020 in the amount of TEUR 2,500 (previous year: EUR 0). The reason for the reversal is the significantly changed assessment of the risk situation. Varengold Bank no longer expects this claim to be made. In addition, there is again other operating income from fees and from costs passed on in project transactions in the amount of TEUR 1,107 (previous year: TEUR 1,142). Moreover, the reporting year includes income from the recording of sales tax refund claims for the current year (TEUR 730; previous year period: TEUR 400), further income from the reversal of provisions amounting to TEUR 674 (previous year period: TEUR 272) and income relating to other periods of TEUR 85 (previous year period: TEUR 552).

Total income increased by 52% from TEUR 55,609 to TEUR 84,327.

Within the general administrative expenses explained above, which include additional expenses from the special audit pursuant to § 44 of the German Banking Act (KWG) amounting to TEUR 7,000 (previous year: EUR 0), personnel costs rose by TEUR 3,305 or 29% due to the hiring of new employees and increased variable remuneration and pension expenses. Consulting expenses rose by TEUR 1,088 or 32% and maintenance and IT expenses by TEUR 718 or 21%.

Depreciation and impairment losses on intangible assets and property, plant and equipment increased from TEUR 114 in the previous year to TEUR 116 in 2022 due to investments.

Other operating expenses increased from TEUR 3,703 in 2021 to TEUR 9,996 in 2022. In 2022, there was mainly an addition to a provision for impending fines of TEUR 4,000 and for possible legal risks from the Caceis case (see Section C.1) of TEUR 3,868 (previous year: EUR 0). In addition, there were write-downs on other assets of TEUR 1,000 (previous year: EUR 0). The expenses for hedging foreign currency positions and the net expense from exchange rate effects decreased by TEUR 115 from TEUR 293 in the previous year to TEUR 178 in 2022.

The item depreciation and value adjustments on receivables and certain securities, as well as additions to provisions in the lending business amounts to TEUR 6,829 (previous year: TEUR 7,513). The negative result of the liquidity reserve accounts for TEUR 676 of this (previous year: TEUR 6,540). The change compared to the previous year's expenditure is due to a reduced need for depreciation on fund investments. In addition, there are expenses for the creation of individual and general value adjustments on receivables from the lending business of TEUR 6,361 after EUR 2,163 thousand in the previous year.

For the first time the company made a contribution to the fund for general banking risks pursuant to § 340g of the German Commercial Code (HGB) in the amount of TEUR 5,000 (previous year: EUR 0) in the reporting year.

Depreciation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets (previous year: EUR 0) amounted to TEUR 1,239 in the reporting year.

In total, the result from Varengold Bank's normal business activities amounts to TEUR 25,443 (previous year: TEUR 21,403) and thus increased by 19% despite all extraordinary challenges.

While tax loss carryforwards reduced the burden of income taxes on earnings in the previous year, this effect will no longer apply from the 2022 financial year. This explains around 31% of the increase in tax expenses from TEUR 4,237 in the previous year to TEUR 16,386 in the reporting year. Another roughly equal part of the increase results from considerably higher amounts that cannot be deducted as business expenses as in the previous year. The remaining increase results from the higher profit before taxes and from adjustments to the tax calculations for previous years.

Taking into account taxes on income and profit, as well as other taxes, the annual profit amounts to TEUR 9,057 (previous year: TEUR 17,166).

The return on capital according to § 26a KWG, calculated from the quotient of net profit and total assets, is 0.6%, compared to 1.2% in the previous year.

3.2 Financial situation

Preliminary remark:
Due to the elimination of the negative interest rate on deposits at the German Central Bank, interest on deposits from overnight deposits at the German Central Bank was charged from August 2022. This leads to a split in the statement of deposits at the German Central Bank, with EUR 13.9 million as deposits at central banks and EUR 774.6 million as deposits at credit institutions. In the following, the latter amount is allocated to the cash reserve to improve the comparison with the previous year.

In the 2022 financial year, total assets fell slightly by 3.1% from EUR 1,466.7 million to EUR 1,421.4 million after an increase in previous years. In addition to loans and advances to customers (EUR 432.9 million; previous year period: EUR 304.1 million), the assets side is characterized in particular by the cash reserve (EUR 788.5 million; previous year period: EUR 956.3 million) and shares and other variable-yield securities (EUR 100.3 million; previous year period: EUR 122.6 million). Overall, these three items account for 93.0% (previous year period: 94.3%) of total assets. Customer deposits continue to account for the largest share of liabilities at EUR 1,145.2 million or 80.6% (previous year: EUR 1,198.3 million or 81.7%).

The core capital ratio (TIER 1) as of 31 December 2022 was 18.46% (previous year: 16.21%).

The Varengold Bank AG has a healthy asset and capital structure.

3.3 Liquidity position

At EUR 797.7 million or 56.1% (previous year: EUR 964.6 million or 65.8%) of the balance sheet total, regulatory liquid assets represent a large proportion of the assets side of the balance sheet. Accordingly, the regulatory liquidity ratio of 197.4% as of the reporting date is well above the regulatory requirements, as in the previous year. The liquidity situation of the bank was never endangered. The irrevocable loan commitments change depending on new customer business or limit increases. They amounted to EUR 46.0 million as of 31 December 2022, compared to EUR 38.1 million in the previous year.

3.4 Financial performance indicators

The key performance indicator is earnings before taxes. Despite the ongoing Covid19 2022, revenues increased significantly from EUR 55.6 million in 2021 to EUR 84.3 million in 2022.

However, the changed overall economic environment also expanded risks which, in the opinion of the Management Board, have been taken into account with appropriate risk provisions and provisions. A total of around EUR 11.9 million (previous year period: EUR 10.6 million) was incurred for write-offs and value adjustments on receivables, securities and investments, as well as additions to provisions. In addition, a transfer of EUR 5.0 million (previous year period: EUR 0.0 million) was made to the fund for general banking risks. As a result, a financial performance indicator of EUR 25.4 million (previous year period: EUR 21.4 million) was achieved, which is EUR 5.6 million above the previous year's forecast of EUR 19.8 million.

However, the changed overall economic environment also gave rise to risks which, in the opinion of the Management Board, have been taken into account with appropriate risk provisions and provisions. A total of around EUR 11.9 million was spent on write-offs and value adjustments on receivables, securities and investments as well as additions to provisions (previous year:

Compared to the previous year's forecast, both the commission result (EUR +27.8 million) and the interest result (EUR +6.8 million) exceeded expectations. This effect was reduced primarily by higher administrative expenses (EUR +11.5 million), the addition to provisions for legal risks in the Caceis case (EUR 3.9 million), possible fines (EUR 4.0 million), the transfer to the fund for general banking risks in the amount of EUR 5.0 million and higher risk provisions in the lending business.

Another financial performance indicator is the cost-income ratio, which has deteriorated from 47.5% in the previous year to 52.7% in 2022, particularly due to the high expenditure in connection with the ongoing special audit. The cost-income ratio is calculated as the ratio of administrative expenses (personnel expenses, material expenses and depreciation) to income (net interest income less allocations to risk provisions for default risks in the lending business, net commission income, trading result and balance of other operating income and expenses) in percent. The cost-income ratio was introduced as a financial performance indicator for the first time in 2022. Therefore, no comparison with the previous year's forecast can be made.

Varengold Bank has experience with non-financial performance indicators. These include the topics of the bank's "6-pillar concept" (culture, work environment, leadership, digital transformation, empowerment and corporate social responsibility - see also the comments in the Management Report under C.2.).

In this area, the Executive Board declared the following non-financial performance indicators at the beginning of 2024:

- Employee satisfaction
- Corporate Social Responsibility Projects

Over the next few months and years, targets and benchmarks will be defined for these non-financial performance indicators and development paths will be developed. The Executive Board will include the selected non-financial performance indicators in its reporting to the Supervisory Board.

No non-financial performance indicators were defined before or during 2023.

C. Risk, opportunity, and outlook reports

1. Risk report

It is usually not possible in the banking business to earn income without entering into risks. In this respect conscious action, active management and ongoing identification and ongoing monitoring of risks are core elements of the success-oriented business management of Varengold Bank.

The mission of Varengold Bank AG is to develop itself into the leading bank in the marketplace lending industry. A fundamental aspect of the business strategy of Varengold Bank is to offer flexible, competitive products and services and to permanently adapt to the changing market conditions.

The business strategy must determine the essential objectives of Varengold Bank for each business activity, as well as design and implement measures to achieve those objectives.

The risk strategy describes the implications of the business strategy on the risk situation of Varengold Bank and describes the procedures to manage the existing risks.

Central instruments of risk management at Varengold Bank AG are, in addition to this risk strategy, the risk carrying concept, the limit system and monitoring process which are oriented to the business activities.

Every potential future risk should be as transparent as possible before a decision is made about how to manage it. Only with sufficient knowledge of the potential impact on the bank can it be assessed whether a risk should be approved. The Board of Directors always makes this decision taking into account whether the risk in question can generate adequate returns and whether the risk is likely to be bearable. If a risk is taken, this occurs within established risk tolerances, which are primarily derived from the risk-bearing capacity potential and compliance with which is checked regularly or as required.

The risk-bearing capacity analysis is carried out by the Risk Controlling department on a monthly basis or as required. The appropriateness of the methods and procedures for assessing risk-bearing capacity is regularly validated.

The risk controlling and risk management system used by the bank corresponds to the provisions of "Minimum Requirements of the Risk Management" (MaRisk) of the Federal Financial Supervisory Authority (BaFin).

Risk is understood as the negative deviation of events that occur from the expected events. The basis of the risk management system is the regular or as needed implementation of a risk inventory to assess the risks that are relevant to Varengold Bank. According to the risk inventory validation as of 31 December 2022, these are counterparty default risk, liquidity risk, market price risk, operational risk, sustainability risks and other risks, including reputational risks and strategic risks.

To manage these risks, a continuous monitoring and assessment of the identified risks is carried out as part of the risk management system. The entire process includes the following steps which are built upon each other:

- Risk identification
- Risk measurement
- Risk guidance by Management
- Supporting management through risk controlling and risk reporting

The Board of Directors determines the amount of the total allowable risk and its distribution among each of the individual types of risk. In this context care is continuously taken to ensure that the different business activities are backed with sufficient risk coverage potential.

The risk controlling department is responsible for the monitoring of adherence to Varengold Bank AG's risk strategy. The results from risk controlling are transparently reported to the management team in a timely fashion in order to ensure adequate management.

On 24 May 2018 the German Financial Supervisory Authority (BaFin) and the German Central Bank published the new "Prudential assessment of internal bank risk-carrying concepts" guidelines and their procedural integration in the overall bank management "(ICAAP) – new orientation". It contains policies, principles and criteria which are essential to the supervision of the assessment of internal bank risk-carrying concepts which as "less significant institutions" (LSI) are directly subject to German bank supervision. The risk-carrying concept as a central component of the ICAAP according to § 25a para. 1 sentence 3 No. 2 KWG in conjunction with AT 4.1 subsection 1 (and subsection 2) MaRisk is comprised of two perspectives: a normative perspective and an economic perspective. Both serve the long-term sustainability of the institution based on its own current situation and earning power. To this end the normative perspective pursues the explicit goal of supporting the continuation of the institute and the economic perspective has the goal of protecting the creditor from loss from the economic perspective.

For the normative perspective, the risk covering potential and the risks concept compliance for the current, as well as the future planning periods are determined. Capital planning encompasses the time period from inception through three years and includes the supervisory required plan and an adverse scenario. Moreover, the bank utilizes the possibility contained in subsection 35 of the new risk-bearing capacity guidelines in conjunction with AT 4.3.3 subsection 3 MaRisk developed comprehensive risk type stress test “serious economic downturn” as an additional adverse scenario. In the capital planning scenarios risks from the economic perspective are considered which have an influence on the available capital.

In the normative perspective, all regulatory and supervisory requirements must be taken into account. The risk coverage potential from the normative perspective therefore consists of regulatory capital and other capital components, as long as these are recognized by the supervisory authority to cover supervisory capital requirements, and is made up of regulatory capital, the special item “Fund for general banking risks” pursuant to § 340g of the German Commercial Code (HGB) and the eligible contingency reserves pursuant to § 340f of the German Commercial Code (HGB). The risk quantification procedures used in the normative perspective for counterparty default risks, market price risks and operational risks arise from the legal requirements of the currently valid CRR, which are used to calculate risk-weighted position amounts. In the plan scenario, the full capital requirements must be met; in the adverse scenarios, it can be assumed that the combined capital buffer requirement pursuant to § 10i of the German Banking Act (KWG) will be undercut. For these cases, the bank has developed options for procedure to restore compliance with all regulatory and supervisory requirements and targets.

The regulatory capital requirements amount to TEUR 52,451 as of 31 December 2022. The bank has TEUR 72,193 available in equity available to cover these requirements.

As of 31 December 2022, all capital requirements in the planning scenario, as well as for the adverse scenario, were met both as of the reporting date and for the 3-year planning horizon. In the stress scenario, the combined capital buffer requirement pursuant to § 10i of the German Banking Act will be undercut from the second quarter of 2025. The hard minimum requirement of currently 11.3% is met in all scenarios over the entire planning period.

From the economic perspective, the bank uses a present value-based calculation of risk-bearing capacity. The risk coverage potential of EUR 76.5 million is made up of regulatory capital, precautionary reserves pursuant to § 340f and g of the German Commercial Code (HGB), the profit for the current financial year, and hidden liabilities and reserves.

Fundamentally, the maximum tolerable capacity is limited to 100 %. Capacities over 90 % of the total limit and capacities over 100 % within an individual type of risk require a response of the Board of Directors.

The capacity of the risk coverage potential as of 31 December 2022 was 71.0%, of which 49.5% was attributable to counterparty risk, 27.0% to market price risk, 15.9% to operational risk and 7.6% to strategic and reputational risks.

The contingency risk is comprised for the quantification in the sense of risk-carrying ability from a more narrowly defined provision risk (AAR strict interpretation) in combination with the migration risk. These two risks are combined.

In addition to the classic default risk (credit risk), the counterparty risk as defined also includes the issuer, counterparty and investment risk. Country risks are not backed by risk coverage potential in the risk-bearing capacity calculation. These risks are taken into account in both the external and internal rating classification and are thus included in the rating and therefore in the level of the probability of default and the risk sum. The RBC calculation does not explicitly take collateral risk into account. If the LtV agreed with the customer is not met, the LGD of the commitments is scaled up accordingly, thus leading to an increased risk sum.

To limit country risks, the bank implemented a country limit system, which is based at the headquarters of the debtor's parent company.

The quantification of the counterparty risk in the narrower sense is based on the risk indicators "expected loss" (EL) and "unexpected loss" (UL). The EL is determined on the basis of the default probabilities, accounting for the LGDs (loss given default). The UL is quantified by using a credit risk model for a confidence level of 99.9 % and a time horizon of one year. To quantify the counterparty default risk, the Bank uses the software "ic.risk-view" from the provider ICnova AG.

The measurement model used to measure counterparty risk (CVaR) is based on the well-known and widely used CreditMetrics™ model from the RiskMetrics Group™. The model divides the portfolios for the simulation analysis into a sub-portfolio that is particularly relevant due to the size of its positions and portfolios that are smaller and homogeneous ("Large Homogenous Portfolio" approach; LHP approach). These two portfolios are mapped with different levels of detail:

- Portfolio 1: Simulation of the individual positions with CreditMetrics™
- Portfolio 2: Simulation of credit rating clusters (per rating system) based on the special case of the Gordy model (this is the basis for the IRB approaches in the CRR)

For this the external (if available) or internal default probabilities (PDs) and the transaction-specific loss ratios (LGD) are used. In addition to the default probabilities and loss ratios, the correlations of the counterparties with the systematic risk factor are also taken into account. Only the unexpected loss of the portfolio is included in the risk-bearing capacity. The expected loss is already included in the general value adjustment allowance. If the expected loss of the entire risk exposure exceeds this general value adjustment allowance, which was only created for claims on credit institutions and customers, the difference is also included in the risk-bearing capacity calculation.

Moreover, the portfolio migration risk is determined for a time horizon of one year. For this purpose, external migration matrices are utilized. The EL is then recalculated using the determined increased failure rates; the difference between the EL determined using this method and the narrowly-defined EL AAR results in the risk sum for the migration risk.

The market price risk is determined by adding the risk sums for price risk (including foreign currency risk), credit spread risk and interest rate risk. No correlations between the risk types are taken into account.

The price risk (general price risk) is quantified using the value at risk. This is measured for both the trading book and the investment book with a confidence level of 99.9%, a holding period of 250 days and a lookback of 21 years by using a historical simulation of changes in prices or the swap or money market rates appropriate to the term and currency. The bank extended the observation period from two to 21 years in the first half of 2022. The price risk is calculated and limited for the entire portfolio, as well as separately for the investment book, trading book and foreign currency futures (as far as possible in the assessment). In addition to the securities and precious metal investments that have a price risk, this takes into account the open foreign currency positions and the foreign currency futures that are held for hedging purposes. The price risk used in the risk-bearing capacity is determined by adding the VaR of the sub-portfolios. Therefore, existing correlations between the sub-portfolios are not taken into account, which leads to a higher risk sum.

Risk controlling measures the interest rate risk on a quarterly basis. The change in the present value of the interest book is determined in the event of ad-hoc interest rate changes of +200 basis points and -200 basis points, as well as six additional scenarios in accordance with RS 06/2019 (BA) – "Interest rate risk in the investment book". The greater negative change in these eight interest rate change scenarios is included as a risk value in the overall risk-bearing capacity calculation.

The bank defines credit spread risk as the negative changes in the market value of bonds in its own portfolio as a result of a deterioration in the creditworthiness of issuers that has not yet been reflected in a rating downgrade (particular price risk). The credit spread risk is quantified using the value at risk method. This is calculated for both the trading book and the banking book with a confidence level of 99.9 %, a holding period of 250 days and a lookback of 21 years through historic simulation of the changes in the asset swap spreads of the bonds.

The monitoring and regulation of risks is based on the limit system, which is calculated on the basis of the risk coverage potential for the market price risk.

To monitor liquidity risk, the Treasury department prepares a liquidity maturity report daily. Management is based on the "distance to illiquidity" (at least three months), a daily "minimum liquidity" (EUR 20 million) and the liquidity coverage requirement. Monitoring is carried out by the Risk Controlling department. In addition, the liquidity management concept defines an emergency plan, which is preceded by an early warning system. The bank does not quantify liquidity risk within the framework of risk-bearing capacity, as this is only possible to a very limited extent. A quantitative and qualitative analysis of the risk is carried out using stress tests. In addition, the liquidity maturity report is monitored daily with regard to specified limits: on the one hand, the distance to illiquidity of at least three months and, on the other hand, the daily minimum liquidity of EUR 20 million. Both limits were adhered to at all times during the reporting period.

The quantification of operational risks, including model risk, is conducted quarterly by the Risk Controlling department in collaboration with the department heads and the Executive Board using a scenario analysis for all identified operational risks. The scenarios represent possible "bad case" scenarios for the risk type and are evaluated in terms of possible annual damage levels and probability of occurrence. These two parameters for the identified partial risks are incorporated into a Monte Carlo simulation. The risk is read off as a 99.9% quantile value from the 200,000 simulations carried out. This calculation is carried out three times and the worst result represents the total damage for operational risks.

In connection with share transactions around the respective dividend date for the years 2010-2016, the Cologne public prosecutor's office is investigating (former / current) employees and bodies of Varengold Bank AG and Varengold Verwaltungs AG i.L. (formerly Varengold investment stock company with sub-company assets) due to an initial suspicion of tax evasion.

Varengold Bank AG could be considered a possible secondary stakeholder and in the worst-case scenario could possibly face a fine and/or profit reduction, which would theoretically result in significant expenses.

In this context, external consultants were commissioned to conduct the (continuous) review and analysis of the public prosecutor's files.

Based on the opinion of external consultants, the Management Board estimates the risk of claims being made against the subsidiary Varengold Verwaltungs AG i.L. as conceivable, the risk of liability for Varengold Bank AG for these claims, however, as low.

Varengold Bank AG is a defendant in civil law proceedings together with 19 other natural and legal persons ("Caceis case "). The subject of the dispute is a possible claim for reimbursement, which relates to an additional tax claim in relation to transactions of an independent sub-investment fund of the former Varengold Investmentaktiengesellschaft with sub-funds, today Varengold Verwaltungs AG i.L. from the year 2010. The former investment stock company is the first defendant in these proceedings. Varengold Bank AG was a minority shareholder in this investment company in 2010. The lawsuit is aimed at the joint and several reimbursements of refunded capital gains tax including solidarity surcharge totaling around EUR 92 million (plus any interest and other damages incurred by the plaintiff), which was paid to the sub-fund (Caerus II) in 2010 and which the Munich tax office had reclaimed from the plaintiff's legal predecessor. The Caerus II Equity Fund (previously and hereinafter "Caerus II") is an investment fund in the form of a sub-fund launched on 31 March 2010 under the umbrella of Varengold Investmentaktiengesellschaft (now Varengold Verwaltungs AG i.L.). Varengold Bank AG has filed a response with the relevant court requesting that the lawsuit be dismissed. The Board of Directors and the external experts called in have so far assessed the probability of the risk arising from this procedure as unlikely. The criminal proceedings against the bank's former board member, Yasin Qureshi, regarding Caerus II have so far led to no different result. However, a different assessment is conceivable that could help the lawsuit to succeed. For this reason, Varengold Bank AG has set up a provision for this legal risk as a precautionary measure, assuming that the bank will have to make a pro rata compensation. In this context, payments to Varengold Verwaltungs AG i.L. taken into account, as well as the corresponding interest. The total amount of this provision is EUR 3.9 million. This amount was determined by estimation. Assessments by external consultants were used and findings from comparable cases in the banking and other business environments were evaluated.

If Varengold Bank AG were to be called upon alone, the amount to be paid would exceed the balance sheet equity.

By decision of 22 December 2022, the Federal Financial Supervisory Authority (“BaFin”) ordered a special audit of Varengold Bank AG pursuant to § 44 (1) of the German Banking Act (KWG), which has been carried out since January 2023 by an external law firm commissioned by BaFin. The law firm alleged possible compliance violations in an interim report dated 12 April 2023. In a letter dated 1 June 2023, BaFin announced several supervisory measures to Varengold, referring to the findings of the interim report (“first hearing letter”). As a consequence, and until the facts have been finally clarified, Varengold Bank immediately stopped payment transactions with 75.5% of international corporate customers in the core business area of Commercial Banking, who were responsible for 94% of the bank’s total commission income in the 2022 financial year. In a letter dated 6 June 2023, BaFin also announced that it intends to appoint an external auditing firm as a special representative to monitor, among other points, the supervisory measures and additional reporting obligations regarding liquidity, assets and earnings, and capital adequacy. In addition, BaFin has increased its capital recommendation (formerly: target capital ratio) from 2.7% to 6.5% due to the planned adjustments to the business strategy and future earnings situation. Varengold Bank is in a position to meet these increased requirements.

With two decisions dated 27 June 2023, the measures announced in the letters dated 1 June 2023 and 6 June 2023 were essentially confirmed. In particular, BaFin prohibited Varengold Bank from (i) carrying out incoming and outgoing transactions with so-called payment agents and (ii) carrying out transactions related to Iran as a third country with high risk or involving natural and legal persons resident in Iran. According to the wording of the decision, the prohibition includes payment transactions involving so-called payment agents/trustees and other third parties who are resident in third countries and act as (intermediate) recipients for the actual clients. This activity as an (intermediate) recipient, to which the prohibition under points (i) and (ii) above applies, includes, among other things, the receipt of payments (including split payments) from the actual clients and the forwarding to the actual end recipient in the EU or in third countries via accounts at Varengold Bank AG. According to the decision, individual transactions that fall under the above cases and demonstrably do not constitute a violation of sanctions or the law can be carried out after the institute has carried out its own review and has been approved by the appointed special representative (KPMG). Each violation of the decision would threaten a fine of EUR 250,000.

Against this background, Varengold Bank has stopped executing payment orders from customers with ties to Iran in accordance with the above requirements and has not executed payment orders. Any approval processes via the appointed special representative (KPMG) have now been established procedurally.

It seems possible that, in addition to the supervisory measures required by BaFin, fines may also be imposed. The bank has set up a corresponding provision, basing its decision on information made available to it by experts. The aforementioned audit pursuant to § 44 Para. 1 of the German Banking Act (KWG) had not yet been completed at the time this report was written. Of the three audit items relating to a) cum-ex transactions and similar structuring models, b) business purpose and other business relationships with natural and legal persons based in Bulgaria, and c) precautions to prevent money laundering, terrorist financing, and other criminal acts, two audit items b) and c) had been completed at the time this report was written.

It appears possible that, in addition to the supervisory measures required by BaFin, fines will also be imposed. The bank has set up a corresponding provision, basing its decision on information made available to it by experts. The aforementioned audit pursuant to Section 44 Paragraph 1 of the German Banking Act (KWG) had not yet been completed at the time this report was written. Of the three audit items relating to a) cum-ex transactions and similar structuring models, b) the nature of the business and other business relationships with natural and legal persons based in Bulgaria, and c) precautions to prevent money laundering, terrorist financing, and other criminal offenses, two audit items b) and c) were not yet complete at the time this report was written.

Strategic and reputational risk are taken into account by considering declines in earnings as part of risk-bearing capacity. From an economic perspective, a risk sum of 25% of planned profits for the next 12 months is assumed (minimum EUR 400,000). As part of the special audit explained above, supervisory measures were taken that are currently leading to a significant loss of commission income and thus, contrary to previous business planning, to a decline in the bank's earnings situation. In this context, the bank also sees risks in the form of claims for damages from customers due to payment orders not being executed, as well as risks resulting from the damage in reputation as a result of the special audit in the form of increased refinancing costs and loan transactions not being concluded. There is also a risk that the bank will be fined for violations of money laundering laws. The bank has already made provisions for impending fines; however, there remains a risk that the fines imposed will exceed these provisions.

To limit concentration risks, the Board of Directors has set additional limits and early warning thresholds, which are continuously monitored. All risk limitation measures are generally implemented in an economically reasonable manner, which appropriately considers the size of the institution, its capital resources and its particular business model.

Based on experience since 2022, Russia's attack on Ukraine is unlikely to have any significant impact on Varengold Bank's future business development.

As part of its business activities, Varengold Bank makes targeted use of its market opportunities and takes the associated risks exclusively in a responsible manner.

2. Opportunity report

The traditional banking sector has been undergoing digital transformation over the past several years. Regulated banks are and will remain a fundamental building block of the financial and economic world. The strategic approach of FinTechs, for example, tends to be faster, simpler, more intuitive and therefore more customer-centric, but Varengold Bank believes that the market offers both opportunities and challenges for all participants.

Varengold Bank's focus is on the clear vision of providing uncomplicated access to capital and financial services and helping customers to realize often revolutionary business ideas. The bank operates in niches in which it can create the greatest possible customer benefit with its products and services. The strategic orientation of Varengold Bank with the existing core business areas will remain fundamentally the same over the course of 2023. According to the Management Board, the implementation of restructuring measures to compensate for the loss of income from the Commercial Banking area has begun successfully and the reorganization in this area will continue to be driven forward with the highest priority. In parallel, the bank will serve and operate all other business activities as usual - Marketplace Banking in particular will be further expanded with a focus on lending services. The ongoing monitoring of market trends and the associated further analysis of new areas, products and services remains an important part of the strategy.

The bank has built up a solid network of customers and cooperation partners in its two core business areas of Marketplace Banking and Commercial Banking (Transaction Banking). The bank focuses its activities on its core competence as a regulated institution. The bank draws on decades of experience in banking and, in particular, has a sound understanding of the lending business as a central anchor product.

Demand for products and services in the area of Marketplace Banking remains high. In 2024, the bank will focus primarily on the lending business, which generates significantly more attractive earnings with fewer resources and lead times than banking-as-a-service. Varengold Bank's goal is to differentiate itself from competitors, particularly through the efficient implementation of individual projects with customers in Germany and other EU countries. Additional product developments are being conceived of and the current processes are to be further optimized in the form of a more modular approach in order to be able to offer customers even more personalized service.

The targeted growth of platform customers in Marketplace Banking will require additional equity capital in addition to the need for debt capital. Through its subsidiary VARP Finance GmbH (formerly Elbe2021 Incubator GmbH), the bank can invest directly in some of its existing customers (equity capital markets, ECM). This mechanism also enables Varengold Bank to expand its network into the venture capital sector.

The focus of Varengold Bank in the core business area of Commercial Banking will continue to be on global trading companies that are active in niche markets with difficult regulatory requirements. Varengold supports these customers primarily with services in the area of transaction banking and trade finance. The strategic direction in this area is currently being reorganized based on the recent findings of the ongoing special audit pursuant to § 44 Para. 1 of the German Banking Act. The individual products and services are being put to the test, new earnings potential is being identified and existing payment transactions processes are being adjusted. The bank has been able to build up an international and well-known customer base in recent years and will continue to strive to maintain and consolidate its position as a transaction bank. The trade finance lending business is to be selectively expanded with existing customers.

The deposit business, which is aimed almost exclusively at the target group of German private customers, plays a central role in the bank's refinancing strategy. As part of the deposit business, the bank offers customers overnight and fixed-term deposit products with various terms of up to ten years. As a benchmark for the interest rate conditions offered, Varengold Bank orients itself on the market offering of credit institutions that are subject to German deposit protection. In addition, the bank refinances itself through the deposits of payment transaction customers, which are invested as German Central Bank balances. The deposit business is also expected to grow organically in the coming years. The bank's refinancing strategy envisages keeping the fixed-term and overnight deposit volumes at a constant level, implementing further diversification effects related to terms and managing deposits in close coordination with the opportunities from the Marketplace Banking and Commercial Banking business areas.

The interest rate strategy reversal in 2022, which ended an era of negative interest rates, reactivated the deposit business of German banks. Competition for deposits has increased continuously since then, while even neobrokers and FinTechs have appeared on the market with interest rate offers. In June 2024, the European Central Bank again lowered the key interest rate by 0.25% to 4.25%, thus initiating another interest rate turnaround.[8] Accordingly, deposit interest rates will react quickly in the ongoing competition. The bank will therefore be required to achieve the required new contract and extension rates through increased and targeted adjustments to conditions in the area of overnight and fixed-term deposit products.

In order to position the bank successfully in the long term, the essential success factors are a concentration on the customer and their satisfaction, as well as maintenance of a highly qualified and motivated team. Under the New Work model, the bank's entire work philosophy will continue to be developed in the future and work processes will be streamlined and qualitatively improved in order to generate added value for customers and investors through even greater efficiency. The foundation for this is the dedication to the 6 pillars of Varengold Bank: Culture, Work Environment, Leadership, Digital Transformation, Empowerment and Corporate Social Responsibility. These pillars were established to accompany and support the three corporate values "Customer Centric", "No Silos" and "Go the extra Mile".

In 2022, a conceptual development phase also took place designed to further develop communication gradually and on the basis of a modern information architecture. Among other goals, employees should be enabled to complete their tasks successfully with a qualitative and quantitative flow of information. Individual projects and team work have already shown in the past that complex customer transactions can be successfully completed under great time pressure with suitable structures and communication channels. This also includes the consistent implementation of the digitalization strategy and further process automation - e.g. for recurring work in customer service through the use of robotic process automation or artificial intelligence.

Moreover, Varengold Bank's plan to further reducing its ecological footprint and making a social contribution will remain top of mind. That is why a dedicated group of employees is focusing on this topic. Ideas are being developed on how the bank's commitment in this area can be continued in the coming years. The goal is to not only convey a comprehensive understanding of sustainability, but also to actively implement individual measures for environmental protection and social commitment. Among other measures, the continuous compensation of one's own emissions is an important element in the development of a responsible and sustainable corporate culture. When classifying the bank's customer portfolio in terms of Environment Social Governance (ESG) performance, these framework conditions should also ensure that the bank's strategy and practice are consistent with its own vision of sustainable development, as well as external expectations.

Due to recent developments in relation to the ongoing special audit and the supervisory measures initiated and their impact on the bank's earnings situation, these aforementioned efforts towards cultural and digital transformation, further development and growth will not be able to be implemented to the extent and within the time frame originally planned. As far as possible and sensible, projects that have already begun and are planned have been put on hold in June 2023 in order to save general administrative costs and to use existing capacities later in the year for reorganization and process optimization in the Commercial Banking area and for the expansion of additional internal controls.

8 https://www.ecb.europa.eu/press/press_conference/html/index.de.html

3. Outlook report

Economic conditions on the balance sheet date:

The key interest rate increases which took place in 2022, the sharp rise in energy prices, as well as the rise in inflation rates since the beginning of 2022 also weighed on the real economy in 2023. The key interest rate was increased several times over the course of 2023, ultimately reaching 4.5% in September 2023[9]. On 6 June 2024, the European Central Bank reduced the key interest rate by 0.25% to 4.25% for the first time since 2019.[10]

Across the board German economy stagnated in 2023. Price-adjusted gross domestic product fell by 0.2%[11] in 2023. The decline is partially due to the persistently high price level at all levels of the economy. In addition, there were unfavorable financing conditions resulting from the rise in interest rates and the decline in domestic and foreign demand. This trend continued in the first quarter of 2024, when price-adjusted GDP fell by 0.9%. In the euro area, the economy also stagnated in 2023 – while real gross domestic product rose slightly in the first two quarters compared to the previous quarters, it fell by 0.1% in the third quarter and finally stagnated in the last quarter.[12]

The inflation rate in the euro area rose by around 2.9%[13] in December 2023 compared to the same month last year, thus recovering compared to previous months. Price pressure from the energy and food sectors has noticeably eased. This is also evident at the end of the first quarter of 2024, in which the inflation rate in the euro area rose by 2.4% compared to the same month last year. In Germany, the inflation rate flattened in 2023 after the record year of 2022, closing in December 2023 with an increase of 3.7% compared to the same month last year. On average for the year in 2023, consumer prices in Germany rose by 5.9% compared to 2022.[14] This trend continued in the first quarter of 2024, showing an increase of 2.2% in March 2024 compared to the same month last year.[15]

The stock markets performed well overall in 2023, although the economic environment continued to deteriorate. The main drivers of the positive price development were easing concerns about European energy supplies and falling inflation rates, which had a positive impact on investors' risk appetite. The German leading index DAX closed at around 16,752 points at the end of December. In the first quarter of 2024, the stock markets continued to perform positively and the DAX closed at around 18,493 points at the end of March 2024.[16] In response to the US inflation data, the DAX rose to a new record high of 18,893 points in mid-May 2024.[17]

The general development of the FinTech sector continued in 2022, so that valuations fell and access to financing and equity in particular became more difficult. Global investments in FinTech startups fell significantly in 2023

9 https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungsgeschaeft-seit-1999/
10 https://www.ecb.europa.eu/press/press_conference/html/index.de.html
11 https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/Tabellen/bip-bubbles.html
12 https://de.statista.com/statistik/daten/studie/158133/umfrage/entwicklung-des-bip-in-der-eurozone-und-der-eu-gegenueber-dem-vorjahresquartal/
13 https://de.statista.com/statistik/daten/studie/72328/umfrage/entwicklung-der-jaehrlichen-inflationsrate-in-der-eurozone/
14 https://www.destatis.de/DE/Presse/Pressemitteilungen/2024/01/PD24_020_611.html
15 https://de.statista.com/statistik/daten/studie/1045/umfrage/inflationsrate-in-deutschland-veraenderung-des-verbraucherpreisindex-es-zum-vorjahresmonat/
16 https://de.statista.com/statistik/daten/studie/162176/umfrage/monatliche-entwicklung-des-dax/
17 https://www.tagesschau.de/wirtschaft/finanzen/marktberichte/marktbericht-dax-dow-110.html

compared to the previous year. In the first quarter of 2024, however, there was a positive development in Europe. There is an increasing number of somewhat larger financing rounds.

Forecast:

In particular, the forward-looking statements contained in this section are based on estimates and conclusions made by Varengold Bank at the time this report was prepared. The statements contained herein are based on assumptions and, unless otherwise stated, are based on internal estimates. The bank expressly points out that all statements relating to the future are associated with known or unknown risks and uncertainties and are based on conclusions relating to future events beyond the control of the bank. A number of important factors can lead to actual results to differ significantly from forward-looking statements.

The development of the global economy and capital markets in 2024 is likely to continue to be characterized by slight growth and persistent geopolitical uncertainty. The EU Commission expects gross domestic product in the eurozone to grow by 0.8%.[18] In its most recently published economic forecast, the Institute for Economic Research (ifo) predicted that the German economy is stagnating due to poor investor sentiment and high levels of uncertainty among companies and households, and that a noticeable overall economic recovery is only likely to occur in the second half of the year. Overall, it can be assumed that German gross domestic product will only increase by 0.2% in 2024 compared to the previous year.[19] Therefore the growth forecast for 2024 has been significantly reduced by 0.7 percentage points compared to the ifo economic forecast in winter 2023.[20]

Moreover, the ifo Institute expects inflation to continue to decline. As inflation falls, interest rates are likely to have peaked, which is why the European Central Bank can be expected to make its first key interest rate cut in early summer 2024.

Furthermore, regulatory requirements continue to increase. One such additional measure is the MaRisk amendment, which also places a strong focus on risk management of sustainability risks. It can be assumed that the implementation of MaRisk will have an impact on analyses, customer acceptances and, for example, lending. The supervisory focus on the integration of environmental, social and governance (ESG) aspects into the strategies and risk management of institutions is further supported and promoted by the ECB guidelines and the EBA guidelines. ESG risks will also need to be additionally integrated into the bank's written regulations. This requires analysis and ongoing monitoring, in particular with regard to the appropriateness and effectiveness of the processes implemented and the established controls the undertaken by compliance.

In addition, the EU legal act Digital Operational Resilience Act (DORA), which came into force on 17 January 2023, will play a role in the future, focusing on strengthening IT security, cyber risks and the topic of business continuity management. During the Russian war of aggression, there were increasing numbers of cyberattacks on critical infrastructures and financial service providers. Consequently, with the DORA or the Network and Information Security Directive (NIS2), uniform standards will be adopted at EU level and firmly established over

18 https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2024-economic-forecast-gradu-al-expansion-amid-high-geopolitical-risks_en?prefLang=de
19 https://www.ifo.de/publikationen/2024/aufsatz-zeitschrift/ifo-konjunkturprognose-fruehjahr-2024
20 https://www.ifo.de/publikationen/2023/aufsatz-zeitschrift/ifo-konjunkturprognose-winter-2023

the next few years, which will have a significant impact on information security and, if necessary, outsourcing for banks.

In January 2025, the new Capital Requirements Regulation (CRR III) will also come into force. Moreover, changes are expected related to the monitoring and governance requirements for banking products by the Federal Financial Supervisory Authority, which are currently in the consultation phase. This is intended to expand the control and monitoring activities of the compliance function to include other banking products and the associated processes and instructions.

It remains unclear whether a regulation on real-time transfers/instant payments will be passed in the next few months. This would inevitably result in the restructuring or expansion of the bank's payment transaction structure, which Varengold Bank generally welcomes as a positive and forward-looking step.

Varengold Bank does not expect its business activities to be significantly affected by the still unforeseeable end of the war in Europe and the sanctions imposed in this context, as well as the Middle East conflict that has escalated since October 2023. Permanent indirect effects such as price increases, resource scarcity and the threat of stagflation or recession nevertheless pose potential risks. With the start of Russia's aggression against Ukraine, Varengold Bank has drafted various scenarios for itself with macroeconomic and direct effects and is following economic and political developments very closely. The conflict-related energy crisis will have a negative impact on individual economic sectors despite contained price increases. Nevertheless, Varengold Bank sees the existing loan portfolio as well positioned due to the general diversification by sector, country and size class as well as appropriate collateralization. The bank has also carried out an internal assessment in view of the developments in the conflict between Iran and Israel and does not expect any restrictions on transactions in the humanitarian sector. In the event of further escalation in the Middle East, the Bank's current assessment is that supplies in this sector (food and medicine) would continue to receive political support and thus no impact on ongoing business activities would be expected.

The entire banking sector will once again need to assert itself in this complex and challenging environment and actively manage its loan portfolios. In doing so, banks should keep an eye on their cost structure and further adapt to the ever-challenging market and regulatory environment, and not lose sight of structural adjustments such as the digitalization of business processes.

Overall, however, the banking sector is in good shape and is well prepared for an economic slowdown and a possible increase in loan defaults. Profitability will continue to be supported by the higher interest rate level in the medium term.

The alternative financing market as a whole (e.g. online marketplaces, revenue-based financing, online lenders and peer-to-peer lending) recorded a slight decline in volume in Europe in 2023 due to market conditions. A cautious upward trend is now emerging in Europe. Even though the average financing rounds are still rather reserved, European FinTech funding in the first quarter of 2024 is at a similar level to the previous quarter. The situation is therefore much more stable than at the global level and could continue in 2024.[21] On the corporate

21 https://financefwd.com/de/das-comeback-der-grossen-fundingrunden/

customer side, there is a clear trend that significant growth is not the top priority, but rather that slower growth and a quick path to profitability are the priority. On the consumer side, offers such as “buy now, pay later” are particularly relevant today and have an influence on consumer behaviour.

Varengold Bank expects the number of institutions to decrease in the long term, that competition will become more intense as a result, and that an increasing number of global technology groups, FinTechs and foreign banks will offer selected products from the traditional banking business. Due to the increase in interest rates and the abolition of negative interest rates, the interest business will once again offer an income component in addition to the prospects in the trading business, from which many institutions have partially or even completely withdrawn in the past – an opportunity that Varengold Bank knows how to harvest.

Regardless of the past and future business development and the implementation of a catalogue of measures to maintain a stable earnings situation for the bank, various risk factors can also affect earnings development in the coming years to an extent that cannot be fully quantified if the global political and economic situation develops unfavorably. The results are also heavily dependent on future interest rate developments. The overarching goal of Varengold Bank is to further restructure the Commercial Banking division, to further expand the Marketplace Banking division and to anchor the bank on its stable foundation. In connection with this restructuring, the bank expects additional burdens and plans to finance these with the available resources. In the medium term, competitiveness and planning for the further development of the overall bank organization should also be maintained or further promoted.

Based on the earnings development in 2022 and planning calculations, Varengold Bank had derived an original forecast and at the beginning of 2023 forecast a profit before taxes of EUR 40-50 million for the 2023 financial year. The effects of the supervisory measures in the context of the ongoing special audit pursuant to § 44 (1) of the German Banking Act (KWG) required a significant adjustment of the business planning in June 2023 and the bank expected the originally planned result would not be achieved.

In September 2023, the business plan was again revised and the last forecast result was recalculated. The new plan showed a significant improvement in results due to higher planned income, which was only partially offset by considerable cost increases in the context of the ongoing special audit. In the further course of events, positive and negative value-enhancing factors (including the costs of the special audit) needed to be taken into account in the context of the closing work for 2022, which significantly reduced the result before taxes and at the same time led to an increase in the earnings forecast for the 2023 financial year. Varengold Bank recorded a preliminary and not yet audited result before taxes of EUR 25.8 million for the 2023 financial year. At EUR 65.3 million, net income is around 20% below the previous year’s level, with administrative expenses reduced by around 6% to EUR 33.7 million and a cost-income ratio of around 55%.

The 2024 financial year got off to a satisfactory start in the first quarter. Varengold Bank generated net income of EUR 14.1 million in the first three months with administrative expenses of EUR 7.3 million, with the bank recently benefiting from the current interest rate environment in its business activities. For example, around 50% of net income in the first quarter is attributable to interest on overnight balances at the German Central Bank. The bank expects this effect will decrease over the course of the year. The bank reported preliminary earnings before taxes of EUR 5.9 million as of 31 March 2024. For the full 2024 financial year, Varengold Bank forecasts earnings before taxes of EUR 9-13 million and a cost-income ratio of around 73%.

Hamburg, 17 June 2024

Board of Directors of Varengold Bank AG

Dr. Bernhard Fuhrmann Frank Otten

Independent Auditor's Report

To the Varengold Bank AG, Hamburg

AUDIT REPORT OF FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Audit opinions

We have audited the annual financial statements of Varengold Bank AG, Hamburg, consisting of the balance sheet as of 31 December 2022 and the income statement for the financial year from 1 January to 31 December 2022 and the Appendix, including the presentation of the accounting and valuation methods. Moreover, we have audited the Management Report of Varengold Bank AG for the financial year from 1 January to 31 December 2022.

According to our assessment based on the knowledge gained during the audit

- the included annual financial statements comply in all material respects with German commercial law regulations, are prepared using German generally accepted accounting principles, and provide a true and fair view of the assets and financial position of the company as of 31 December 2022, as well as its earnings position for the financial year from 1 January to 31 December 2022 and
- the provided Management Report as a whole provides an accurate picture of the company's position. In all material respects, this Management Report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

According to § 322 (3) sentence 1 HGB, we declare that our audit has led to no objections to the regularity of the annual financial statements and the Management Report.

Basis for the audit results

We conducted our audit of the annual financial statements and the Management Report in accordance with § 317 HGB and the EU Auditing Regulation (No. 537/2014; hereafter: "EU-APrVO"), taking into account the German principles of proper auditing established by the Institute of Public Auditors (IDW). Our responsibility under these requirements and standards is further described in the "Auditor's responsibility for the audit of the financial statements and management report" section of our Auditor's Report. We are independent of the company according to the requirements of European law, as well as German commercial and professional law, and we have fulfilled our other German professional responsibilities according to these regulations. Furthermore, we declare in accordance with Article 10, para. 2, letter f) of the EU-APrVO that we have not provided any non-audit services prohibited by Article 5, para. 1 of the EU-APrVO. We believe that the audit evidence provided to us in response to our requests is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the Management Report.

Particularly important audit matters in the audit of the annual financial statements

Key audit matters are those matters that, based on our professional judgment, were most meaningful in our audit of the annual financial statements for the financial year from 01 January to 31 December 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole, as well as in the formation of our opinion thereof; we do not provide a separate audit opinion on these matters.

In our view, the following matters were the most significant in our audit:
1) Risk provision in customer lending
2) Representation of commission income from payment transactions
3) Representation of a legal dispute regarding the possible repayment of refunded capital gains tax
4) Provision for the risk of impending fines

We have structured our presentation of these particularly important audit matters as follows:
1. Facts and problem description
2. Audit approach and findings
3. Reference to further information

We present the particularly important audit matters below:

1) Provision for risk in the customer lending business
    1. In the company's annual financial statements, a customer loan transaction in the amount of € 432.9 million (30 % of the balance sheet total) is reported under the balance sheet item "Receivables from customers". As of 31 December 2022, there was a balance sheet risk provision for this loan portfolio consisting of individual and general value adjustments. The measurement of risk provisioning in the customer lending business is determined in particular by the structure and quality of the loan portfolio, as well as macroeconomic factors and the assessments of the executive directors with regard to future loan defaults. The amount of the individual value adjustments for customer receivables corresponds to the difference between the outstanding loan amount and the lower value that is to be attributed to it on the reporting date. Existing securities are considered. The general value adjustments are determined on the basis of the expected losses. The value adjustments in the customer lending business are particularly important in terms of determining the amount of the company's net assets and results of operations and are also associated with considerable discretionary powers for the executive directors. Moreover, the valuation parameters used, which are subject to significant uncertainties, have a significant impact on the formation or amount of possibly necessary valuation allowances. In this context, this matter was of particular importance in the course of our audit.
    2. As part of our audit, we first assessed the design of the company's relevant internal control system and, based on this, tested the functionality of the controls. In doing so, we evaluated the business organization, the IT systems, and the relevant valuation models. In addition, we assessed the valuation of customer receivables, including the adequacy of estimated values, based on random samples of corresponding credit exposures. Among others, we reviewed the company-provided documents regarding the economic situation, as well as the intrinsic value of the corresponding collateral. With

regard to property collateral, for which the company provided us with appraisals, we developed an understanding of the underlying data, the applied valuation parameters and the assumptions made. We critically assessed them and evaluated whether they were within an acceptable range. Moreover, to assess the individual and general value adjustments made, we also examined the calculation methods applied by the company, as well as the underlying assumptions and parameters. On the basis of the audit procedures we completed, we were convinced overall of the reasonableness of the assumptions made by the legal representatives when testing the impairment of the loan portfolio and of the appropriateness and effectiveness of the controls implemented by the company.

3. The company's disclosures on the accounting and valuation of risk provisions in the customer lending business are contained in Section 2 "Accounting and valuation methods" of the notes.

2) Building of commission income from payment transactions

1. Commission income of € 48.5 million is reported in the company's annual financial statements, of which € 44.4 million relates to commission income from payment transaction services (92 % of commission income). Various payment transaction services of the company are accounted for when recording and delimiting this meaningful amount of income. Due to the heterogeneity of these services, the different remuneration scales, as well as the large number of transactions processed, the bank has implemented systems and processes for recording commission income. In this context, this matter was of particular importance in the course of our audit.

2. As part of our audit, we first gained an understanding of the processes and controls for recording commission income established by the company. Based on this, we assessed, among other aspects, the appropriateness and effectiveness of the relevant controls of the internal control system for recording and realizing commission income, including the IT systems utilized. Moreover, we verified, among other aspects, the determination and accounting treatment of the various income components through random samples taken from the documents submitted to us. In connection with this, we also compared the commission rates charged with the contractually agreed upon fee rates and verified the mathematical accuracy of the commission statements in random samples. Furthermore, we verified the continuity and consistency of the methods used to accrue commission income.

   We were satisfied that the systems and processes implemented, as well as the established controls are appropriate overall and that the estimates and assumptions made by the executive directors for the proper recording and accrual of commission income are adequately documented and justified.

3. The company's information on commission income is included in the notes to the income statement (§ 5.3 Commission income).

3) Description of a legal dispute regarding possible repayments of refunded capital gains tax

1. In the company's annual financial statements, a provision for legal risks due to the possible repayment of refunded capital gains tax in the amount of T€ 3,868 is shown under the item "other provisions". Varengold Bank AG is the defendant in civil proceedings together with 19 other natural and legal persons. The subject of the dispute is a possible claim for reimbursement relating to a tax demand in relation to transactions of an independent partial investment fund of Varengold Verwaltungs AG i.L. in the form of a public investment fund from 2010. The claim is directed at the joint and several repayments of refunded capital gains tax including solidarity surcharge totalling around €92 million

(plus any interest) that was paid to Varengold Verwaltungs AG i.L. in 2010, as the plaintiff assumed that the fund was entitled to a tax refund of this amount as a tax-exempt investment fund. The lawsuit is pending in the first instance before the Regional Court and Varengold Bank AG has filed a response to the lawsuit with the competent court.

Provisions must be made for uncertain liabilities in accordance with § 249 para. 1 sentence 1 of the German Commercial Code (HGB). For this to happen, there must be an external obligation that has arisen legally or was economically caused, and there must be a serious expectation that it will be called upon. If the necessary recognition criteria are met, there is a need to make a provision for legal risks. The legal representatives of Varengold Bank AG consider it conceivable that the lawsuit could be successful and have made a provision for legal risks. The risk assessment to be carried out on the course of the legal dispute and the assessment of whether this legal dispute requires the creation of a provision to cover the risk is largely influenced by the assessments and assumptions of the legal representatives. I this context and due to the amount of the claims asserted, we believe that this matter is of particular importance for our audit.

2. As part of our audit, we examined the content of the existing legal dispute with the involvement of internal lawyers and assessed whether and to what extent a provision should be created. Our assessment took into account the knowledge gained during our regular discussions with the bank's legal representatives and the written assessment provided to us by the legal representatives. We understood the reasons for the creation of the provision and the determination of the amount of the provision. We also reviewed the assessment of an external legal advisor obtained by Varengold Bank AG and other documents made available by Varengold Bank AG. Based on our audit procedures we were able to convince ourselves that the assessments made by the legal representatives for the recognition and measurement of a provision for legal risks were sufficiently documented and justified.
3. The Company's information on the provision for legal risks is included in the notes in sections 4.2.13 and 5.7 and in the risk report as part of the Management Report.

4) Provision for the risk of impending fines

1. In the company's annual financial statements, a provision for impending fines in the amount of € 4 million is shown under the item "other provisions". In 2023, the Federal Financial Supervisory Authority asserted possible compliance violations in connection with an ordered and not completed special audit pursuant to § 44 para. 1 sentence 2 of the German Banking Act (KWG), which relate to compliance with and implementation of anti-money laundering requirements, in particular in connection with the bank's Iran business.

   Based on these findings, the company is at risk of being fined under § 30 of the Administrative Offences Act in conjunction with the relevant provisions of the Money Laundering Act and the Banking Act. The provision is calculated at the amount required to meet the obligation based on reasonable commercial judgment. The assessment of whether and, if so, to what extent a provision must be recorded as a liability to cover the risk of violations of money laundering regulations is subject to a high degree of uncertainty and requires a high degree of discretionary decisions by the legal representatives. Against this background, we believe that this matter is of particular importance for our audit.

2. As part of our audit, we examined the impending fines and assessed whether and to what extent a provision should be made. Our assessment took into account the information obtained during our regular discussions with the legal representatives of the company and the assessment made available to us in writing by the legal representatives. We understood the reasons for the creation of the provision and the determination of the amount of the provision. In order to estimate the total amount of possible fines, we also obtained an external lawyer's confirmation as of the balance sheet date, which supports the risk assessment made by the company. Based on the audit procedures we conducted, we were able to convince ourselves that the assessments made by the legal representatives for the recognition and measurement of a provision for the risk of impending fines are sufficiently documented and justified.
3. The Company's information on the provision for the risk of impending fines is included in sections "0. Preliminary remarks" and "4.2.13 Other provisions" of the notes and in the risk report as part of the Management Report.

Other Information

The legal representatives are responsible for the Other information.

The Other information encompasses the Annual Report, without further cross-references to external information, with the exception of the audited annual financial statements, the audited Management Report and our Auditor's Report.

Our opinions on the annual financial statements and on the Management Report do not cover the Other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, we have the responsibility to read the Other information identified above and, in doing so, to consider whether the Other information

- exhibits material discrepancies with the annual financial statements, the audited Management Report information or our knowledge obtained in the audit, or
- otherwise appear materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the Management Report

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German commercial law provisions in all material respects, and for the fact that the annual financial statements, in compliance with the German principles of proper accounting, convey a fair and accurate view of the net assets, financial position and results of operations of the company. Moreover, the legal representatives are responsible for the internal controls which they have established, in accordance with the German principles of proper acting, to be necessary to enable the preparation of annual financial statements that are free from any intentional (i.e. manipulation of accounting and damage to assets) or non-intentional material misstatements.

In preparing the annual financial statements, management is responsible for assessing the company's ability to continue as a going concern. In addition, they have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for preparing the financial statements based on the going concern basis of accounting, unless actual or legal circumstances prevent this.

Moreover, the legal representatives are responsible for preparing the Management Report, which as a whole provides an accurate view of the company's position and furthermore is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to enable the preparation of a management report according to the applicable German legal requirements and to provide sufficient suitable evidence for the statements in the Management Report.

The Supervisory Board is responsible for monitoring the company's accounting process for the preparation of the annual financial statements and the Management Report.

Responsibility of the auditor for the audit of the financial statements and Management Report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatements – intentional or unintentional – and whether the Management Report as a whole provides an appropriate view of the company's position in all material respects with the annual financial statements; is consistent with the findings obtained in the audit; complies with German legal requirements and appropriately presents the opportunities and risks of future development; as well as to issue an Auditor's Report which contains our audit opinions on the annual financial statements and the Management Report.

Adequate security is a high level of security but is no guarantee that an audit carried out according to § 317 HGB and the EU-APrVO, considering the German principles of proper annual auditing determined by the Institute of Public Auditors (IDW), will always uncover a material misstatement. Misstatements may arise from fraud or error and are considered material if, individually or as a whole, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements and management report.

While conducting the audit, we exercise professional judgment and maintain a critical attitude. In addition,

- we identify and evaluate the risks of material misstatement – intentional or unintentional – in the annual financial statements and in the Management Report, plan and perform audit procedures in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is greater than that one arising from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- we gain an understanding of the internal control system components relevant to the audit of the annual financial statements, as well as the precautions and measures relevant to the audit of the Management Report in order to plan audit procedures which are appropriate in the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these systems of the company.

- we evaluate the appropriateness of the accounting methods used by the legal representatives as well as the justifiability of the estimated values presented by the legal representatives and the corresponding disclosures.
- make assessments as to the appropriateness of management's application of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to the related information in the annual financial statements and Management Report in the Auditor's Report or, if these entries are inappropriate, to modify our respective audit opinion. We base our conclusions on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure, and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements, in compliance with German legally required accounting principles, give an accurate and fair view of the assets, financial and earnings situation of the company.
- we assess the consistency of the Management Report with the annual financial statements, its compliance with the law and the image it conveys of the company's situation.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the Management Report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the meaningful assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not provide a separate audit opinion on the future-oriented information and the underlying assumptions. There is a considerable unavoidable risk that future events will differ materially from the future-oriented information.

We communicate with those charged with governance, among other issues, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to affect our independence, as well as the safeguards in place to protect our independence.

Of the matters discussed with the those charged with governance, we determine which matters were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Other information according to Article 10 EU-APrVO

We were elected as auditor during the annual general shareholder's meeting on 24 August 2022. We were engaged by the Supervisory Board on 11 November 2022. We have been the auditors of Varengold Bank AG, Hamburg, without interruption since the 2015 financial year.

We declare that the audit opinions expressed in this Auditor's Report are consistent with the Additional Report to the Audit Committee in accordance with Article 11 of the EU-APrVO Audit Regulation.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Lutz Meyer.

Hamburg, 18 June 2024

PricewaterhouseCoopers GmbH
Audit and Assurance Consultants

Lutz Meyer	ppa. Maximilian Hockenberger
Financial Auditor	Financial Auditor

Corporate information

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Board of Directors

Dr. Bernhard Fuhrmann
Frank Otten

Supervisory Board

Dr. Karl-Heinz Lemnitzer (Chairman)
Vasil Stefanov
Marcus Columbu

Corporate Register

District Court of Hamburg, HRB 73684

USt-IdNr. (Value-added tax identification number)

Financial Authority Hamburg, DE247069729

Corporate Governance

Varengold Bank AG is registered with the Federal Financial Supervisory Authority (BaFin, Graurheindorfer Street 108, 53117 Bonn; Tel.: 0228 / 4108 - 0) under the number 109 520 and published on the website www.bafin.de.

Varengold BANK

Permissions/Approvals of Varengold Bank AG

- Acquisition brokerage (§ 1 para. 1a sentence 2 no. 2 KWG)
- Investment advising (§ 1 para. 1a sentence 2 no. 1a KWG)
- Investment mediating services (§ 1 para. 1a sentence 2 no. 1 KWG)
- Investment management services (§ 1 para. 1a sentence 2 no. 11 KWG)
- Deposit business (§ 1 para. 1 sentence 2 no. 5 KWG)
- Proprietary business (§ 32 para. 1a KWG)
- Proprietary trading (§ 1 para. 1a sentence 2 no. 4 KWG)
- Deposit-taking business (§ 1 para. 1 sentence 2 no. 1 KWG)
- Factoring (§ 1 para. 1a sentence 2 no. 9 KWG)
- Financial leasing (§ 1 para. 1a sentence 2 no. 10 KWG)
- Financial commissions business (§ 1 para. 1 sentence 2 no. 4 KWG)
- Financial portfolio management (§ 1 para. 1a sentence 2 no. 3 KWG)
- Guarantee business (§ 1 para. 1 sentence 2 no. 8 KWG)
- Credit business (§ 1 para. 1 sentence 2 no. 2 KWG)

Deposit insurance

The Varengold Bank AG is a member of the German Banks Compensation Scheme (EdB).

DISCLAIMER

Notes on the content

The information in this report is neither meant for publication nor distribution in, for example, the United States of America, Australia, Canada, Japan, or any other country where such publication or distribution could be unlawful.

This report was prepared with the utmost of care. Rounding, typographical and printing errors may nonetheless not be excluded. While calculating sums of rounded amounts and percentages, rounding differences may occur.

Solely to facilitate readability, this report partially foregoes gender specific language and uses the generic masculine. All personalized designations and terms are applied in the sense of equal gender treatment categorically for all genders. The abbreviated linguistic form is used exclusively for editorial reasons and implies no value.

Forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that include not only the past but are also statements about beliefs and expectations and their underlying assumptions. These statements are based on plans, estimates and projections available to the Board of Directors of Varengold Bank AG at the time of preparation of this Annual Report. Forward-looking statements therefore apply only to the date on which they are made. Therefore, the reader should not excessively trust the statements, especially not in conjunction with contracts or investment decisions. We expressly point out that all forward-looking statements are connected with known or unknown risks and uncertainties and are based on assumptions related to future events beyond our control. We cannot accept any liability for the accuracy, completeness, or for the actual occurrence of the statements made. The Management Board assumes no obligation to update such statements to reflect new information or future events. Numerous important factors could lead to actual events differing materially from forward-looking statements. Such factors include a change in general economic conditions or competitive environment, the threat of decrease in earnings from special charges, as well as the state of the financial markets, from which Varengold Bank AG achieves substantial portions of their income.

Note

This English version of the annual report 2022 is for informational purposes only. Legally binding is solely the German version of the annual report 2022.