Varengold
BANK

Interim Report as at 30 June
2024

Preliminary notes

At the time of preparing this report a special audit of the business operations of Varengold Bank AG is being carried out by the Federal Financial Supervisory Authority (BaFin) pursuant to Section 44 (1) (2) of the German Banking Act (KWG). Two out of a total of three audit areas have been finalised at the time of preparing this report. The Bank has not yet been notified of a specific date on which the ongoing special audit will end.

Due to the special audit, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, as the auditor for the 2022 financial year, was only able to complete the necessary audit activities at Varengold Bank following a significant delay, and the 2023 Interim Report could not be prepared either as the audit report for the 2022 financial year was outstanding until June 2024. PricewaterhouseCoopers GmbH began auditing the 2023 annual financial statements in June 2024. The outstanding obligations in terms of publication, including the 2023 Annual Report, will be met as soon as possible.

The sections in this 2024 Interim Report represent the minimum disclosures required for publication pursuant to Section 115 of the WpHG (German Securities Trading Act).

This Interim Report contains key figures and the interim financial statements, including the balance sheet, profit and loss account, as well as explanatory notes relating to the balance sheet and profit and loss account, and the interim management report. These have not been audited nor have they been the subject of an audit review.

Statement of the legal representatives:

The Board of Managing Directors confirms that to the best of its knowledge, the interim financial statements prepared in accordance with standard accounting principles provide as true and fair view of the company's financial position as possible and that the Interim Report represents as true and fair view of the company as possible with respect to important events during the first six months of the financial year and the consequences of these events for the company.

30 October 2024
Dr Bernhard Fuhrmann and Frank Otten
Board of Managing Directors of Varengold Bank AG

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01 Letter to the Shareholders

Varengold BANK

Dear Shareholders,

Following a turbulent year in 2023, we were able to focus more again on the further development of the Bank. The Bank achieved a satisfactory result overall in the first half of 2024, even though earnings were down year-on-year. Net earnings were EUR 26.5 million (previous year: EUR 36.4 million). Administrative expenses were down 9% to EUR 14.2 million in the same period and consequently earnings before taxes (EBT) were a solid EUR 10.6 million (previous year: EUR 20.7 million). The main driver of success during this period was the Lending division in the core business area of Marketplace Banking. Lending has ramped up since mid-2023 and been expanded further thanks to the acquisition of new customers. The forecast for the current 2024 financial year is earnings before taxes of between EUR 9 million and EUR 13 million.

Furthermore, the Bank finally received an unqualified audit opinion for the 2022 financial year at the end of Q2. This meant that the initial, heavily delayed follow-up processes could then be set in motion. At the rescheduled Annual General Meeting in August 2024, we welcomed Dirk Auerbach as a new member of the Supervisory Board, who was subsequently elected to the position of Chairman. Due to the still ongoing special audit pursuant to Section 44 KWG and the resulting delays in the preparation of the financial statements, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was only able to start auditing the 2023 financial statements in June 2024 and this audit has not yet been completed.

However, regardless of this, essential decisions were made in the autumn of this year. In September 2024, we agreed on the main features of an adjusted business model together with the Supervisory Board. The established Marketplace Banking division remains a key pillar in this model. Another focus is on expanding business in the area of ESG financing with a special focus on energy transition. In addition, we have decided to discontinue the Iran-related payment transaction business in the Commercial Banking division as this business is no longer sustainable from a cost-benefit perspective.

Another exciting change is in store in the last quarter of this year – Varengold Bank is getting a new look! Having already undergone an internal transformation, particularly through our New Work concept, we are now also changing our external branding. The re-branding was originally planned for the summer of last year, but had to be temporarily halted as part of the cost-cutting programme. Now there is a technical necessity for us to create a new website, where it makes sense to include the re-branding straight away on cost grounds.

This means we are looking to the future holistically. We are aware that recalibrating our business model requires patience, dedication and hard work, but it is precisely these challenges that motivate us. Our team is happy about the upcoming changes and is adopting an open-minded approach, convinced that the changes will bring new opportunities and exciting developments.

We thank you for your trust in Varengold Bank and would especially like to thank our employees. Their commitment and team spirit in these challenging times ensures that the Bank remains on track in spite of all the obstacles and can continue on its path to a successful future.

Hamburg, October 2024

Board of Managing Directors of Varengold Bank AG

Dr Bernhard Fuhrmann

Frank Otten

02 Interim financial statements

in accordance with the German Commercial Code (HGB)

for the financial year from 1 January 2024 to 30 June 2024

Varengold Bank AG
Große Elbstraße 39
22767 Hamburg, Germany

Varengold Bank AG, Hamburg

Balance sheet as at 30 June 2024

Assets		EUR	30 June 2024 EUR	31 December 2023 EUR thousand
1.	Cash reserve			
	a) Cash and cash equivalents	1,643.49		2.1
	b) Balances at central banks	20,312,795.65		24,218.9
	- of which:		20,314,439.14	24,221.0
	at the Bundesbank: EUR 20,224,311.81			(24,170.4)
2.	Loans and advances to banks			
	a) Due on demand	547,795,018.17		792,932.8
	b) Other receivables	23,426.73		11.2
			547,818,444.90	792,944.0
3.	Due from customers		370,317,096.85	383,135.2
	- of which:			
	public sector loans EUR 85,527,966.37			(85,394.2)
4.	Bonds and other fixed-income securities			
	a) Bonds and debt securities			
	aa) From public issuers	21,394,822.62		16,455.1
	- of which:			
	acceptable as collateral at the Bundesbank: EUR 21,224,299.14			(16,210.4)
	ab) From other issuers	13,847,081.00		7,783.4
	- of which:			
	acceptable as collateral at the Bundesbank: EUR 11,451,485.11			(5,387.1)
			35,241,903.62	24,238.5
5.	Shares and other variable-income securities		86,437,075.14	92,492.3
6.	Participating interests		4,271,082.22	4,271.1
7.	Shares in affiliated companies		750,000.00	750.0
8.	Trust assets		33,338,764.75	35,011.0
	- of which:			
	trust loans EUR 33,338,764.75			(35,011.0)
9.	Intangible assets			
	a) Concessions acquired against payment	35,518.01		
			35,518.01	45.5
10.	Tangible assets		164,313.63	185.3
11.	Other assets		19,479,183.70	17,761.0
12.	Prepaid expenses and deferred charges		622,165.76	204.0
Total assets			**1,118,789,987.72**	**1,375,258.9**

Equity and liabilities		EUR	EUR	30 June 2024 EUR	31 December 2023 EUR thousand
1.	Bank loans and overdrafts				
	a) Due on demand		73,390,501.55		75,090.4
	b) With agreed term or period of notice		308,601.51		332.4
				73,699,103.06	75,422.8
2.	Amounts due to customers				
	a) Other liabilities				
	aa) Due on demand		480,166,445.08		750,052.5
	ab) With agreed term or period of notice		397,873,691.92		386,876.6
				878,040,137.00	1,136,929.1
3.	Trust liabilities			33,338,764.75	35,011.0
	- of which:				
	trust loans EUR 33,338,764.75				(35,011.0)
4.	Other liabilities			3,079,329.45	2,647.7
5.	Deferred income			316,696.24	427.5
6.	Provisions				
	a) Reserves for pensions and similar obligations		1,639,260.00		1,601.3
	b) Provisions for taxes		4,278,000.00		4,884.0
	a) Other provisions		24,035,371.69		24,159.7
				29,952,631.69	30,645.0
7.	Instruments of additional regulatory core capital			5,000,000.00	5,000.0
8.	Fund for general banking risks			10,400,000.00	10,400.0
9.	Equity 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) Statutory reserve	1,700.00			1.7
	cb) Other retained earnings	16,700.00			16.7
			18,400.00		18.4
	d) Net profit		30,196,417.88		24,008.9
				84,963,325.53	78,775.8
Total equity and liabilities				**1,118,789,987.72**	**1,375,258.9**
1.	Contingent liabilities				
	a) Liabilities arising from guarantees and warranty agreements			820,550.00	820.6
2.	Other obligations				
	a) Irrevocable loan commitments			49,623,215.09	48.0

Varengold Bank AG, Hamburg

Profit and loss account

for the period 1 January 2024 to 30 June 2024

		EUR	EUR	1 January 2024 to 30 June 2024 EUR	1 January 2023 to 30 June 2023 EUR thousand
1.	Interest income from				
	a) Lending and money market transactions	28,262,056.64			20,278.1
	b) Fixed-income securities and debt register claims	408,467.57	28,670,524.21		359.1
2.	Interest expenses		-6,307,955.33		-2,898.0
				22,362,568.88	17,739.2
3.	Current income from				
	a) Shares and other variable-income securities			440,000.00	1.6
4.	Commission income		2,654,226.99		19,764.4
5.	Commission expenses		-113,816.47		-2,231.1
				2,540,410.52	17,533.3
6.	Other operating income			1,131,391.90	1,127.5
7.	General administrative expenses				
	a) Personnel costs				
	aa) Wages and salaries	-5,182,406.80			-4,941.5
	ab) Social security contributions and expenses				
	for pensions and other employee benefits	-785,520.71			-946.1
	- of which: EUR -261,806.48 for pensions (previous year: EUR -278.9 thousand)		-5,967,927.51		-5,887.6
8.	b) Other administrative expenses		-8,125,398.32		-9,463.6
				-14,093,325.83	-15,351.2
9.	Depreciation and amortisation of intangible and tangible assets			-31,637.54	-47.7
10.	Other operating expenses			-96,634.56	-219.5
11.	Depreciation and write-downs on receivables and certain securities and allocations to provisions in the lending business			-1,660,752.30	-464.7
	Depreciation and write-downs on participating interests, shares in affiliated companies and securities treated as assets			0.00	415.3

		EUR	EUR	1 January 2024 to 30 June 2024 EUR	1 January 2023 to 30 June 2023 EUR thousand
12.	**Result from ordinary business activities**			10,592,021.07	20,733.8
13.	Taxes on income and earnings		-4,403,839.38		-5,723.4
14.	Other taxes, provided they are not shown under item 9		-676.28		-0.7
				-4,404,515.66	-5,724.1
15.	**Annual net profit**			6,187,505.41	15,009.7
16.	Profit carried forward from previous year (loss carry-forward previous year)			24,008,912.47	1,064.5
17.	Net profit			30,196,417.88	16,074.2

Varengold Bank AG, Hamburg
HRB 73684 Hamburg District Court

Condensed notes

for the period from 1 January to 30 June 2024 (interim financial statements)

We report on the special audit by the Federal Financial Supervisory Authority (BaFin), which was ordered at the end of 2022 and has been ongoing since spring 2023, in the 'Business development' section of the interim management report as at 30 June 2024.

The interim financial statements as at 30 June 2024 follow the annual financial statements as at 31 December 2023. The audit of these statements could not be started until July 2024 and has not yet been completed. The figures as at 31 December 2023 should therefore not yet be regarded as audited and may be subject to change.

The figures in the tables in the condensed notes are presented in thousands of euros (EUR thousand) or millions of euros (EUR million). Please note that rounded figures are used in the tables and in the text. Rounding differences are therefore possible. Comparative figures for key balance sheet figures relate to the annual financial statements as at 31 December 2023, comparative figures for key profit and loss account figures relate to the interim financial statements as at 30 June 2023.

In these condensed notes, we emphasise particular aspects of the information in the interim financial accounts, but do not provide the same level of detail as notes that have not been condensed. The accompanying balance sheet and profit and loss account are not condensed. The interim financial statements as a whole should be read in conjunction with the annual financial statements as at 31 December of a (previous) year.

1 General disclosures

The accounting and valuation methods used for the previous year's financial statements were generally applied in these interim financial statements, hence separate explanations are only provided in the event of deviations.

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

2 Estimation uncertainties and discretionary judgements

Use has been made of permissible estimates, discretionary judgements and assumptions. Estimates are based on empirical values and observable factors that are reviewed on a regular basis. Discretionary judgements have been made with due regard to legally permissible allowances.

Pension obligations have been calculated using the projected unit credit method in accordance with IAS 19. Based on the following assumptions:

	30 June 2024 Figures in %	31 December 2023 Figures in %
Discount rate	1.82	1.82
Expected salary increase	2.00	2.00
Expected pension increase	2.00	2.00

Estimates are also used in some items of other provisions.

3 Notes to the balance sheet

3.1 Assets

Due from customers

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Receivables from customers, gross	384,048	397,256
Risk provisions	-13,731	-14,121
Due from customers	370,317	383,135

22.3% (previous year: 21.5%) of receivables from customers are public sector loans.

Financial assets

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Bonds and other fixed-income securities	35,242	24,238
Shares and other variable-income securities	86,437	92,492
Participating interests	4,271	4,271
Shares in affiliated companies	750	500
Financial assets	126,700	121,501

Risk provisions in lending business

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Risk provisions in the lending business for:		
Loans and advances to banks	8	8
Due from customers	13,731	14,121
Off-balance sheet liabilities to customers	755	437
Risk provisions for financial assets for:		
Bonds and other fixed-income securities	1,138	1,138
Shares and other variable-income securities	0	0
Risk provisions	15,632	15,704

Other assets

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Receivables from the disposal of financial assets	14,873	15,775
VAT for current and previous years	963	1,332
Other	3,643	655
Other assets	19,479	17,762

3.1 Equity and liabilities

Bank loans and overdrafts

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Liabilities due on demand - LORO accounts	73,390	75,090
Liabilities due on demand - other accounts	0	1
Development banks	309	332
Bank loans and overdrafts	73,699	75,423

Amounts due to customers

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Time deposits	71,221	84,479
Current accounts	372,924	625,982
Deposits	31,585	35,156
Other	4,436	4,436
Liabilities due on demand	480,166	750,053
Term deposits	397,874	386,877
Other limited-term liabilities	0	
Limited-term liabilities	397,874	386,877
Amounts due to customers	878,040	1,136,930

Provisions for tax

Tax provisions include almost exclusively amounts from previous years, namely provisions for corporation tax (tax rate 15% plus 0.825% solidarity surcharge) of EUR 764 thousand (previous year EUR 188 thousand) and trade tax reserves (tax rate 16.45%) of EUR 802 thousand (previous year EUR 214 thousand).

	30 June 2024 EUR thousand	31 December 2023 EUR thousand
Corporation tax and solidarity surcharge	2,070.00	2,370.00
Business tax	2,189.00	2,500.00
Foreign taxes	19.00	14.00
Provisions for tax	4,278.00	4,884.00

4 Notes to the profit and loss account

Provision income

The provision income was impacted significantly by the restrictions described above (see preliminary notes).

5 Other disclosures

5.1 Executive bodies

5.1.1 Supervisory Board

Dr Karl-Heinz Lemnitzer Chairman until 13 August 2024, now Deputy Chairman, independent auditor and tax advisor

Vasil Stefanov Deputy Chairman until 13 August 2024, Member of the Board of Directors of Euro-Finance AD; Head of M&A, Euroins Insurance Group AD

Marcus Columbu from 6 July 2023 to 13 August 2024, lawyer, partner at act AC Tischendorf Rechtsanwälte Partnerschaft mbB

Dirk Auerbach from 13 August 2024 as Chairman, Chairman of the Board of Managing Directors of Schalast Auerbach AG Auditors

5.1.2 Board of Managing Directors

Dr Bernhard Fuhrmann
Back Office

Frank Otten
Front Office

Dr Bernhard Fuhrmann and Mr Otten are each entitled to represent the company together or with another member of the Board of Managing Directors or an authorised representative.

5.2 Notifications pursuant to Section 20 of the German Stock Corporation Act (AktG)

No notifications pursuant to Section 20 (1) AktG were sent to Varengold Bank AG in the year under review and therefore no announcements pursuant to Section 20 (6) AktG were published in the Federal Gazette.

5.3 German Corporate Governance Code

From 20 March 2007 to 28 February 2017, the Varengold Bank AG share (ISIN DE0005479307) was listed in the Entry Standard segment of the German Stock Exchange. Following the closure of the Entry Standard segment, Varengold shares have been listed in the Basic Board segment on the Open Market since the 1 March 2017. Varengold Bank AG refrains from publishing a declaration of compliance with the German Corporate Governance Code (Section 161 AktG) as the company is not listed on the stock exchange as defined by Section (3)(2) AktG.

5.4 Supplementary statement

No events of particular significance occurred after 30 June 2024.

Hamburg, 30 October 2024

Varengold Bank AG

Dr Bernhard Fuhrmann		Frank Otten

Interim Management Report

A. Fundamentals of Varengold Bank

Varengold Bank is a German financial institution founded in 1995 and granted a full banking licence in 2013. In addition to its headquarters in Hamburg, the bank also has a branch office in Sofia. Varengold Bank is registered with the Federal Financial Supervisory Authority (BaFin) under number 109 520. The Varengold share (ISIN: DE0005479307) has been listed on the Open Market of the Frankfurt Stock Exchange since 2007.

The core business areas of Varengold Bank are Marketplace Banking and Commercial Banking. In addition, the deposit business offers private German customers no-cost instant access accounts (available daily) with monthly interest credit. Moreover, the Bank offers term deposit accounts with different maturities from one year to ten years.

In Marketplace Banking, the focus is on cooperation with lending platforms and young fintechs in Europe. They are active in the asset classes Receivables Finance, Real Estate Finance, Trade Finance, Consumer Finance or SME Finance. Varengold Bank essentially supports its customers at an early stage of their business activities or in the start-up phase. Varengold Bank positions itself as a partner of the mostly young marketplace operators. The 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). Here, components of the individual banking licence are 'loaned' to lending marketplaces, which in turn have customers and a good product idea, but do not have a banking licence. Besides lending, factoring and leasing, relevant areas for these services are credit card receivables, deposit business, account management and payment transaction services.

Varengold Bank's second core business area is Commercial Banking. Varengold Bank supports corporate clients worldwide in their global trading and investment activities. In the Trade Finance area, Varengold Bank bundles selected solutions for financing as well as bank guarantees and letters of credit. In addition to classic payout guarantees, the warranty business also includes warranty guarantees as well as delivery and performance guarantees. With the help of individualised products and solutions, Varengold Bank gives its customers the opportunity to carry out transactions and trading activities securely, efficiently and transparently across national borders.

In September 2024, the Board of Managing Directors and Supervisory Board of Varengold Bank also moved towards a realignment of the business model. There will still be a focus on the established Marketplace Banking segment. In order to hone its profile and adapt to changing conditions, a decision was also made to discontinue payment transactions with Iran for the processing of humanitarian imports in the Commercial Banking division. Instead, the Bank will focus on expanding its business in the area of ESG financing with a special focus on energy transition.

B. Economic report

1. Macroeconomic and industry-related conditions

The geopolitical situation remained tense in the first half of 2024. The war between Russia and Ukraine continues with no sign of an imminent end and there has also been conflict between the militant Palestinian organisation Hamas and Israel since October 2023.

The German economy stagnated in the first half of 2024, as in the previous year. Price-adjusted GDP was down 0.8% year-on-year in Q1 2024. This decline can be attributed to the persistently high prices at all levels of the economy. It was compounded by unfavourable financing conditions resulting from the rise in interest rates and the decline in both domestic and foreign demand. In Q2, however, price-adjusted GDP was up 0.3% year-on-year for the first time in a year.[1]

In the eurozone, real GDP was up 0.3% year-on-year in Q1 2024. This trend continued in Q2 2024, with real GDP increasing by 0.6% year-on-year.[2]

Inflation rates have continued to fall until recently thus recovering compared to previous months, but were still above the 2% mark set by the European Central Bank (ECB) half way through the year. In the eurozone, Q2 2024 ended with an inflation rate of 2.5%[3], while the inflation rate in Germany closed at 2.2%[4] in June.

Overall, the stock markets continued to perform positively in the first half of 2024 and the DAX ultimately closed at 18,235 points in June 2024 after reaching a record high in mid-May.

In June 2024, the ECB lowered its key interest rates for the first time in almost five years. The interest rate for main refinancing operations was reduced from 4.50% to 4.25%[5], while the deposit rate for banks was lowered from 4.00% to 3.75%[6].

A specific look at the fintech sector shows that global fintech financing remained at a low level in the first half of 2024.[7] Although Europe saw a positive trend in Q1 2024 with an increase in slightly larger financing rounds[8], overall fintech financing remained virtually unchanged compared with the same quarters in previous years.[9]

2. Business development

Whilst 2023 will be remembered as a very turbulent and challenging year, the first half of 2024 was also still largely characterised by the special audit of business operations pursuant to Section 44 of the German Banking Act (KWG) and the associated knock-on effects. The annual financial statements as at 31 December 2022 and the management report for the 2022 financial year could not be finally audited and issued with an unqualified

1 https://www.destatis.de/DE/Presse/Pressemitteilungen/2024/08/PD24_325_811.html
2 https://de.statista.com/statistik/daten/studie/158133/umfrage/entwicklung-des-bip-in-der-eurozone-und-der-eu-gegenueber-dem-vorjahresquartal/
3 https://de.statista.com/statistik/daten/studie/72328/umfrage/entwicklung-der-jaehrlichen-inflationsrate-in-der-eurozone/
4 https://de.statista.com/statistik/daten/studie/1045/umfrage/inflationsrate-in-deutschland-veraenderung-des-verbraucherpreisindexes-zum-vorjahresmonat/
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/201162/umfrage/entwicklung-des-ezb-zinssatzes-fuer-die-einlagefazilitaet-seit-1999/
7 https://www.der-bank-blog.de/fintech-aktivitaeten-starten-verhaltenem-ins-jahr-2024/studien/37710259/
8 https://financefwd.com/de/das-comeback-der-grossen-fundingrunden/
9 https://financefwd.com/de/fintech-funding-q2-2024/

Varengold BANK

audit opinion by auditors PricewaterhouseCoopers GmbH until June 2024. Among other things, additional positive and negative value-enhancing factors in the course of 2023 and 2024 had to be taken into account in the audit work. Meanwhile, the special audit ordered by the Federal Financial Supervisory Authority is still ongoing, with two of three audit areas having been completed at the time of preparing this report.

In the first six months of the current year 2024, Varengold Bank delivered a satisfactory result overall, although the restrictions and restructuring in the payment transaction business (Commercial Banking) as a result of the special audit and the resulting supervisory measures led to a significant reduction in earnings. Activities in the Commercial Banking division and the payment transaction business focused on key core customers in close cooperation with KPMG, the special representative appointed by the Federal Financial Supervisory Authority.

At EUR 26.5 million in the first half of 2024, net earnings were down around 27.3% year-on-year. The higher interest income of EUR 22.4 million (previous year: EUR 17.7 million) and the reduction of administrative expenses from EUR 15.6 million to EUR 14.2 million were not able to offset in full the lower provision income of EUR 2.5 million (previous year: EUR 17.5 million).

Since mid-2023, the Marketplace Banking core business area has in turn been expanded, and in particular the Lending side, which has enabled the acquisition of additional customers. Varengold Bank offers its customers across Europe the opportunity to expand their business through a symbiosis of Banking-as-a-Service (BaaS) in combination with refinancing. The prospective business activities here form a solid basis for further growth in this area.

Earnings from ordinary business activities (equivalent to EBT) were down 48.9% year-on-year to EUR 10.6 million (previous year: EUR 20.7 million).

Varengold BANK

3. Position

There may be rounding differences in the following figures.

3.1 Net earnings position

	1 January 2024 to 30 June 2024 EUR thousand	1 January 2023 to 30 June 2023 EUR thousand	Changes	Changes in %
Net interest income	22,363	17,739	4,624	26.1
Provision surplus	2,540	17,533	-14,993	-85.5
Other earnings	1,571	1,129	442	39.1
Net earnings	**26,474**	**36,401**	**-9,927**	**-27.3**
Personnel costs	-5,968	-5,888	-80	1.4
Material expenses	-8,125	-9,464	1,339	-14.1
Depreciation of intangible and tangible assets	-32	-48	16	-33.3
Other expenses	-96	-219	123	-56.2
Operational expenditures	**-14,221**	**-15,619**	**1,398**	**-9.0**
Earnings Valuation of receivables	**-1,661**	**-49**	**-1,612**	**3,289.8**
Profit before tax	**10,592**	**20,733**	**-10,141**	**-48.9**
Income taxes	**-4,405**	**-5,724**	**1,319**	**-23.0**
Earnings after tax	**6,187**	**15,009**	**-8,822**	**-58.8**

The aforementioned special audit by BaFin, which led to the discontinuation of a significant portion of payment transactions, had a substantially negative impact on the provision surplus.

Taking into account Taxes on income and earnings and Other taxes, annual net profit was EUR 6,187 thousand (previous year: EUR 15,009 thousand).

3.2 Asset and financial position

	30 June 2024 EUR thousand	31 December 2023 EUR thousand	Changes	Changes in %
Cash reserve	20,314	24,221	-3,907	-16.1
Loans and advances to banks	547,818	792,944	-245,126	-30.9
Due from customers	370,317	383,135	-12,818	-3.4
Financial assets, tangible assets, intangible assets	126,900	121,983	4,917	4.0
Trust assets	33,339	35,011	-1,672	-4.8
Other assets	20,102	17,965	2,137	11.9
Total assets	**1,118,790**	**1,375,259**	**-256,469**	**-18.6**
Bank loans and overdrafts	73,699	75,423	-1,724	-2.3
Amounts due to customers	878,040	1,136,929	-258,889	-22.8
Secondary liabilities	5,000	5,000	0	0.00
Provisions	29,953	30,645	-692	-2.3
Trust liabilities	33,339	35,011	-1,672	-4.8
Other liabilities	3,396	3,075	321	10.4
Fund for general banking risks according to 340g HGB	10,400	10,400	0	0.00
Total liabilities	**1,033,827**	**1,296,483**	**-262,656**	**-20.3**
Equity capital	84,963	78,776	6,187	7.9
Total equity and liabilities	**1,118,790**	**1,375,259**	**-256,469**	**-18.6**

Varengold Bank has an orderly asset and capital structure at its disposal.

At EUR 568.1 million or 50.8% (previous year: EUR 817.2 million or 59.4%) of total assets, regulatory cash and cash equivalents represent a large share of the asset side of the balance sheet. The regulatory liquidity ratio meets the regulatory requirements.

The irrevocable loan commitments change depending on new customer business or limit increases. They amounted to EUR 49.6 million as at 30 June 2024, compared with EUR 48.0 million in the previous year.

3.2 Financial performance indicators

The key performance indicator is earnings before taxes. Due to the current difficulties, earnings fell from EUR 36.4 million the first half of 2023 to EUR 26.5 million in the first half of 2024.

In the Board of Managing Directors' view, the risks arising from the change in the macroeconomic environment have been taken into account through appropriate risk provisioning and other provisions. Total expenses of around EUR 1.7 million (previous year: EUR 0.1 million) were incurred in respect of depreciation and write-downs on receivables, securities and participating interests, as well as additions to provisions.

C. Risk, opportunity and forecast report

1. Risk report

As a rule, it is not possible to generate income in the banking business without taking risks. In light of this, conscious handling, active management and ongoing identification and monitoring of risks are core elements of Varengold Bank's economically sustainable business management.

Varengold Bank's mission statement is to develop into the leading bank for the marketplace lending industry. A fundamental aspect of Varengold Bank's business strategy is to offer flexible competitive products and services and to constantly adapt to changing market conditions.

The business strategy must present Varengold Bank's main objectives for each business activity as well as the measures that will be taken to achieve these objectives.

The risk strategy must describe the effects of the business strategy on the risk situation of Varengold Bank and how to manage the material risks identified.

In addition to this risk strategy, Varengold Bank's central risk management instruments are the risk-bearing capacity concept, the limit system and monitoring processes that are aligned with the business activities.

Each potential future risk should be as transparent as possible before a decision is taken on how to manage it. An assessment of whether a risk should be approved can only be made with sufficient knowledge of the potential impact on the Bank. The Board of Managing Directors always makes this decision taking into account the question of whether the respective risk can generate appropriate returns and whether the risk can be carried. If a risk is taken, this is done within fixed risk tolerances which are primarily derived from the risk-bearing capacity potential. Compliance with these tolerances is monitored on a regular or ad hoc basis.

A risk-bearing capacity analysis is performed by the Risk Controlling department on a monthly or ad hoc basis. The appropriateness of the methods and procedures used to assess risk-bearing capacity is checked regularly.

The risk controlling and risk management system used by the Bank complies with the current 'Minimum Requirements for Risk Management' (MaRisk) issued by the Federal Financial Supervisory Authority (BaFin).

Risk is the negative deviation of events from the expected events. The risk management system is based on the regular or ad hoc production of a risk inventory to assess the material risks for Varengold Bank. According to the risk inventory applicable as at 31 December 2023, these are credit risk, liquidity risk, market price risk, operational risk, sustainability risks and other risks, including reputational risks and strategic risks.

To control these risks, ongoing monitoring and evaluation of the identified material risks is conducted as part of the overall risk management system. The entire process includes the following steps which build on each other:

- identification of risk,
- measurement of risk,
- risk control by management,
- support for management through risk controlling and risk reporting

The Board of Managing Directors determines the amount of total allowable risk and its distribution among each of the individual types of material risk. Care is taken in this context through ongoing monitoring and assessment to ensure that the different business activities are backed by adequate risk-bearing potential.

The Risk Controlling department is responsible for monitoring compliance with the risk strategy at Varengold Bank and assessing the Bank's situation with regard to risk. The outcomes are reported regularly to executive management in a comprehensive and meaningful manner within an appropriate time frame in order to ensure adequate management.

On 24 May 2018, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank published the revised guideline 'Supervisory assessment of bank-internal capital adequacy concepts and their integration into firm-wide performance and risk management processes ('ICAAP') - realignment'. It contains policies, principles and criteria that the supervisory authority uses as a basis for assessing the internal risk-bearing capacity concepts of banks and institutions which as 'less significant institutions (LSI)' are subject to German banking supervision. The risk-bearing capacity concept as a central component of the ICAAP in accordance with Section 25a (1) (3) no. 2 KWG in conjunction with GP 4.1 subsection 1 (and subsection 2) MaRisk comprises two perspectives: a normative perspective and an economic perspective. Both serve the long-term sustainability of the Bank 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 Bank and the economic perspective has the goal of protecting creditors against financial losses.

For the normative perspective, the risk-coverage potential and the risks are determined for both the current and future planning periods. At the time of preparing this report, capital planning relates to a period of three years and includes the planning scenario required by the supervisory authority and an adverse scenario. Moreover, the Bank uses the option in subsection 35 of the RBC guideline to apply the 'severe economic downturn' stress test, which was developed in accordance with GP 4.3.3 subsection 3 MaRisk and covers all types of risk, 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.

All regulatory and supervisory perspectives must be taken into account in the normative perspective; consequently, risk-coverage potential in the normative perspective comprises regulatory equity capital as well as other capital reserves, provided these are recognised by the supervisory authority as covering supervisory requirements, and is composed of the regulatory equity capital, the special item 'Fund for general banking risks' in accordance with Section 340g HGB and the contingency reserves according to Section 340f HGB. The procedures used to quantify risks in the normative perspective address credit risks, market price risks and operational risks arising from the legal requirements of the current CRR, for which risk-weighted position entries are calculated. In the planning scenario, the equity capital requirements must be met in full; in the adverse scenarios, a shortfall of the combined capital buffer requirement pursuant to Section 10i KWG is acceptable. For these cases, the Bank has developed options for action to ensure compliance with all regulatory and supervisory requirements and targets.

The supervisory capital requirements amounted to EUR 77,544 thousand as at 30 June 2024. The Bank has EUR 77,268 thousand in equity capital at its disposal to cover these requirements.

The overall capital ratio, including the recommended equity resources, was not met as at 30 June 2024. In the planning scenario, the overall capital ratio (including recommended equity resources) for the three-year planning horizon will not be achieved in 2024 until the net profit for 2023 is added to equity capital. The common equity Tier 1 ratio and the core capital ratio are maintained throughout the planning period. In the adverse scenario, the overall capital ratio, including recommended equity capital, will also not be achieved in April and May 2025, and from October 2025 onwards. In the stress scenario, the overall capital ratio, including the recommended equity capital, will not be achieved in April and May 2025 and from August 2025 onwards, and the core capital ratio, including recommended equity capital, from January 2027 onwards. When recommended equity capital is not included, the ratios are maintained at all times in all scenarios.

In the economic perspective, the Bank uses a present value calculation to determine risk-bearing capacity. The risk-coverage potential of EUR 100.9 million is comprised of the regulatory equity capital, the contingency reserves according to Section 340f and g HGB, the earnings in the current financial year, as well as hidden charges and reserves.

As a rule, 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 an immediate response from the Board of Managing Directors.

Utilisation of the risk-coverage potential was 50.7% as at 30 June 2024, 52.5% of which was attributable to credit risk, 26.0% to market price risk, 18.6% to operational risk, 0.0% to liquidity risk and 2.9% to strategic and reputational risks.

For the purpose of quantification in the context of risk-bearing capacity, the credit risk is comprised of default risk as well as migration risk. The two amounts at risk are added together.

In addition to the classic default risk (lending risk), default risk also includes issuer, counterparty and investment risk. Country risks are not underpinned 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 score and therefore in the level of probability of default and thus the amount at risk. Collateral risk is not explicitly taken into account in the risk-bearing capacity calculation. If the LTV agreed with the customer is not achieved, the LGD of the commitment is scaled up accordingly thereby leading to a higher amount at risk.

In order to limit country risks, the Bank has implemented a country limit system that is located at the registered office of the debtor's parent company.

Default risk is quantified using the key risk indicators 'expected loss' (EL) and 'unexpected loss' (UL). The EL is determined based on the probability of default, taking into account loss given defaults (LGDs). The UL is quantified using a credit risk model for a confidence level of 99.9% and a time horizon of one year. The Bank uses the 'ic.risk-view' software from provider ICnova AG to quantify default risk.

The measurement model underlying the risk measurement for credit risk (CVaR) is based on the well-known and widely used CreditMetrics™ model developed by the RiskMetrics Group™. This model divides the portfolio for simulation analysis into a sub-portfolio, which is particularly relevant due to the size of its positions and portfolios that are smaller in size and homogenous ('Large Homogenous Portfolio' approach; LHP approach). Both these portfolios are mapped with different degrees of granularity:

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

In the process, (any) external or internal probabilities of default (PDs) are applied, as are the calculated transaction-specific loss given defaults (LGD). In addition to the probabilities of default and loss given defaults, correlations between the counterparties with the systematic risk factor are also taken into consideration. Only the unexpected loss of the portfolio is included in risk-bearing capacity. Expected loss is already included in the general bad debt provision. In the event that the expected loss of the total risk exposure exceeds the general bad debt provision, which has only been formed for receivables from financial institutions and customers, the difference is also included in the calculation of risk-bearing capacity.

The migration risk for the portfolio is also determined for a time horizon of one year. External migration matrices are used to determine this risk. The EL is recalculated on the basis of the higher default rates determined in this way; the difference between the EL calculated in this way and the EL from default risk determines the amount at risk in terms of migration risk in the economic perspective.

The market risk is determined by adding the amounts at risk in terms of price risk (including foreign currency risks), 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. For both the trading book and the banking book, this is measured with a confidence level of 99.9%, a holding period of 250 days and a lookback of 21 years by historical simulation of the changes in prices or the maturity- and currency-matched swap or money market rates. The price risk for the entire portfolio is calculated and limited and also separated between the banking book, the trading book and foreign currency futures (as far as possible in the overview). In addition to securities and precious metal investments that have a price risk, this includes open foreign currency positions and foreign currency futures held for hedging purposes. The price risk recognised in risk-bearing capacity is determined by adding the VaR of the sub-portfolios. As a result, existing correlations between the sub-portfolios are not taken into account, which leads to a higher amount at risk.

The interest rate risk is measured quarterly by the Risk Controlling department. Here the change in present value of the interest book is determined in the case of ad hoc interest rate changes of +200 base points and -200 base points as well as six additional scenarios in accordance with accounting standard 06/2019 (BA) – ‘Interest rate risks in the banking book’. The larger negative change in these eight interest rate change scenarios is included as a risk value in the calculation of risk-bearing capacity.

The Bank defines credit spread risk as negative changes in the market value of bonds held by the Bank itself as a result of a deterioration in issuers’ credit standing that has not yet been reflected in a rating downgrade (specific price risk). The credit spread risk is quantified using the ‘value at risk’. For both the trading book and the banking book this is measured with a confidence level of 99.9%, a holding period of 250 days and a lookback of 21 years calculated by historical simulation of the changes in the rating-dependent asset swap spreads of the bonds.

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

The Bank quantified liquidity risk for the first time as at 31 December 2023 and took this into account in risk-bearing capacity. To determine the risk value, a bank-run scenario is assumed in which all deposits are withdrawn by customers and banks on their contractual maturity date. This represents a possible (but highly unlikely) risk event.

The Additional Monitoring Metrics (AMM) for Liquidity Reporting, specifically template C 66.01 (Maturity ladder), form the basis for calculating the risk. The difference from the liquidity maturity report produced daily by the Treasury department (see below) is that no assumptions are made here regarding the extension of deposits.

Moreover, the cumulative refinancing gap and cumulative liquidity coverage potential are analysed. The refinancing gap is supplemented by revocable and irrevocable loan commitments (as outflow in ‘due on demand’). This measure ensures that the call risk is taken into account in the determination of risk.

Based on these data, the contractual cumulative refinancing gap is determined for each maturity band, ‘due on demand’ to ‘longer than five years’.

These refinancing gaps have to be refinanced through borrowings. The following steps are taken to determine the interest rate to be paid for this:

- Spot: Determination of EURIBOR or swap rate with the appropriate maturity
- Delta spot: Change in interest rates within one year (99.9% confidence level, history 21 years)
- Spread: Current maturity-matched spread BBB vs. swap (source: Bloomberg)
- Delta spread: Spread changes within one year (99.9% confidence level, history 21 years)
- Risk interest rate: spot + Delta spot + spread + Delta spread
- Forward interest rates: Calculation of forwards from risk interest rates

The forwards calculated in this way are used to determine the interest expense for refinancing the contractual gaps for each maturity band.

As the economic perspective of risk-bearing capacity is based on a time horizon of one year, the risk is calculated by adding the interest expenses expected in the event of risk for the maturity bands from 'due on demand' to 'up to 12 months'.

To monitor liquidity risk, a liquidity maturity report is produced by the Treasury department on a daily basis. Management is determined using the indicators '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 also defines a contingency plan, itself buffered by an early warning system. The Bank does not quantify liquidity risk in the context of risk-bearing capacity, as this is only possible to a limited extent. A quantitative and qualitative analysis of the risk is conducted through stress tests. In addition, the liquidity maturity report is monitored daily with regard to defined 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. These limits were met at all times during the reporting period.

The quantification of operational risk, which also includes model risk, is carried out quarterly by the Risk Controlling department in conjunction with all department managers and the Board of Managing Directors using a scenario analysis for all identified operational risks. The scenarios represent possible 'bad case' scenarios for the risk type and are assessed in respect of potential losses per annum and their probability of occurrence. These two parameters for the identified partial risks are incorporated into a Monte Carlo simulation. From the 200,000 simulations carried out, the risk is stated as a 99.9% quantile value. This calculation is performed three times and the worst result represents the loss amount for operational risks.

Investigations are currently being conducted by the public prosecutor's office in Cologne against (former/ current) employees and executive bodies of Varengold Bank AG and Varengold Verwaltungs AG (in liquidation) (formerly Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen) in connection with share transactions around the dividend record date in the period 2010-2016, due to suspicion of tax evasion.

Varengold Bank could be considered as a potential secondary party and in the worst case scenario possibly faced with a fine and/or accused of skimming off excess profits which could be very costly for the Bank.

External advisers have been engaged in connection with this to perform an (ongoing) review and analysis of the prosecution office files.

Based on the opinion of the external advisers, the Board of Managing Directors considers the risk of a claim against the subsidiary Varengold Verwaltungs AG (in liquidation) as conceivable, but the risk of Varengold Bank's liability for this as very low.

Varengold Bank, together with 19 other private individuals and legal entities, is a defendant in civil proceedings (Caceis case). The dispute centres around a possible claim for reimbursement, which relates to a tax claim in relation to transactions of an independent sub-fund of the former Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, today Varengold Verwaltungs AG (in liquidation), in 2010. The investment corporation at the time is the primary defendant in the above proceedings. Varengold Bank was a minority shareholder in this investment company in 2010. The action is based on the joint and several reimbursement of refunded capital gains tax, including solidarity surcharge, totalling around EUR 92 million (plus any interest and other damages incurred by the plaintiff), which was paid into 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 (referred to previously and below as 'Caerus II') is an investment fund in the form of a sub-fund launched under the umbrella of Varengold Investmentaktiengesellschaft (now Varengold Verwaltungs AG (in liquidation)) on 31 March 2010. Varengold Bank has filed an appeal with the competent court to dismiss the action. The Board of Managing Directors and the external experts involved have to date assessed the probability of the risk arising from these proceedings as not overwhelmingly likely. The criminal proceedings against the Bank's former Managing Director, Yasin Qureshi, regarding Caerus II have so far not led to any other outcome. However, a different assessment is conceivable, which could help the action to succeed. For this reason, Varengold Bank AG has formed a provision for this legal risk as a precautionary measure, whereby the assumption has been made that the Bank will be required to pay a pro rata settlement. Payments to Varengold Verwaltungs AG (in liquidation) will also be taken into account in this context, along with the relevant interest. The total amount of this provision is EUR 3.9 million and was determined through estimation. Estimates made by external consultants were included and findings from comparable scenarios in the banking and other business environments were analysed.

If a claim were made solely against Varengold Bank AG, the amount to be paid would exceed reported equity capital.

In a decision reached on 22 December 2022, the Federal Financial Supervisory Authority ('BaFin') ordered a special audit of Varengold Bank AG, in accordance with Section (44) (1) KWG, by a external law firm commissioned by BaFin. This audit has been ongoing since January 2023. The law firm stated possible compliance violations in an interim report dated 12 April 2023 ('interim report'). In a letter dated 1 June 2023, BaFin notified Varengold of a number of supervisory measures, referring to the findings of the interim report ('initial consultation letter'). As a consequence and until the final clarification of the facts and circumstances, Varengold Bank immediately stopped payment transactions with 75.5% of its international corporate customers in the Commercial Banking core business area, which were responsible for 94% of the Bank's commission income in the 2022 financial year. In a letter dated 6 June 2023, BaFin also informed Varengold that it intended to appoint an external auditing firm as a special representative to monitor the supervisory measures as well as additional reporting obligations on liquidity, net assets, assets and earnings position and capital adequacy. Furthermore, BaFin raised the recommended equity capital (previously: target equity capital ratio) from 2.7% to date to 6.5% on account of the planned business strategy adjustments and the future earnings position. Varengold Bank is in a position to comply with these higher requirements.

The prospective measures in the letters dated 1 June 2023 and 6 June 2023 were confirmed in two official orders dated 27 June 2023. BaFin prohibited Varengold Bank specifically from (i) conducting incoming and outgoing transactions with payment agents and (ii) conducting transactions with a connection to Iran as a high risk third country or involving natural persons and legal entities domiciled in Iran. According to the wording of the official order, the ban includes payment transactions involving payment agents/trustees and other third parties domiciled in third countries and acting as (intermediate) recipients for the actual instructing party. Such activity as an (intermediate) recipient, to which the ban according to (i) and (ii) above applies, includes the receipt of payments (including split payments) from the actual instructing party and forwarding to the actual final recipient in the EU or in third countries via accounts at Varengold Bank. According to the official order, individual transactions that fall into the cases above, but can be proven not to constitute a breach of sanctions or the law, may be conducted following a review by the Bank and approval by the appointed special representative (KPMG). A fine of EUR 250,000 will be imposed for each violation of the official order.

In light of the above, Varengold Bank suspended the execution of payment orders from customers with a connection to Iran in accordance with the above requirements and has not executed any payment orders. Possible approval processes via the appointed special representative (KPMG) have now been established. At the Supervisory Board meeting on 10 September 2024, the Supervisory Board and the Board of Managing Directors reached a joint decision to discontinue payment transaction business with a connection to Iran. Account was therefore taken of the resulting reputational risks and the higher expense under the current conditions.

It appears possible that fines will be imposed in addition to the supervisory measures required by BaFin. The Bank has formed an appropriate provision based on information made available to it by experts. The aforementioned audit in accordance with Section 44 (1) KWG has not yet been completed at the time of preparing this report. Of the three audit areas a) cum-ex transactions and similar structuring models, b) business purpose and other business relationships with natural persons and legal entities with their registered address in Bulgaria and c) measures to prevent money laundering, terrorism financing and other criminal activities, two audit areas b) and c) have been completed at the time of preparing this report.

The strategic and reputational risk is considered as part of risk-bearing capacity by analysing declines in earnings. In the economic perspective, an amount at risk of 25% of the expected earnings for the next 12 months (minimum EUR 400 thousand) is utilised. As part of the special audit described above, supervisory measures have been taken that are currently leading to a significant drop in commission income and thus, contrary to previous business planning, to a significant deterioration in the Bank's earnings position. In this context, the Bank also sees risks arising from the deterioration in its reputation as a result of the special audit in the form of higher refinancing costs and loan business that has not materialised.

In order to limit concentration risks, the Board of Managing Directors has set further limits or early warning thresholds, which are monitored on an ongoing basis. All risk mitigation measures are essentially taken in an economically reasonable fashion that accounts for the size of the Bank, capital resources, and the special business model in an appropriate manner.

Varengold Bank makes targeted use of its market opportunities in the course of its business activities and engages in responsible risk taking.

2. Opportunities report

2024 was proving to be a year of normalisation and focus. However, with key decisions being made in Q3, it has become a year of realignment where important steps have been taken in the areas of digitalisation and sustainability.

The banking sector has been undergoing change for many years. Digital transformation and innovation are high on the agenda, along with the implementation of ESG criteria. Good risk management is both a core competence and competitive driver of forward-looking banks. In this complex context, Varengold Bank has a clear vision to provide easy access to capital and financial services and help customers bring often revolutionary business ideas to fruition. The Bank operates in niches where its products and services can create the greatest possible customer benefits.

Following the stabilisation of core inflation in the eurozone, the European Central Bank cut interest rates again in 2024, with competitive deposit rates responding accordingly. This means that Varengold Bank will need to achieve the required new business and extension quotas going forward through increased and targeted adjustments to terms and conditions for instant access and fixed-term products. Deposit business plays a key role in the Bank's refinancing strategy and is expected to grow organically over the next few years. The Bank’s refinancing strategy envisages keeping fixed-term deposit and call money volumes at a constant level, implementing further diversification effects on maturities, and managing deposits in close coordination with opportunities from the Marketplace Banking and Commercial Banking core business areas.

The Bank has built up a solid network of customers and cooperation partners in its two business divisions, Marketplace Banking and Commercial Banking, and focuses its activities on its core competence as a regulated bank. In doing so, 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 Marketplace Banking remains high. The expansion of the loan book and the winning over of customers will be stepped up further and Varengold Bank's goal is to differentiate itself from competitors, specifically through the efficient and rapid implementation of individual projects with customers in Germany and other EU countries.

The growth of platform customers in Marketplace Banking that is being sought will require additional equity capital in addition to the need for outside capital. The Bank can invest directly in some of its existing customers (Equity Capital Markets/ECM) through its subsidiary, VARP Finance GmbH. This mechanism also allows Varengold Bank to expand its network into the venture capital arena.

The Commercial Banking division is experiencing a significant change following the strategic decision to withdraw completely from payment transaction business connected to Iran. Despite the fundamental necessity of humanitarian transactions, the risks and operational and regulatory costs of maintaining these business activities have proven to be disproportionately high for the Bank in the prevailing conditions. At the same time, volumes and profitability in this area have declined recently. Going forward, the Commercial Banking division will focus on interest rate business with an emphasis on ESG financing. In addition to the access points that are already available within its existing network, the Bank is exploring its opportunities for new business in the energy and healthcare sectors. The focus here is on individual projects in particular, for example, BESS (battery energy storage systems), electricity substations, intensive care invoice factoring and property projects in care/assisted living contexts. A focus will also remain on trade finance business with existing customers with no connection to risk markets who have signalled an interest in expanding business relationships.

In order to position the Bank successfully in the long term, the essential factors for success are a focus on customers and their satisfaction and the maintenance of a highly qualified and motivated team. Varengold Bank remains committed to its goal of further reducing its environmental footprint and making a social contribution. When classifying the Bank's customer portfolio in terms of ESG performance, the basic parameters should ensure that the Bank's strategy and practice are in line with its own vision of sustainable development and external expectations. From Varengold Bank's perspective, digital transformation also remains a key driver of success in order to provide appropriate support for the Bank's business divisions. Various projects in this area were planned in the past, but were largely put on hold as part of the cost-cutting programme in response to events in the course of the special audit. Furthermore, a Varengold brand refresh and the development of a new company website with a stronger focus on external communication were also planned for 2023. Some of these projects were started up again in the first half of 2024. Alongside this, the Bank has begun working on projects required by the regulatory authorities, relating to the MaRisk amendment, DORA and CRR III. These projects require banks to have a significantly higher degree of data and system integration.

Artificial intelligence (AI) is also playing an increasingly important role in banks and offers a wide range of potential applications for optimising internal processes and improving the customer experience. There will be more market integration in this area in the months and years ahead. Varengold will keep track of these developments and put them to the test. If trials are successful, they will be implemented as appropriate in order to ensure competitiveness and increase efficiency,

It will not be possible to put these efforts towards cultural and digital transformation, further development and growth into practice to the extent and within the time frame originally planned due to current developments in connection with the ongoing special audit and the supervisory measures that have been initiated, and their impact on the Bank's earnings situation. Projects that had been started and planned were put on hold in June 2023 in order to save on general administrative costs and utilise existing capacities for the restructuring of processes in the Commercial Banking division and the expansion of additional internal controls over the remainder of the year.

Irrespective of past and future business development and the ongoing adjustment of the business model, various risk factors could also adversely affect earnings performance in the years ahead to an extent that cannot be conclusively quantified in the event that the global political and economic situation develops unfavourably. The Bank will continue to develop all promising business areas in equal measure, taking market conditions into account, and press ahead with its strategic realignment.

3. Outlook report

Economic conditions after the reporting date

After the European Central Bank initiated the interest rate turnaround in June 2024, the interest rate for main refinancing transactions was lowered on two further occasions ending up at 3.4%[10] by the time this report was prepared (October 2024).

The rate of inflation in the eurozone fell again over the course of Q3 2024 to 1.7%[11] in September 2024, falling below the ECB's target of 2% for the first time. The same trend is also evident in Germany, where the rate of inflation fell below the 2% target to 1.9% in August 2024 finally reaching 1.6% in September.[12]

The positive development of the stock markets continued in Q3 2024 and the DAX broke through the 19,000 point mark for the first time in its history. The DAX ended September 2024 at 19,324.93 points. This is around 420 points higher than at the end of the previous month.[13]

Forecast

The forward-looking statements in this section in particular are based on estimates and conclusions reached by Varengold Bank at the time of preparing this report. The statements included are based on assumptions and unless specifically indicated, are based on internal estimates. The Bank expressly states that all forward-looking statements are associated with known or unknown risks and uncertainties and are based on conclusions relating to future events that are beyond the Bank's control. A number of important factors could therefore cause actual results to differ materially from forward-looking statements.

The development of the global economy and capital markets for the remainder of 2024 is likely to be characterised by stagnating growth, low interest rates, fewer supply chain problems, falling inflation, and continuing geopolitical uncertainty. In its current autumn forecast[14], the Institute for Economic Research (ifo) is expecting the German economy to remain weak for the remainder of 2024. According to ifo, there will only be a slight increase in economic performance again towards the end of 2024, although this is likely to lead to a stagnation of price-adjusted GDP for this year. As a result, the growth forecast compared to the ifo Economic Forecast Summer 2024[15] has been significantly lowered both for this year and for 2025. This is due to the fact that, contrary to expectations, industrial activity and consumer spending are only managing to emerge very slowly from their stagnation. However, German economic performance should recover gradually over the next two years.

In its autumn forecast, the ifo expects that the rate of inflation will continue to fall from an average of 5.9% last year to 2.2% this year, and 2.0% and 1.9% respectively in the next two years. Energy in particular will be cheaper for consumers in the months ahead than in the previous year. The energy component is therefore likely to dampen inflation going into next year.

10 https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungsgeschaeft-seit-1999/
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14 https://www.ifo.de/DocDL/sd-2024-digital-07-wollmershaeuser-etal-konjunkturprognose-herbst-2024.pdf
15 https://www.ifo.de/fakten/2024-06-20/ifo-konjunkturprognose-sommer-2024-neue-hoffnung-aber-noch-kein-sommermaerchen

According to ifo, the further development of the savings rate represents a risk for consumer spending. If the increase in the savings rate in the first half of 2024 is just a temporary phenomenon, the savings rate is likely to fall again quickly in view of falling interest rates and declining inflation. However, the high savings rate could also be an expression of the high level of uncertainty in the economy and society triggered by the economic and geopolitical crises in recent years and the far-reaching structural change. If this uncertainty does not subside, the savings rate could remain high and a recovery in private consumption could be a long time coming.

In 2025, ESG (Environmental, Social and Governance) reporting will become even more important for banks. The most important aspects here are:

1. Corporate Sustainability Reporting Directive (CSRD): From 2025, the CSRD will extend the disclosure obligations to smaller banks requiring them to include qualitative and quantitative sustainability KPIs, such as carbon footprint, environmental targets and social aspects. Banks will be required to report in accordance with the European Sustainability Reporting Standard (ESRS).
2. EU taxonomy: The taxonomy sets out strict criteria for sustainable economic activities, which banks must include in their reports. They are required to disclose how and to what extent their financing and investments meet the defined environmental goals. These reports are intended to create transparency and show how sustainable a bank's business actually is.
3. Integration of ESG into risk management: In addition, banks are required to integrate ESG risks, particularly climate and environmental risks, into their risk management systems. This involves, for example, the consideration of such risks in the Internal Capital Adequacy Assessment Process (ICAAP) and in stress tests.

Furthermore, the Digital Operational Resilience Act (DORA) (EU Regulation), which came into force on 17 January 2023, will also play a role going forward, focussing on strengthening IT security, cyber risks, outsourcing and business continuity management. There has been an increase in cyber attacks on critical infrastructures and financial service providers during Russia's war of aggression. Consequently, with DORA or the Network and Information Security Directive (NIS2), uniform standards will be adopted at EU level and firmly established over the next few years, which will have a significant impact on information security and, where applicable, outsourcing for banks.

The new Capital Requirements Regulation (CRR III) and Basel IV (postponed due to COVID-19) will also come into force in January 2025. There are also the expected changes with regard to the monitoring and governance requirements of banking products by the Federal Financial Supervisory Authority (BaFin) which are currently in the consultation phase. These are intended to expand the control and monitoring activities of the Compliance function to include other bank products and the associated processes and instructions. The regulation on real-time transfers/instant payments as a key building block in the digitalisation of the financial system is intended to make real-time payments equally as widespread and accessible as traditional bank transfers. This inevitably requires the restructuring or expansion of the Bank's payment transaction structure, something that Varengold Bank generally welcomes as a positive and forward-looking step.

Given the as yet unforeseeable end of the war in Europe and the sanctions imposed in this context as well as the conflict in the Middle East that has been escalating since October 2023, Varengold Bank does not expect its business activity to be significantly affected directly as a consequence. However, lasting indirect effects entail potential risks. Varengold Bank believes that the existing loan portfolio is well positioned due to its general diversification in terms of sector, country and size as well as appropriate collateralisation. The new focus on ESG financing, which diversifies the portfolio even further, also contributes to this.

The assessment of short and medium-term as well as structural trends in the banking sector has not fundamentally changed. It will once again be crucial to stand our ground in an environment that remains complex and challenging and to actively manage the loan portfolio. In doing so, banks need to pay more attention to their cost structure and continue adapting it to the challenging market and regulatory environment. Structural changes, such as the ongoing digitalisation of business process, must not be neglected either. However, the banking sector is in a stable position overall and is well equipped to deal with possible economic downturns and a potential increase in loan defaults. Profitability should continue to benefit from the interest rate level in the medium term despite the recent fall in interest rates.

The market for alternative financing as a whole (for example, online marketplaces, revenue-based financing, online lenders and peer-to-peer lending) stagnated in Europe in the first half of 2024. This growth market is also likely to remain weak in the second half of 2024, although larger financing rounds can be expected again towards the end of the year.[16] There is a clear trend among corporate customers that significant growth is not a priority, but rather slower growth and a faster route to profitability. On the consumer side, products such as 'buy now, pay later' continue to play a major role and have a significant influence on consumer behaviour.

Even though the European Central Bank has lowered key interest rates, interest rate business will continue to represent a component of earnings going forward. Varengold Bank has already taken the prospect of lower earnings from interest rate business into account in its planning. The Bank's overarching goal in the months ahead is to reform the Commercial Banking division following its withdrawal from transaction business with Iran and to expand its new focus on ESG financing. In addition, business activities in the Marketplace Banking division are due to be stepped up. The Bank anticipates additional charges in connection with this restructuring and reorganisation and plans to finance these with existing resources.

Varengold Bank recently ended Q3 2024 with a satisfactory result. Net earnings were EUR 39.5 million (previous year: EUR 49.8 million). Administrative expenses were down EUR 7.6 million to EUR 21.2 million in the same period and consequently earnings before taxes (EBT) were a solid EUR 14.6 million (previous year: EUR 20.6 million). In Q4, additional risk provisions will be formed in accordance with Section 340g HGB and consequently the Bank continues to forecast earnings before taxes of between EUR 9 million and EUR 13 million for the year as a whole.

16 https://financefwd.com/de/fintech-funding-q2-2024/

Hamburg, 30 October 2024

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Corporate governance

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

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Permissions/Approvals Varengold Bank AG

- Acquisition brokerage (Section 1 (1a) clause 2 no. 2 KWG)
- Investment advice (Section 1 (1a) clause 2 no. 1a KWG)
- Investment brokerage (Section 1 (1a) clause 2 no. 1 KWG)
- Asset management (Section 1 (1a) clause 2 no. 11 KWG)
- Safe custody business (Section 1 (1) clause 2 no. 5 KWG)
- Proprietary business (Section 32 (1a) KWG)
- Proprietary trading (Section 1 (1a) clause 2 no. 4 KWG)
- Deposit business (Section 1 (1) clause 2 no. 1 KWG)
- Factoring (Section 1 (1a) clause 2 no. 9 KWG)
- Finance leasing (Section 1 (1a) clause 2 no. 10 KWG)
- Finance commission business (Section 1 (1) clause 2 no. 4 KWG)
- Financial portfolio management (Section 1 (1a) clause 2 no. 3 KWG)
- Guarantee business (Section 1 (1) clause 2 no. 8 KWG)
- Lending business (Section 1 (1) clause 2 no. 2 KWG)

Deposit insurance

Varengold Bank AG is part of the German Banks compensation scheme (EdB).

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Solely to facilitate readability, this report partially foregoes gender specific language and uses the generic masculine. All references to persons and terms apply in principle to all genders in the interests of equal treatment. Shortened forms are used solely for editorial reasons and do not imply any form of value judgement.

Forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that include not only historical facts, but also statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections available to the Board of Varengold Bank AG at the time of preparation of this Annual Report. Forward-looking statements speak only as of the date on which they are made. The reader should therefore not over-rely on these statements, particularly in connection 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 Board of Managing Directors assumes no obligation to update such statements to reflect new information or future events. A number of important factors could therefore cause actual results to differ materially from forward-looking statements. Such factors include a change in general economic conditions or the competitive environment, the threat of deterioration 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

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