



Varengold
BANK

Interim report for 30 June
2021

Key Figures of Varengold Bank AG

Key figures per share	30.06.2021 in EUR	30.06.2020 in EUR
Earnings per share	0.71	0.11

		31.12.2020 in EUR
Market capitalization	47,001,310	36,958,295

Profit and loss statement	01.01.2021 to 30.06.2021 in TEUR	01.01.2020 to 30.06.2020 in TEUR
Interest income	3,877	3,431
Current income from shares and other non-fixed income securities	383	711
Commission income	19,303	8,205
Other operating income	63	268
Administrative expenses	-9,908	-8,461
Depreciation and value adjustments	-5,602	-2,526
Income from normal business operations	8,116	1,628
Balance for the year	7,088	1,123

Balance sheet	30.06.2021 in TEUR	30.06.2020 in TEUR
Total assets	1,205,285	687,808
Net assets	45,754	38,075

Preliminary notes

The key figures contained in this half-year financial report, as well as the half-year financial report – consisting of the balance sheet, the profit and loss statement and the explanatory notes for the balance sheet, the profit and loss statement, as well as the management report – are unaudited and have not undergone any formal review.

Statement of the legal representatives:

The Board of Directors confirms that to the best of their knowledge, the presented interim report, developed using standard accounting principles, provides the most true and fair view of the financial position of the company and that the interim report represents the most true and fair view of the company with respect to the important events within the first six months of the business year and the possible impact upon the business.

20 September 2021

Dr. Bernhard Fuhrmann and Frank Otten
Board of Directors of Varengold Bank AG



Contents

Key Figures of Varengold Bank AG	2
Preliminary notes	3
01 Letter to the Shareholders	5
02 Products and Services	8
03 Shares	11
04 Interim Report	14

01

Letter to the Shareholders



Dear Shareholders,

COVID-19 is unfortunately not nearly over and continues to present serious challenges to many people. The long-term effects are also still unclear. In this difficult environment, the employees of the Varengold Bank have accomplished excellent work in the first half year of 2021.

We succeeded in raising our net income from 13.0 million EUR (1st half year 2020) to 23.8 million EUR. Our administrative expenses, however, increased by only 17 % to 9.9 million EUR (previous time period: 8.5 million EUR), although we also made significant investments within this time period. Here we would like to emphasize the role of the New Work Concept referred to in the Annual Report 2020. For the past two years we have explored the topic of how we can maximize employee satisfaction and at the same time optimize our methods to achieve our business goals. We understand New Work as a work philosophy that fundamentally changed our entire cooperation. Accordingly, it was important for us to develop our New Work Concept together with the employees. This also included a change in the work environment. Our new workspaces are designed for collaborative working. The promotion of teamwork – also interdepartmental – and the consistent digitalization of our business practices have made us more agile, creative, and efficient. We particularly benefit from this approach in the Marketplace Banking business area, which works with nimble start-ups that perform rapidly and also expect this from their partners.

The earnings before taxes (adjusted for risk provisions) reached 13.7 million EUR (previous time period: 3.8 million EUR). Despite this very fortunate development, we continue to operate cautiously and are maintaining a conservative risk provision in light of the unclear economic and social consequences of the pandemic.

Nevertheless, we have good reasons to look optimistically toward the future! Our business model has proven itself to be sustainable, even in a challenging market environment. In July 2021 we founded the subsidiary company Elbe2021 Incubator GmbH, to enter into equity participation and further sharpen our profile as a partner for FinTechs. Participating interest in customers in the Marketplace Banking business area are planned, as well as non-banking customers with FinTech lending background. In this way we strengthen our connection to our customers and create access to additional revenue and income streams.

We thank you for accompanying us on our path of continued development and wish you and us all continued confidence and strength to prevail over the pandemic.



Hamburg, September 2021

Board of Directors of Varengold Bank AG

A handwritten signature in black ink, appearing to be 'B. Fuhrmann'.

Dr. Bernhard Fuhrmann

A handwritten signature in black ink, appearing to be 'F. Otten'.

Frank Otten

02 Products and Services

The core business areas **Marketplace Banking** and **Commercial Banking**

Lending

International
payment
transactions

Fronting
Services

Lombard
credit

Debt
Capital
Markets

Trade
Finance

Equity
Capital
Markets

Deposit
accounts

Marketplace Banking

Commercial Banking

Brief description

As a reaction to the financial crisis of 2008, online credit marketplaces across the globe emerged to focus on the financing for companies and consumers. As a rule, they offer their customers considerably faster, easier, and therefore also more agreeable credit-processing than established banks. To do this, marketplaces require financial resources.

In its core business area Marketplace Banking the Varengold Bank successfully positions itself as partner of these marketplace providers. It not only makes capital available, but also contributes the efficient processes and agility needed for this modern way of banking. In this way it helps its customers, who are generally involved with receivables finance, real estate finance, trade finance, consumer finance or SME finance, first to realize their business model and later to scale their business.

In the core business area Transaction Banking/Commercial Banking the Varengold Bank supports international business customers with their global trade businesses and investment activities.

With the help of individualized products and solutions it offers the possibility to develop transaction and trading activities securely, efficiently, and transparently across national boundaries. The trading concentration is focused on the Eastern European region and the Middle East.

Since the introduction of the business area in the year 2013, a solid customer base for trade finance transactions was developed and continues to expand.

Products

- › Lending
- › Fronting Services
- › Debt Capital Markets
- › Equity Capital Markets

- › International payment transactions
- › Lombard credit
- › Trade finance
 - Bank guarantees
 - Credits
 - Forfaiting
 - Debt-collection business
 - ECA-covered export financing
- › Deposit accounts
 - Daily accounts
 - Term deposit accounts

	Marketplace Banking	Commercial Banking
Profile	<ul style="list-style-type: none"> › Structuring of credit volumes with European- wide diversified credit portfolios › Strong network within the marketplace lending industry and institutional investors › Willingness to support companies in the early phase to accompany their growth › Existing full banking license › Possibility of EU Passporting › Innovative product solutions including KYC, credit, and payments & account opening 	<ul style="list-style-type: none"> › Expertise in emerging markets with strong local networks › Dynamic adaptations to market changes › Status of a German regulated bank › Deposit protection of up to maximum EUR 100,000 per customer
Customer structure	<ul style="list-style-type: none"> › Credit marketplaces › FinTechs 	<ul style="list-style-type: none"> › Business customers › Private customer
Income-components	<ul style="list-style-type: none"> › Interest income › Commission income 	<ul style="list-style-type: none"> › Interest income › Commission income

03 Shares

The shares of Varengold Bank have been listed in Open Market on the Frankfurt Stock Exchange since 2007. They are traded on the stock exchanges Stuttgart, Düsseldorf, Berlin, Munich and on the electronic trading system XETRA.

Current key figures

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock symbol	VG8
Market segment	Open Market / OTC (over the counter)
Transparency level	Basic Board
First listing	20 March 2007
Share (type)	No par-value shares
Number of shares	10,043,015 shares
Total capital	EUR 10,043,015.00
Designated Sponsor	Oddo Seydler Bank AG
Paying agent	Bankhaus Gebrüder Martin AG
Specialist	Baader Bank AG



Conditions and development in 1st half year 2021

The events on the international stock markets profited from the increasing containment of the Covid-19 pandemic since the beginning of the year 2021. Meanwhile, the German retail sector revenue grew considerably in May. While the stock markets at times reached new heights since the beginning of the crisis, increasing bond yields lead to temporary price losses. The increasing costs for energy and raw materials also drove prices upwards and resulted in an increase in the inflation rate. Higher capital market interest in the first half of the year constituted thereby a generally healthy positive development for the European banking sector. Additionally, in comparison to year 2020 declining risk provisioning played a decisive role in a revenue increase at European banks. Furthermore, the lightening of the fiscal policy measures had a stabilizing effect on the economy and supported the development of the capital markets. The German leading index DAX recorded an increase of 13.2 % in the first six months, while the EuroStoxx 50 grew by 10.5 %. It remains uncertain, however, how the Covid-19 pandemic will affect the economy in the long term. This uncertainty will continue to weigh upon the stock markets for quite some time and could still lead to volatile market developments in the future.

Development of Varengold shares

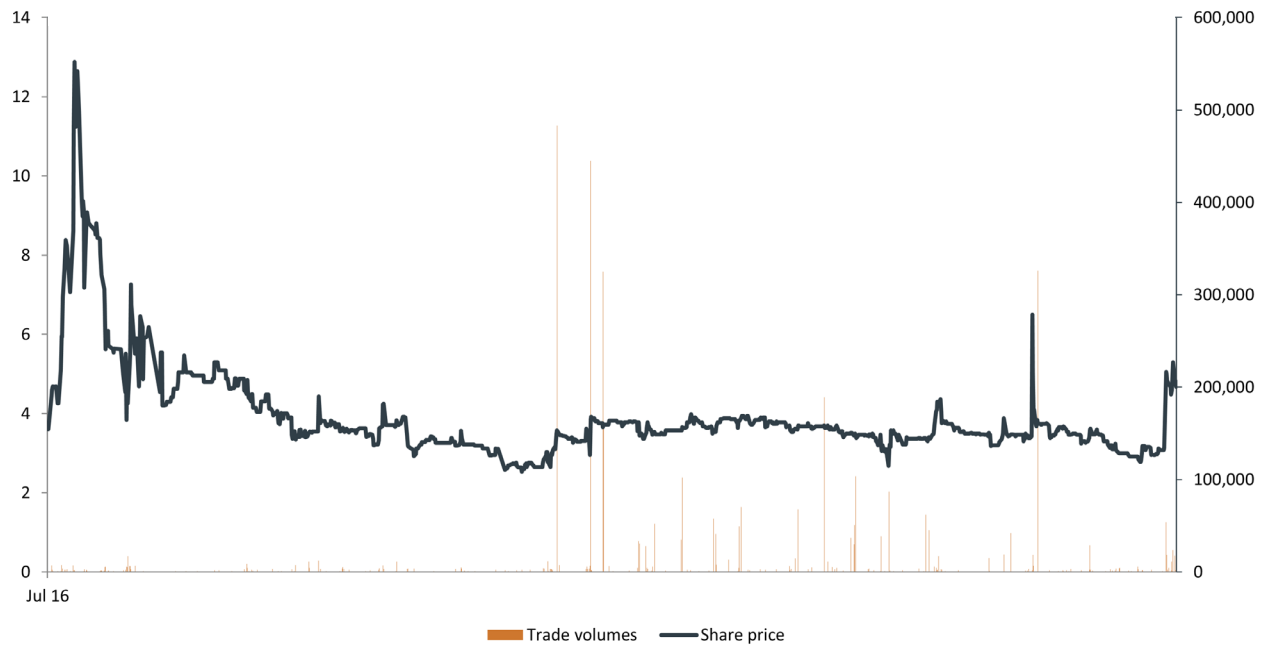
The stock of the Varengold Bank AG is, due to its low diversification, considered a “narrow market” stock and therefore tends toward intermittent to strong fluctuations as a reaction to company relevant news – as also occurred at the end of the first half year 2021. After the stock fell to a low point of 2.78 EUR in the beginning of May, a brisk recovery phase followed starting in June with a closing value reaching 5.30 EUR.

The average share price decreased from 3.46 EUR in the first half year 2020 to 3.38 EUR in the reporting time period. The average number of daily traded shares also fell by 475 shares to 3,719 shares. The total volume was, as in previous years, due to an increase in trade volume on relatively few trading days.

The market capitalization increased considerably more than 10 million EUR in the first six months of the current year and registered a value of 47,001,310 EUR on reporting day 30.06.2021 (reporting day 31.12.2020: 36,958,295 EUR). The earnings per share increased again by 0.11 EUR in the previous year time period to 0.71 EUR in the first half year 2021.

Price history of Varengold shares

Please note: past price performance is not a reliable indicator of future price performance.



Source: Bloomberg

Time period: 07/2016 – 06/2021

04 Interim Report

In accordance with the German Commercial Tax Code (HGB)

**for the business year from 1 January 2021
to 30 June 2021**

Varengold Bank AG
Große Elbstraße 39
22767 Hamburg



Contents

Balance sheet as of 30 June 2021	17
Profit and loss statement	19
Notes	21
1 General information	21
2 Accounting and valuation methods	21
3 Currency translation	23
4 Notes to the balance sheet	24
4.1 Overall disclosures	24
4.2 Individual post disclosures	26
5 Notes to the Profit and Loss Statement	32
5.1 Interest income	32
5.2 Current income from shares and other variable-yield securities	32
5.3 Provision income	32
5.4 Other operating income	33
5.5 Personnel expenses	33
5.6 Other administrative expenses	33
5.7 Other business expenses	34
5.8 Taxes from income and earnings	34
6 Other information	34
6.1 Institutions	34
6.2 Employees	35
6.3 Other financial obligations	35
6.4 Forward transactions	35
6.5 Notifications according to § 20 AktG	35
6.6 German Corporate Governance Code	36
6.7 Supplementary statement	36

Management Report	37
A. Fundamentals of the Varengold Bank	37
B. Economic report	37
1. Macro-economic and industry-related conditions	37
2. Business development	38
3. Position	39
3.1 Financial position	39
3.2 Financial situation	40
3.3 Liquidity position	41
C. Risk, opportunity, and outlook report	41
1. Risk report	41
2. Opportunity report	46
3. Outlook report	47

Balance sheet as of 30 June 2021

Assets	Euro	30.06.2021 Euro	31.12.2020 TEuro
1. Cash reserve			
a) Cash balance	3,633.40		3.9
b) Credit with Central Banks	625,907,223.87		400,791.6
- of which:		625,910,857.27	400,795.5
With the German Central Bank: Euro 400,791,579.18			(400,791.6)
2. Loans and advances to credit institutions			
a) Due on demand	9,416,345.12		12,434.4
b) Other receivables	3,512,899.04		4,554.2
		12,929,244.16	16,988.6
3. Customer receivables		381,914,846.70	405,535.0
- of which:			
Secured by mortgages: Euro 43,052.64			(40.9)
Municipal loans: Euro 153,880,922.02			(172,809.0)
4. Bonds and other fixed-income securities			
a) Bonds and debt			
aa) from public issuers	28,912,014.14		21,426.8
- of which:			
Acceptable as collateral at the German Central Bank: Euro 28,912,014.14			(21,313.5)
		28,912,014.14	21,426.8
5. Shares and other variable-yield securities		107,371,598.95	99,129.1
6. Trading portfolio		714,937.50	697.6
7. Shares in affiliated companies		44,687.75	44.7
- of which:			
In financial services institutions: Euro 0.00			(0)
8. Intangible assets		43,904,054.75	45,199.6
- of which:			
Trust loans: Euro 43,904,054.75			(45,199.6)
9. Intangible assets			
a) Internally generated industrial property rights	111,229.20		124.9
		111,229.20	124.9
10. Fixed assets		244,283.53	111.9
11. Other assets		2,853,939.28	4,977.4
12. Accruals and deferred income		373,487.91	163.7
Total assets		1,205,285,181.14	995,194.8

Liabilities	Euro	30.06.2021 Euro	31.12.2020 TEuro
1. Liabilities to banks			
a) due on demand	31,195,932.14		21,070.8
b) with agreed maturity dates or periods of notice	103,496,495.25		101,066.2
		134,692,427.39	122,137.0
2. Amounts owed to customers			
a) Other liabilities			
aa) due on demand	645,109,891.30		434,372.4
ab) with agreed maturity dates or periods of notice	321,610,034.75		342,356.6
		966,719,926.05	776,729.0
3. Trust liabilities		43,904,054.75	45,199.6
- of which:			
Trust loans: Euro 43,904,054.75			
4. Other liabilities		2,084,142.91	2,226.0
5. Accruals and deferred income		105,810.63	91.5
6. Provisions			
a) Reserves for pensions and similar obligations	225,643.00		225.6
b) Provisions for taxes	590,749.51		65.6
c) Other provisions	6,208,514.92		4,854.6
		7,024,907.43	5,145.8
7. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
8. 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 loss		-9,012,995.67	-16,101.0
Total liabilities		1,205,285,181.14	995,194.8
1. Contingent liabilities			
a) Liabilities from guarantees and indemnity agreements		5,050,000.00	6,752.0
2. Other liabilities			
a) Irrevocable loan commitments		47,197,064.24	15,260.1

Profit and loss statement

For the period from 1 January 2021 to 30 June 2021

	Euro	Euro	01.01.2021 to 30.06.2021 Euro	01.01.2020 to 30.06.2020 TEuro
1. Interest income from				
a) Credit and money market transactions	4,722,131.93			4,688.1
Less negative interest from bank balances	-1,394,559.41			-517.6
	3,327,572.52			4,170.5
b) Fixed-income securities and debt register claims	215,472.88			271.5
		3,543,045.40		4,442.0
2. Interest expenses	-1,343,140.68			-1,493.4
Less received negative interest from the banking business	1,677,146.02			482.2
		334,005.34		-1,011.2
			3,877,050.74	3,430.8
3. Current income from				
a) Shares and other variable-yield securities		382,683.27		711.1
			382,683.27	711.1
4. Commission income		21,021,115.47		8,860.1
5. Commission expense		-1,718,261.38		-655.1
			19,302,854.09	8,205.0
6. Other operating income			191,485.66	626.7
7. General and administrative expense				
a) Personnel expense				
aa) Wages and salaries	-4,344,851.52			-3,694.3
ab) Social security contributions and expense				
For pensions and other benefits	-590,519.48			-601.0
- of which: for pensions Euro 224,699.80		-4,935,371.00		-4,295.3
b) Other administrative expenses		-4,972,233.48		-4,165.8
			-9,907,604.48	-8,461.1
8. Depreciation and amortization of intangible assets and property			-51,713.78	-47.3
9. Other operating expenses			-128,660.96	-358.5
10. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business			-5,550,243.69	-2,136.7
11. Income from write-ups to claims and certain securities, and from the release of provisions for possible loan losses			0.00	-341.5

			01.01.2021 to 30.06.2021	01.01.2020 to 30.06.2020
	Euro	Euro	Euro	TEuro
12.	Income from ordinary business activities		8,115,850.85	1,628.5
13.	Taxes on income and earnings	-1,027,848.49		-504.8
14.	Other taxes, as long as not posted under position number 10	-28.00		-0.4
			-1,027,876.49	-505.2
15.	Annual net profit / loss		7,087,974.36	1,123.3
16.	Loss from previous year		-16,100,970.03	-17,815.6
17.	Net loss		-9,012,995.67	-16,692.3

Varengold Bank AG, Hamburg
District Court Hamburg, HRB 73684

Notes

**For the financial year from 1 January 2021
to 30 June 2021**

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 Annual Report of 31 December 2020.

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

Assets and liabilities are 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 stated at nominal values.

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. They were determined according to S 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. For the Interim Report, the estimate from the Annual Report from 31 December 2020 was retained.

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. The fixed assets on 30 June 2021 recorded no securities.

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. The fixed assets are recorded as a holding in the amount of EUR 48,989 (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.

Purchased software is reported under intangible assets, and as with tangible assets, valued at amortized costs with consideration of scheduled depreciation. To determine expected useful life fiscal depreciation rates according to AfA guidelines for asset depreciation (depreciation for wear and tear) are used.

The fixed assets and intangible assets are valued at acquisition cost, less scheduled linear depreciation according to expected useful life. Here the usage periods are oriented to the tax authority's depreciation table for general assets ((AfA Tables for tangible assets for general use: AfA Table "AV"))).

Low value assets are recorded in accordance with the provisions of § 6 para. 2 & 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.

The other assets are recorded at nominal value.

Active prepaid expenses (generally prepaid licenses) are recorded in accordance with § 250 para. 1 HGB and at nominal value.

Current liabilities are recorded at settlement value.

Deferred income (due mainly to advanced tax payments and commissions for payment transactions) are 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. For the valuation process, the modified partial-value method is used. It is based on an actuarial interest rate of 2.3 %, a salary and career trend of 2.0 % and a fluctuation rate of 10 %. The value from 31 December 2020 was retained.

Provisions, including provisions for taxes, are measured at the amount expected to become payable according to reasonable professional judgement.

The relevant instruments regarding additional core capital are valued at their nominal values. The interest expense is limited based on the expected payments to the owner of the instruments.

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.

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 (Regulations on Accounting for Banks).

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

3 Currency translation

All foreign currency transactions are cases of foreign currency specially secured businesses according to § 340h HGB.

For existing special secured coverage, the expenses, as well as the earnings, are recognized in the foreign currency translation. The result of the foreign currency translation of the specially secured businesses are recorded in other operating income according to the IDW statement regarding special features of accounting regulations for commercial currency translation for institutions (IDW RS BFA 4) (as of 18.08.2011) netted in other administrative income.

Earnings and expenses occurring during the fiscal year are entered into the profit and loss account at the current daily exchange rate. Foreign currency positions are converted on the reporting date using the European Central Bank reference price in accordance with § 256a HGB.

As of 30 June 2021, the following balance sheet items contain foreign currency amounts:

	30.06.2021	31.12.2020
	TEUR	TEUR
Loans and advances to credit institutions	7,851	8,243
Customer receivables	10,265	7,974
Bonds and other fixed-income securities	0	0
Shares and other variable-yield securities	36,852	40,271
Shares in affiliated companies	45	45
Other assets	51	49
Liabilities to customers	39,009	32,583
Other liabilities	27	86

4 Notes to the balance sheet

Unless otherwise noted "previous year" indicates the reporting date 31.12.2020.

4.1 Overall disclosures

4.1.1 Relationships to affiliated companies

	30.06.2021	31.12.2020
	TEUR	TEUR
Customer receivables	381,915	405,535
Of which from affiliated companies	4,816	4,818

The "of which" position are receivables against Varengold Capital Holdings Limited, British Virgin Islands and Varengold Capital Investment Company Limited, British Virgin Islands.

	30.06.2021	31.12.2020
	TEUR	TEUR
Customer receivables	966,720	776,729
Of which to affiliated companies	73	87

The "of which" position are receivables against the Varengold Holding GmbH, Hamburg, and the Varengold Verwaltungs AG i.L., Hamburg.

4.1.2 Breakdown of residual terms

	30.06.2021 TEUR	31.12.2020 TEUR
Loans and advances to credit institutions	12,929	16,989
Due on demand	9,416	12,435
Up to three months	3,513	0
Over three months to one year	0	4,554
Customer receivables	381,915	405,535
Due on demand	6,909	24,647
Up to three months	121,492	50,684
More than three months to one year	196,717	233,720
More than one year to five years	56,738	96,104
More than five years	59	380
Bonds and other fixed-income securities	28,912	21,427
Up to three months	90	0
More than three months to one year	201	0
More than one year to five years	28,621	21,427
Loans and advances to credit institutions	134,692	122,137
Due on demand	31,196	21,071
More than three months	74,809	0
More than three months to one year	0	74,903
More than one year to five years	28,640	26,163
More than five years	47	0
Customer receivables	966,720	776,729
Due on demand	645,110	434,372
Up to three months	51,915	71,123
More than three months to one year	89,315	121,504
More than one year to five years	180,380	149,730

4.1.3 Securities

	30.06.2021 TEUR	31.12.2020 TEUR
Bonds and other fixed-income securities	28,912	21,427
Unlisted	0	0
Listed	28,912	21,427
- of which: publicly listed	28,912	21,427
Shares and other variable-yield securities	107,372	99,129
Unlisted	82,352	85,851
Listed	25,020	13,278
- of which: publicly listed	3,489	2,497
Shares in affiliated companies	45	45
Unlisted	45	45
Investments	715	698
Unlisted	17	0
Listed	698	698
- of which publicly listed	349	349

4.1.4 Trust assets and trust liabilities

Since May 2020, the bank has been granting credit to customers within the KfW Rapid Credit Programme. These are trust loans. Amounts owed to the KfW for this programme are reported at the same amount under trust loans. The trust loan receivables and trust loan liabilities as of 30 June 2020 are TEUR 43,904 (previous year: TEUR 45,200).

4.2 Individual post disclosures

4.2.1 Customer receivables

Customer receivables decreased from TEUR 405,535 to TEUR 381,915. These receivables mainly consist of loans to customers and public sector loans, whereby the reduction occurred almost exclusively in the public sector loans.

4.2.2 Bonds and other fixed income securities

The amount of bonds and other fixed income securities reached a value of TEUR 28,912 (previous year: TEUR 21,427) of bonds and notes of public sector issuers.

4.2.3 Shares and other variable-yield securities

This balance sheet position contains shares in investment funds in the amount of TEUR 107,372 (previous year: TEUR 99,129).

The amount of TEUR 91,795 is comprised of investment funds of which the bank holds more than 10 % and includes the following:

in TEUR	Investment objective	Book value	Market value	Hidden reserves/ Charges	Distribution in 2020
Dalma Corporate Bond Fund	Real estate	17,533	17,861	328	0
Quintar Strategic Trade Finance Fund (previously: Varengold Fixed Income Fund SP)	Trade finance	18,762	18,762	0	0
Varengold Spezial I	Pensions	45,500	46,715	1,215	23
nordiX European Consumer Credit Fonds	Consumer credit	10,000	10,005	5	0

The return option for “Dalma Corporate Bond” funds is possible within three months and the “Quintar Strategic Trade Finance Fund” within 90 days to the end of a month. The remaining funds have partially varying repayment dates, so that under certain circumstances offset maturity dates of the return is to be expected. “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 30.06 or 30.12 one year prior for pools of funds of more than TEUR 100.

With the exception of the Quintar Strategic Trade Finance Fund, the above funds are recorded in liquidity reserve and treated as current assets.

4.2.4 Participations and shares in affiliated companies

The Varengold Bank AG has the following unlisted partial holdings:

Company	Participation rate		Equity capital	Results
	direct %	indirect %	31.12.2020 TEUR	2020 TEUR
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		0 ¹⁾	-1,073 ¹⁾
Lava Trading Ltd., Valetta, Malta	49.79		-6 ²⁾	-6 ²⁾
Varengold Capital Holdings Limited, British Virgin Islands	100.00		195 ³⁾	154 ³⁾
Varengold Capital Investment Company Limited, British Virgin Islands	100.00		357	348 ³⁾
Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg	100.00		400 ⁴⁾	-1 ⁴⁾
Klear Lending AD, Sofia	20.00		670 ⁵⁾	24 ⁵⁾

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

1) Annual Report of 31 December 2017

2) Annual Report of 31 March 2015 (different financial year); in year 2016 business operations were adjusted

3) Entries in EUR were adjusted on the reporting date 31.12.2020; price HKD: 9.5142

4) Interim Annual Report of 30 November 2020 (different financial year)

5) Annual Report of 31.12.2020; entries in EUR were adjusted on the reporting date 31.12.2020; price BGN: 1.9558

4.2.5 Gross assets analysis

	Purchase costs				Depreciation				Residual book value	
	01.01.21	Accruals	Uses	30.06.21	Cumulative	Annual accruals	Uses	Cumulative	30.06.21	31.12.20
	2021	2021	2021	2021	01.01.21	2021	2021	30.06.21	2021	2021
	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 concessions, intellectual property rights and similar rights and assets, as well as licenses to such rights and assets	2,327	12	0	2,339	2,202	26	0	2,228	111	125
Fixed assets	727	158	0	885	615	26	0	641	244	112
Total	3,442	170	0	3,612	3,205	52	0	3,257	355	237
	Change^{*)}									
Bonds and other fixed-income securities					0				0	0
Shares and other variable-yield securities					992				48,989	47,997
Investments					17				715	698
Shares in affiliated companies					0				45	45

*) 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).

4.2.6 Other assets

Other assets primarily consist of tax refund claims in the amount of TEUR 1,408 (previous year: TEUR 1,389). The other assets mainly consist of redemptions of fund shares (TEUR 18,140). Additionally, a posting of receivables for tax overpayments (TEUR 485) and receivables from paid security deposits in the amount of TEUR 260 (previous year: TEUR 258).

4.2.7 Deferred income

The deferred expenses and accrued income contain mainly prepaid insurance premiums (TEUR 200). In addition, rents, licenses, and IT expenses, as well as contributions and fees are included.

4.2.8 Loan and advances to credit institutions

In loans and advances to credit institutions (TEUR 134,692; previous year: TEUR 122,137) are both due on demand liabilities with eight credit institutions and open market loans of the German Central Bank of TEUR 103,440 (previous year: TEUR 100,850), as well as, for the first time, a KfW Business Credit of TEUR 380. In addition, the position also contains demarcated negative interest of TEUR 323.

4.2.9 Obligations to customers

The position obligations to customers contains liabilities due on demand in the amount of TEUR 645,110 (previous year: TEUR 434,372) and liabilities with agreed upon terms or periods of notice in the amount of TEUR 321,610 (previous year: TEUR 342,357). The obligations are comprised of term deposits (TEUR 312,772), current accounts (TEUR 546,192), due on demand accounts (TEUR 90,344), security deposits (TEUR 8,574), and other accounts (TEUR 8,838).

4.2.10 Other liabilities

The other liabilities have a residual maturity of up to one year and mainly include liabilities from payroll accounting including wage tax (TEUR 447), retained amounts (TEUR 594), and deliveries and performance (TEUR 405), as well as other reasons in the amount of TEUR 638.

4.2.11 Reserves for pensions and similar obligations

Pension reserves are held for dependents. The difference between the valuation of the pension reserves with the 10-year average (TEUR 226) and that of the 7-year average (TEUR 232) is TEUR 6 and is subject to a distribution ban (§ 253 para. 6 sentence 2 HGB). The interest rate is 2.3 % (average market interest rate of the past 10 business years). The interest expense from compounding is TEUR 3 (previous year: TEUR 3). The estimate is carried over unchanged from the Annual Report of 31 December 2020.

4.2.12 Provisions for taxes

The provisions for taxes position records corporate tax provisions (tax rate 15 % plus 0.825 % solidarity tax) in the amount of TEUR 277 (previous year: TEUR 18) and commercial tax provisions (tax rate 16.45 %) in the amount of TEUR 283 (previous year: TEUR 20).

The remainder is comprised of tax provisions for pro rata profit in the London branch office in the amount of TEUR 31 (previous year: TEUR 27). An income tax rate of 20 % is used as a basis.

4.2.13 Other provisions

This position includes the following:

	30.06.2021	31.12.2020
	TEUR	TEUR
Provisions for litigation and claims	2,725	2,725
Variable remuneration	1,087	1,095
Commissions	800	0
Legal and consulting costs	519	240
Audit and annual report costs	363	385
Vacation accrual	305	228
German Bank Compensation Scheme	302	91
Archiving costs	67	73
Miscellaneous	41	18
Total	6,209	4,855

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 constitute unsecured and subordinated bonds of Varengold Bank AG. The semi-annual interest payments for these debts are measured at their nominal values and the development of the EURIBOR. Varengold Bank AG is both obligated and has the comprehensive right to make a sole decision on its own at any time whether to cancel interest payments. Interest payments are not cumulative and will not be increased in the following year to compensate for possible cancelled interest payments. The bonds have no date of maturity. They may be called by Varengold Bank AG first after five years after their date of issue and after each interest payment due date. Moreover, under certain conditions, they may be called prematurely. The bond regulations include, among others, that Varengold Bank AG must call the bonds in their entirety, not in portions, when there are specific supervisory review process or tax reasons to do so. Each premature calling of the bonds requires the prior approval of the controlling authorities. The repayment and the nominal value of the bonds may be reduced by demonstrating extenuating circumstances. Such an instance of factual circumstances would be if the Tier-1 core capital ratio fell below 5.125 %. The bonds may be attributed by providing documentation of the factual circumstances under certain conditions.

The limited interest expense for these bonds was EUR 0.00 on 30 June 2021.

On 30 June 2021 the outstanding Tier-1 bonds included the following:

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

4.2.15 Share equity

Fully paid-up share capital (TEUR 10,043) is divided on the reporting date into 10,043,015 no-par value registered shares.

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

Year	New shares	Premium	Reserve
2016	974,184	12.00	11,690,208.00
2017	1,217,730	2.99	3,641,012.70
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
			25,788,326.85
Status 31.12.2015			18,917,165.80
Status 30.06.2021			44,705,492.65

A resolution passed by the Annual General Meeting on 8 August 2012 authorizing a “conditional capital 2012 II” capital increase still exists. The share capital increase of up to EUR 140,000.00 is executed through the issuance of up to 140,000 no par value bearer shares. The conditional capital increase will only take place only for holders of stock options who, based on the authorization of the general meeting regarding the stock option programme 2012 (“AOP 2012”) exercised their subscription rights in the time period up to and including 8 August 2017 grants its own shares in non-fulfillment of subscription rights or cash equivalent. The new shares participate in the profit from the beginning of the business year through the execution of subscription rights. The AOP 2012 is designed as a performance incentive for programme participants and is simultaneously intended to have a binding effect between the participants and the company.

Through the AOP in 2012 a total of up to 95,000 share options may be issued to members of the Board of Directors and a further total of up to 45,000 share options to selected executives and other key personnel of the company “Programme Participants.” Each stock option contains the option to purchase the share of Varengold Bank AG stock at the exercise price. The strike price for a Varengold Bank AG share, i.e., the price payable when purchasing a share after exercising a stock option right, is the mathematical mean of the closing price of Varengold stock trading on Xetra on the last 30 trading days prior to the distribution of the stock options “exercise price.” The distribution of the options will occur in at least three yearly installments, whereby no installment may exceed 50 % of the total volume. The acquisition timeframe is 40 workdays after receipt of the offer to purchase shares. The subscription rights of the stock options may only be exercised after the completion of a waiting period of at least four years after their distribution. Subscription rights may be exercised within seven years of the share option issue, outside the respective restriction periods, and such exercise requires that the price of the Varengold Bank AG share in Xetra trading has exceeded the exercise price by at least 30 % on the last thirty trading days prior to the exercise date.

Based on the existing authorization, the Board of Directors made a stock option offering of a total of 85,500 shares to management personnel of the company by the end of the reporting period. A total of 45,000 share options were distributed to particularly high performers. An additional 40,500 options were distributed to members of the Board of Directors; whereby 31,000 of these could not be exercised due to the departure of the respective Board members. In year 2021, no distributions of stock options occurred by the end of the reporting period.

4.2.16 Contingent liabilities

On 30 June 2020 liabilities from guarantees and indemnity agreements exist mainly in the form of guaranteed credits in the amount of TEUR 5,050 (previous year TEUR 6,752). The risk has already decreased since July 2021 to just TEUR 50. The guarantees are entirely collateralized through cash, liquid securities, or a combination of both.

The risk of loss of utilization from possible liabilities is primarily the credit risk of the customer. The bank estimates the risk of the contingent liability based upon its credit review process of the customer including at times an evaluation of the foundational obligations of each customer.

As of 30 June 2021, other liabilities exist in the form of irrevocable credit commitments against customers in the amount of TEUR 47,197 (previous year: TEUR 15,260) which may be called in installments if necessary. For these instances, the contractual prerequisites for distribution will be examined before each distribution. During its credit review the bank estimates the risk that a loss will occur based upon irrevocable credit commitments before entering into a contractual obligation.

4.2.17 Transferred collateral

On the reporting day loans and advances to credit institutions in the amount of TEUR 3,510 served as guarantees for businesses on futures exchanges.

In accordance with the terms and conditions for open market operations, the German Central Bank guarantees in the form of securities (ECB-eligible securities) are held which are primarily promissory notes in the amount totaling TEUR 115,055.

5 Notes to the Profit and Loss Statement

Unless otherwise noted, in the following section “previous year” indicates the time period 01 January to 30 June 2020.

Since May 2021, the branch in Bulgaria assumed administrative responsibility for the existing loans. Moreover, the office executed all of the manual payment transactions for the bank. Both resulted in internal and external revenues for the branch office. The last of which recorded TEUR 165 for the time period up to 30 June 2021.

5.1 Interest income

The interest income consists mainly of loans granted and fixed-income securities. Negative interest paid (mainly incurred at the German Central Bank and for security deposits) is openly deducted from interest income.

Interest expenses mainly include interest on customer deposits (on-demand, fixed-rate, and term deposits). Negative interest on deposits as security and customer deposits are also deducted from interest income. In the reporting period the negative interest was higher than the interest expenses, therefore the position interest expenses resulted in a yield.

5.2 Current income from shares and other variable-yield securities

Income from shares and other variable-yield securities includes exclusively income from shares of investment funds.

5.3 Provision income

Provision income contains mainly income from the Transaction Banking business area for provision payment transactions (TEUR 18,759), the credit business (TEUR 1,062), as well as guarantee and credit business (TEUR 867). The increase in these positions is a considerable driver of the clear growth in revenue.

Provision expenses include primarily transaction fees for the business in the Transaction Banking business.

	30.06.2021 TEUR	30.06.2020 TEUR
Provision income	21,021	8,860
Provision expense	1,718	655
Provision surplus	19,303	8,205

5.4 Other operating income

The other operating income decreased in the first half year from TEUR 627 in year 2020 to TEUR 191 in year 2021. Included in other operating income are primarily earnings from project fees (TEUR 106) and cost reimbursements (TEUR 54).

5.5 Personnel expenses

	30.06.2021 TEUR	30.06.2020 TEUR
Wages and salaries	4,345	3,694
Social benefits	365	441
Expenses for pensions and support	225	160
Total	4,935	4,295

The growth in personnel expenses is partly due to the increased number of employees; see also 6.2.

5.6 Other administrative expenses

	30.06.2021 TEUR	30.06.2020 TEUR
IT expenses	1,734	1,444
Consulting, accounting, and auditing costs	1,081	1,322
Premiums and insurance	582	359
Occupancy costs	439	214
Communication expenses	224	214
Advertising, entertainment, and travel costs	46	131
Office supplies, magazines, and training	122	50
Vehicle costs including leasing (excluding road tax)	21	12
Other administrative expenses	723	420
Total	4,972	4,166

5.7 Other business expenses

The other business expenses fell in the first half year from TEUR 359 in the previous year to TEUR 129 in year 2021. This position mainly reflects results from foreign currency translation of (TEUR 13; previous year: TEUR 192).

5.8 Taxes from income and earnings

The assessment basis for the taxes from income and earnings is primarily related to the difference between the trading balance sheet and tax balance sheet.

The tax results record primarily corporate tax in the amount of TEUR 509 and commercial tax amounting to TEUR 518.

6 Other information

6.1 Institutions

6.1.1 Supervisory Board

Dr. Karl-Heinz Lemnitzer

Independent tax advisor and auditor

Chairman

Mr. Vasil Stefanov

Management Board, Euro-Finance AD; Head of M&A, Euroins Insurance Group AD

Deputy Chairman

Mr. Francesco Filia

Chairman, Fasanara Capital Ltd.

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 authorised representative.

6.1.3 Mandates in Supervisory Boards

The following entries are current as of the reporting date 30.06.2021:

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, in addition to his post as Supervisory Board member of Varengold Bank AG also member of the Supervisory Board of the insurance company Euroins Georgia JSC (Tbilisi), Management Board member of Euro-Finance AD (Sofia), non-executive Director of Hanson Asset Management Limited (London), Supervisory Board member of the First Investment Bank AD (Moscow), as well as co-owner of Vinart Stefanovi Ltd. (Plovdiv) and Arkont-Invest Ltd. (Plovdiv).

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.

Dr. Fuhrmann is engaged in the role of liquidator at Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg. Moreover, he is the Chief Executive Officer (CEO) of JUCLA Invest GmbH, Hamburg.

In addition to his post on the Supervisory Board of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of the consulting firm Arensburg Consult GmbH, Molfsee, Director at HANSON ASSET MANAGEMENT LIMITED, London, member of the Advisory Board of the KERNenergie GmbH, Großwallstadt, CEO of KERNenergie Hamburg Store GmbH, Hamburg, and Chairman of the Supervisory Board of the Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg.

Mr. Lukas Diehl and Dr. Volkart Tresselt, authorised representatives of Varengold Bank AG, are also members Supervisory Board of the Varengold Verwaltungs Aktiengesellschaft i.L., 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 for their contribution in the time period 1 January 2021 to 30 June 2021 total remuneration in the amount TEUR 150 (previous year: TEUR 174). This constitutes exclusively employment compensation. Travel costs were not accrued.

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 as of 30 June 2021 was 94 (as of 31.12.2020: 86), of which 38 were female employees (as of 31 December 2020: 35) With the exception of 17 employees, all staff work in Germany. Five key employees are authorised signatories.

6.3 Other financial obligations

The other financial obligations are mainly liabilities from leasing contracts in the amount of TEUR 2,290 with residual terms of up to 54 months.

6.4 Forward transactions

Forward transactions not yet appearing on the balance sheet date are for hedging purposes of special coverage and are recorded at fair market value.

	Nominal TEUR	Positive market value TEUR	Negative market value TEUR
Foreign currency	24,625	0	0

6.5 Notifications according to § 20 AktG

There were no notifications per § 20 para. 1 AktG transmitted to Varengold Bank AG and also no announcements according to § 20 para. 6 AktG published in the Federal Gazette.

6.6 German Corporate Governance Code

From 20 March 2007 until 28 February 2017 the stock of Varengold Bank AG (ISIN DE0005479307) was listed in the Entry Standard of the German Stock Exchange. After the closing of Entry Standards, Varengold stock has been listed in Basic Board on the open market since 1 March 2017. The Varengold Bank AG is not obliged to publish a statement 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

Since the operations recorded on 30 June 2021, no particularly meaningful events took place.

Hamburg, 18 September 2021

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

Management Report

A. Fundamentals of the Varengold Bank

The Varengold Bank is a publicly listed German credit institute with a full banking license with headquarters in Hamburg and branch offices in London and Sofia. The Varengold Bank is registered with the Federal Ministry of Finance (BaFin) under number 109520 and the 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 Transaction Banking (Commercial Banking).

The current portfolio of the Varengold Bank in Marketplace Banking contains funding, debt and equity capital markets products, fronting services for products requiring a bank license and international payment transaction services. Customers are global digital credit marketplaces (FinTechs) with a concentration in Europe. These customers operate within the asset classes of receivable finance, real estate finance, trade finance, consumer finance or SME finance.

In addition to Marketplace Banking the second core business area of Varengold Bank is Transaction Banking with the fields of international payment transactions, trade finance and Lombard credit. The customers of the bank are active all over the world.

The Varengold Bank primarily refinances itself through cash and term deposits, which are made available to customers of the bank who are located in Germany.

B. Economic report

1. Macro-economic and industry-related conditions

After the world economy had to cope with the serious consequences of the COVID-19 pandemic in the year 2020, a phase of recovery slowly began in the first half year 2021. The spurs of the third wave of the pandemic initially lead to a decrease of the German economic performance of – 2.0 % in the first three months as compared to the previous quarter. In the second quarter the loosening of the Corona limitations led to a recovery of the Gross Domestic Product of +1.6 %. The upswing since the middle of the first half year 2021 lead to, on the other hand, the negative side-effect of a considerable increase in raw materials prices and involuntary production shortfalls which forced some companies to halt production.

In the USA the economy recovered from the consequences of the Corona crisis noticeably more quickly than Europe in the first half of the reporting year. China was impacted by the pandemic earlier than Europe and the USA, which is why the economic improvement also began much earlier and lead to strong growth in the first half year 2021. In many other national economies, however, the economic difficulties dominated in the reporting period, caused by recurring surges of the pandemic and the emergence of new mutations of the virus.

The Central Banks in the USA and in Europe maintained their expansive monetary policy, despite increasing inflation rates in the first half year 2021. The European Central Bank (ECB) repeatedly expressed the view that the inflation rate increase was only a temporary response to the pandemic which would reverse itself afterwards. This is also why the emergency purchase programme PEPP (Pandemic Emergency Purchase Programme) is so fervently maintained; in order to guarantee price stability and the effectiveness of the monetary policy. To support the provision of credit for private households and businesses during the COVID-19 pandemic, the ECB made additional liquidity available within the TLTRO-III programme. Moreover, the ECB announced in the middle of the current year that the prime interest rate will remain at its current or a lower rate until the inflation outlook reaches a considerably higher level.

Through this, the COVID-19 pandemic further intensified the already existing problems in the banking sector, for example weak profitability in a low interest environment. In addition, the number of business credits taken out due to the crisis has increased dramatically and to cushion possible defaults banks have increased their risk provisioning.

Simultaneously, German banks in particular are operating very cautiously with an eye on the various regulatory intensifications and legal requirements, whose implementation ties up both financial, as well as personnel resources. Also, the acronym “ESG” (Environment, Social, Governance) has been on the tip of everyone’s tongue since the year 2020, as if regulatory requirements were the dominating topic for banks.

In addition to the strengthened focus on sustainability concepts – accelerated by the pandemic – the topic “digital transformation” has gained very strong momentum. On the one hand, digital transformation is changing technologies, as well as customer requirements at an enormous speed and to satisfy these demands, digital structures and products must be developed and implemented. On the other hand, authorities always develop new guidelines to which the banks simultaneously need to adjust their internal processes to satisfy the regulatory requirements.

2. Business development

The Varengold Bank AG looks back on very positive business development in the first half year 2021. The bank optimized its internal structures and underwent a strong cultural transformation. The digitalization was driven forward, the risk position of the bank remained stable and the business results achieved heights considerably over the previous year’s value and the original planning.

In the first six months the total earnings increased significantly from 13.0 million EUR in 2020 to 23.8 million EUR. The administrative expense increased by only 17 % to 9.9 million EUR (previous period: 8.5 million EUR) despite additional investments.

The earnings before taxes (adjusted for risk provisions) reached 13.7 million EUR (previous period: 3.8 million EUR). Despite very positive development, the bank continued with caution and maintained its conservative risk provisioning due to the unclear economic and business consequences of the pandemic.

The concentration of business activities in Marketplace Banking lies strongly in the area of fronting/banking as a service (BaaS) and reputable new customers have been acquired since the start of the year. To date Varen-

gold has focused on early-stage platforms, for which the business model was already implemented. With the further development of the business strategy 2021 the radius was expanded to also include start-ups which are not yet active in the market.

In Commercial Banking the payment transaction business could be further developed thanks to the steady growth of new customers, new acquisitions of credit business with fungible assets and the further acceleration of the trade finance business.

The growth of the bank is also reflected in the increasing number of employees both inside and outside of Germany. By 30 June 2021 the number of employees in all three offices was 102 (reporting day 31.12.2020: 91). The Varengold Bank works continuously to sharpen its profile and to secure the best specialists in the competition for top performers. Within the scope of the New Work Concept, developed by management and staff, the bank met the modern transformation of the professional world and reinvigorated its corporate culture. This included since the beginning of May 2021, not only modern and open-designed office spaces, but a transformation of the entire work setting. This includes support for collaborative working, concentrated working (also mobile from home), as well as social exchange and sufficient communication flow through appropriate room structures, as well as IT components.

During the implementation of the New Work Concept the topic of sustainability played large role in many aspects and has been an integral part of the business strategy for many years. In the scope of its sustainability efforts, the Varengold Bank concentrates on the environment and social engagement. The measures with consideration of the economic, social, and ecological interests are outlined in a publicly available sustainability report published in early 2021.

3. Position

The following information may include rounding errors.

3.1 Financial position

The interest income under inclusion of income from fixed-income securities and government debt of the business decreased from 4,442 TEUR in the first half year 2020 to 3,543 TEUR in the first half year 2021. The reduction of 899 TEUR results almost exclusively from the increase of the German Central Bank's charged negative interest (change of negative interest: 877 TEUR). The reason for this is the notably increased average credit at the German Central Bank of 565,080 TEUR in the first half year 2021 after 175,974 TEUR in the first half year 2020. The interest expenses dropped by 150 TEUR to 1,343 TEUR. This expense was compensated through negative interest which was charged to customers. These increased from 482 TEUR in the first half year 2020 to 1,677 TEUR in the first half year 2021. This results in a net figure of 334 TEUR for the interest expenses position.

The current earnings from shares and other variable-yield securities decreased from 711 TEUR to 383 EUR.

The provisions earnings increased considerably again from 8,860 TEUR to 21,021 TEUR. Moreover, the provisions expenses increased by a value of 1,718 TEUR (previous year: 655 TEUR) by 30 June 2021.

The other operating income contained in the previous year's entry now also contains the position formerly identified as "net earnings from the trading book." It decreased from 627 TEUR in the first half year 2020 to 191 TEUR in the first half year 2021. The other operating income in the reporting period is derived from income from project fees and through the reimbursement of expenses.

The general administrative expenses of the company increased by 1,447 TEUR from 8,461 TEUR in the first half year 2020 to 9,908 TEUR in the first half year 2021). The main causes for this are the increase in personnel costs (640 TEUR), occupancy costs (224 TEUR), contributions (223 TEUR), expenses for IT (290 TEUR) and remainder of the other administrative expenses (303 TEUR).

The depreciation and adjustments on intangible assets and fixed assets increased slightly from 47 TEUR in the previous year to 52 TEUR in the first half year 2021.

The other operating expenses decreased dramatically from 359 TEUR in the first half year 2020 to 129 TEUR in the first half year 2021. These mainly include expenses from forward transactions to secure the foreign currency positions.

The position depreciation and value adjustments on receivables and certain securities and allocations to provisions for the credit business amounted to 5,550 TEUR (previous year: 2,137 TEUR). This position mainly includes write-downs of certain securities.

The depreciation and value adjustments on investments, shares in affiliated companies and fixed assets treated as securities did not materialize. The expense in the first half year 2020, in the amount of 342 TEUR resulted primarily from depreciation on investments.

In total, the income from normal business activities of the Varengold Bank AG was recorded at 8,116 TEUR (previous year: 1,628 TEUR).

After consideration of income taxes and earnings, as well as other taxes, the annual net profit recorded on 30 June 2021 amounted to 7,088 TEUR (previous year: 1,123 TEUR). This results in an overall return (ratio of net earnings and balance sheet total at the beginning of the business year) of 0.71 % after 0.16 % or return on equity of 18.3 % after 3.0 % in the comparable period.

3.2 Financial situation

From 31.12.2020 to 30.06.2021 the balance sheet total increased by 21.1 % from 995.2 million EUR to 1,205.3 million EUR. The asset side is primarily formed, in addition to the current level of cash reserves (625.9millionEUR)andcustomerreceivables(381.9millionEUR),inparticularbysharesandothervariablesecurities (107.4 million EUR). In total these three positions comprise 92.5 % of the balance sheet total. The customer deposits at 966.7 million EUR or 80.2 % continue to constitute a decisive position on the liabilities side. The open-market loans of the German Central Bank and the remaining accounts payable to credit institutions in the amount of 134.7 million EUR increased by 10 %.

The core capital ratio (TIER 1) on 30 June 2021 was recorded at 14.58 % after 13.65 % in the comparable time period.

The Varengold Bank AG has an orderly asset and capital structure.

3.3 Liquidity position

Reaching 647.0 million EUR or 53.7 % of the balance sheet total, cash and cash equivalents constitute a relatively large position on the asset side of the balance sheet. The supervisory requirements liquidity ratio LCR at 267.3 % considerably exceeds the regulatory requirements as it did in the previous year. The liquidity position of the bank was at no point at risk.

C. Risk, opportunity, and outlook report

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 monitoring of risks are core elements of the success-oriented business management of the 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 the 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 handle the existing risks and the ability to carry the risks.

Central instruments of risk management at the 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 must be fully transparent from the start. Only with complete transparency can an evaluation be made as to whether or not a risk should be approved. This decision is taken by the Board always taking into consideration the question whether the particular risk can bring a reasonable return and whether an ability to carry the risk exists. When a risk is taken, this takes place within the firmly established risk tolerance that is derived primarily in the risk-bearing capacity assessment and compliance thereof is continuously monitored.

The risk carrying analysis is undertaken by risk controlling on a monthly basis. The methodology of analysis is continuously evaluated for plausibility and the most recent state of the regulatory environment.

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 to be the negative deviation of occurring events from the expected events. The foundation of the risk management system includes the categorization of significant risks of the bank into counterparty risk, liquidity risk, market risk, operational risk, and other risks which, among other things, include the risk to reputation, strategic risks, model risks, as well as the risk concentrations associated with these types of risk.

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 management
- › Risk control and risk reporting

The Board of Directors determines the amount of the allowable total 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 order to enable adequate management.

On 24.05.2018 the German Financial Supervisory Authority (BaFin) and the German Central Bank published the new guidelines "Prudential assessment of internal bank risk-carrying concepts" 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 viewpoint.

For the normative perspective, the risk covering potential (RDP) 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. In addition, the bank utilizes the possibility contained in subsection 35 of the new RTF 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.

The risk-carrying potential in the normative perspective is comprised of the regulatory equity capital and the contingency reserves according to § 340 f HGB. The processes utilized to quantify risk in the normative perspective address provision risks, market risks and operational risks from the legal requirements of the CRR, for which risk-weighted position entries are calculated. In the plan scenario the entire equity requirement is held which can be utilized in an adverse scenario shortfall of the combined capital buffer requirement according to § 10i KWG.

As of 30.06.2021 all capital requirements in plan and in adverse scenario on both the reporting day, as well as for the three-year planning horizon were secured. In the “serious economic downturn scenario” the combined capital buffer requirement fell short according to § 10i KWG as of the 4th quarter 2023. The hard minimum requirement of 11 % is maintained in all scenarios throughout the entire planning period.

In the economic perspective the bank uses a present value modelling of risk carrying capacity. The risk carrying potential in the amount of 55.9 million EUR is comprised of the regulatory equity capital, the contingency reserves according to § 340f HGB, the profit of the current business year, as well as hidden charges and reserves.

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

The capacity of the risk carrying potential as of 30 June 2021 was 55 %, of which 39 % was counterparty risk, 33 % market risk, 11 % operational risk, 9 % strategic and reputation risks and 8 % modelling risks.

Conventional models are used for the monitoring of the main contingency and market price 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.

The quantification of the contingency risk in the strict sense takes place with the key risk figures “expected loss” (EL) and “unexpected loss” (UL). The EL is determined on the basis of the probability of default considering the LGDs (Loss Given Default). The UL is quantified with the help of a credit risk model for a confidence level of 99.9 % and a time horizon of one year. The calculation is based on the Gordy model, which is applied by the Basel Committee on Banking Supervision to model bank capital adequacy on the terms of Basel II and the further provisions set out by Basel III. The credit risk model determines the contributions of the individual borrowers and shareholdings to the unexpected loss at portfolio level, which are then aggregated to an unexpected loss for the total portfolio. In this process, any available external or internal probabilities of default (PDs) and the transaction-specific loss ratio (LGD) are applied. The determination of the other model parameters is performed by applying the standard specifications according to Basel III. In addition to the probabilities of default and loss defaults, also the correlation between the counterparties with the systematic risk factor, as well as the granularity of the portfolio and the residual terms are taken into consideration. The risk carrying potential only includes the unexpected loss of the portfolios. The expected loss is already included in the general value adjustments. In the case where the expected loss exceeds the general value adjustments, the difference also flows into the risk-bearing capacity.

In addition, the migration risk of the portfolio is determined for a time horizon of one year. External migration matrices are utilized to determine this risk. With the thus so calculated higher failure rates a new calculation of the EL is conducted; the difference between the so calculated EL and the EL AAR in the strict sense determines the final migrations risk amount.

The market risk is determined by adding the risk figures for price risk, credit spread risk and interest change risk. Here no correlations are taken into consideration.

The price risk (general price risk) is quantified with the help of value at risk model. For both the trading book and the banking book, this is measured with a confidence level of 99.9 %, an observation period of 250 days and a lookback of 520 days via historical simulation of changes in the duration and adequate currency swap or EURIBOR rates.

The price risk for the total portfolio is calculated and limited and also separated between the banking book, the trading book and foreign currency futures. This further includes the consideration of securities investments which have a price risk, the open foreign currency, as well as the foreign currency futures which are held for hedging purposes.

The measurement of the interest change risk takes place quarterly through risk controlling. For this the present value of the interest book with ad-hoc interest changes of +200 basis points and -200 basis points, as well as six additional scenarios according to RS 06/2019 (BA) – “Interest change risks in the banking book” are determined. The larger negative change of these eight interest change scenarios flow as a risk value into the risk bearing capacity calculation.

The Bank defines credit spread risk as the negative market value changes of bonds as a result of a deterioration of the credit standing of an issuer which has not yet become evident in a rating downgrade, (particular price risk). The credit spread risk is quantified with the help of the value at risk model. For both the trading book and the banking book this is measured with a confidence level of 99.9 %, an observation period of 250 days and a lookback of 520 days via historical simulation of changes in 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.

To monitor liquidity-risk a liquidity progress review is compiled on a daily basis by the treasury department. The control is determined on the basis of the magnitudes of the distance to liquidity (at least three months) and a daily minimum liquidity (20 million EUR). The monitoring is conducted by risk controlling. An additional emergency liquidity control concept, which sets off an early warning system, has been established.

The quantification of operational risk takes place quarterly through the risk controlling process in conjunction with department managers and the Board of Directors by means of a scenario analysis for all identified operational risks. The scenarios are assessed by examining possible “bad case” scenarios of the risk type and possible extent of loss and their probability of occurrence.

With respect to share transactions on each dividend record date of years 2010-2016, investigations are currently taking place against (current / former) employees and committees of the Varengold Bank AG and the Varengold Verwaltungs AG i.L. (formerly Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen) for suspicion of tax evasion by the district attorney's office, Cologne.

The Varengold Bank AG could be called into question as a secondary party and in the worst-case scenario possibly faced with a fine and / or a profit absorption, which could theoretically lead to a significant expense for the company.

In this context, external advisors have been engaged to view and analyze the (ongoing) determination files of the prosecuting authorities.

Based on the opinion of the external advisor, the Board estimates the risk of a claim against the subsidiary company Varengold Verwaltungs AG i.L. as conceivable; the risk of liability of Varengold Bank AG for this, however, as very low.

According to the current knowledge of the Board, the determination files give no indication from the prosecuting authorities as to the probability or extent of possible measures against the Varengold Bank AG.

Therefore, the risk of a liability for the Varengold Bank AG is estimated in general to be of low probability.

In addition, both companies are involved in a civil suit which is connected to transactions in 2010. The Board and the engaged external consultants estimate the risk associated with this proceeding as low.

The strategic and reputational risk is considered a decline in earnings in the course of risk-bearing capacity. In the economic perspective a risk-bearing capacity assessment in the amount of 25 % of the expected profit is utilized (minimum 400 TEUR).

The risk carrying potential includes for the modelling risk a sum in the amount of 10 % of the reported risk allocation for default risk, market risk and operational risk of at least TEUR 400.

To limit the concentration risks, continuously monitored additional limits are set by the Board of Directors.

All provisions of risk limitation are fundamentally carried out in an economically sensible fashion which appropriately considers the size of the institution, the capital resources, as well as the particular business model in a suitable way.

The consequences of the COVID-19 pandemic on the business activities and results of the Bank are, according to the current situation, only marginal. Presently, the Bank anticipates no significant influence on the planned goals for the Bank to arise.

Within its business activities the Varengold Bank AG pursues its targeted market opportunities and to this end engages exclusively in responsible risk-taking.

2. Opportunity report

The Varengold Bank has now established itself in its competitive position in both of its core business areas Marketplace Banking and Commercial Banking and achieved market relevance. The Bank concentrates more strongly on the core competency of a regulated institution with the anchor product of supply of credit, which is of fundamental importance to the existing and future customer base. The Bank can strengthen its position there in the long run, as well as increase the profitability and return where other providers do not offer an adequate product range.

In the Marketplace Banking area, the development of the credit book and fronting services/banking service (BaaS) continues to intensify. The strategic objective is to differentiate itself from the competition through quick and efficient realization of the funding and/or fronting projects with customers.

In July 2021, the Varengold Bank AG founded a subsidiary to develop future equity participation and to further sharpen its own profile as a partner of FinTechs and to strengthen customer retention. This also generates further revenue and income potential for the Bank. The plan is to first participate through the Elbe2021 Incubator GmbH in the customers in the Marketplace Banking area, but also in non-bank customers with a FinTech lending background.

The trade finance segment in the Commercial Banking area is becoming of renewed central importance. In addition, the Bank will also continue to support export-oriented customers in niche markets with the basis products of Transaction Banking, such as, for example, payment transaction and account services, to secure its position as strong transaction bank and to further develop the internationalization of these services. In addition, specifically the already completed expansion of the branch office in Sofia should place greater focus on the southern European region.

The Varengold Bank will sharpen its own profile as a top performing partner and financial services provider and thereby further propel the development related to the digital transformation with high strategic priority. Considerably shorter product cycles indicate a high level of innovation and modern work processes require a technologically demanding environment – the Varengold Bank fulfilled these requirements with the implementation of the New Work Concept. Under the guiding principle of “New Work” the entire working philosophy of the Bank will continue to develop in the future. Employees should bond with the company for the long-term and the work process optimized to generate more value for customers and investors through increased efficiency.

Agility is a key word for the fundamental prerequisites that the Varengold Bank created by the implemented cultural transformation. Individual projects and deal teams have already demonstrated that complex customer transactions under high time pressure can be successfully completed. More individual responsibility should be an additional indicator in the future. The foundation for this is formed by the 6 pillars of Varengold Bank: culture, work environment, leadership, digital transformation, empowerment, and corporate social responsibility. The establishment of these pillars were built on the foundation of the three company values “Customer centric,” “No silos,” and “Go the extra mile.”

In addition, the goal to further reduce the ecological footprint remains a priority. Thereby not only will a comprehensive understanding of sustainability be conveyed, but active measures to protect the environment and for social engagement will be undertaken and good corporate leadership promoted – to this belongs, among others, measures for resource efficiency and support of local projects and social service facilities. The Bank is also working for more sustainability with the help of initiatives and partnerships. Moreover, sustainability aspects should be more strongly integrated into the various customer acquisition processes in the future.

The Varengold Bank made again many investments in the first half year 2021 and set the course for further growth. These include, among others, the consistent implementation of the digitalization strategy and the automation of additional processes. For this the Bank utilizes robotic process automation robots for repetitive tasks or tests the optimization of processes with the help of artificial intelligence (i. e. in customer service). The objective is always to streamline business processes and to make qualitative improvements. Moreover, the Bank will also invest in the continuous education and training of the employees.

During all of the positive development in the first half year 2021 the Varengold Bank operated carefully and observed the market environment very closely. The economic and business consequences of the COVID-19 pandemic are seeping through diverse sectors in a variety of ways. As a credit provider, also the Varengold Bank cannot completely avoid these disruptions. Several risk factors could negatively affect the revenue development in a non-quantifiable way in the coming years if the global situation is weakened. The Board of Directors, however, continues to be convinced that its business model provides a solid foundation from which to master the requirements and needs of the financial market actors. The future focus also lies in the clear vision to help customers who have the potential to revolutionize their sector to fulfil their business concepts.

3. Outlook report

The future-oriented statements contained in this section are based on estimates and conclusions on the part of Varengold Bank at the time of the preparation of this report. The statements included are based upon assumptions and as long as not specifically noted, are based upon internal estimates. The Bank explicitly states that all future-oriented statements are associated with known or unknown risks and contingencies to the future results of the Bank which are outside of the influence of the Bank. Several important factors could lead to the actual results varying significantly from the future-oriented statements.

Moreover, at the middle of 2021, the current economic situation and the expectations regarding the further development over the course of the year are strongly influenced by the Corona crisis. Experts anticipate an economic revival by the end of the year, based primarily on an increase in consumption demand of private households, encouraged by the lifting of many restrictions due to the progress of the vaccination campaign. Later in the year a continued recovery of the global economy is therefore to be expected. A global growth value of around 6.0 % is forecast. In the European region, the economy should also continue to recover and reach the pre-crisis level by the end of the year. The risk remains, however, that the COVID-19 pandemic could adversely affect the society and the economy in the longer term.

For Germany, an overall economic growth rate of about 3.2 % for the year 2021 is expected. The annual average inflation rate in Germany 2021 is about 3.0 % higher than in the previous year. The most important reasons are

the expiration of the limited lowering of value added tax, higher energy prices, as well as increasing prices of goods and services, based on the opening process and the recovery of demand.

Delayed additional burdens which could threaten the banks as a result of the pandemic may slip into focus. To date, a spillover of the real economic crisis into the financial sector has been prevented by comprehensive measures undertaken by governments and Central Banks. In July 2021, the ECB formulated upwards and downwards an inflation goal of 2 % with a deviation tolerance. The existing previously prolonged low interest phase may be further extended as a result of the expansive money policy of the ECB and the ensuing lower profitability of the banks is linked to risks to their resilience.

Moreover, the regulatory requirements also continue to increase. These include for example, the new MaRisk amendment or the financial markets integrity strengthening regulation (FISG), as well as numerous regulatory initiatives regarding information security, data protection, and also on the topic of sustainability. The supervisory requirements of the past years pursue, among others, the objective of shaping the financial sector mainly through an improved equity capital and liquidity position to be more resistant to crises and to keep the risks of business activities away from the public sector. In the context of the SREP processes, the European Central Bank (ECB) again more strongly reviewed the internal risk models of the banks also in light of the COVID-19 pandemic.

In order to ensure a timely implementation of all regulatory requirements; the compliance department of Varengold Bank AG oversees the external and internal implementation situation in a monthly “Regulatory radar.” The processing of individual relevant topics is initiated in appropriate projects in a timely fashion.

The planning for the rest of the year 2021 for the Varengold Bank remains focused on growth based on a current very high demand for the products and services of the institution. In particular, the structural changes of the Bank should support the profitability and lead to overall positive corporate development. The Bank continues to follow a conservative risk policy and based on the well-filled transaction pipeline, expects to reach the forecast results of earnings before taxes (EBT) as main performance indicator in the amount of 16.4 million EUR for 2021.

Hamburg, 18 September 2021

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

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Corporate Register

District Court of Hamburg, HRB 73684

USt-IdNr. (value added tax identification number)

Financial Authority Hamburg, DE247069729

Corporate Governance

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

Permissions/Approvals of the Varengold Bank AG

- › Acquisition brokerage (§ 1 para. 1a sentence 2 no. 2 KWG)
- › Investment advisory services (§ 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).

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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 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 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 the 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.

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Note

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