



Varengold

BANK

Annual Report
2020

Key Figures of Varengold Bank AG

Key figures per share	31.12.2020 in EUR	31.12.2019 in EUR
Earnings per share	0.17	0.17
Market capitalization	36,958,295	34,467,846

Profit and loss statement	01.01.2020 to 31.12.2020 in TEUR	01.01.2019 to 31.12.2019 in TEUR
Interest income	7,366	6,559
Current income from shares and other non-fixed income securities	1,036	1,634
Commission income	17,928	13,970
Other operating income	-1,915	-495
Administrative expenses	-17,586	-16,639
Depreciation and value adjustments	-4,974	-1,435
Income from normal business operations	1,855	3,594
Income/loss for the year	1,715	1,616

Balance sheet	31.12.2020 in TEUR	31.12.2019 in TEUR
Total assets	995,195	707,329
Net assets	38,666	34,151

Contents

Key Figures of Varengold Bank AG	2
01 Letter to the Shareholders	4
02 Success Story	7
03 Products and Services	10
04 Shares	13
05 Supervisory Board Report	16
06 Annual Report	20

01

Letter to the Shareholders



Dear Shareholders,

2020 was an extraordinary year. COVID-19 was holding the reins and was very demanding for many people all over the world. Given the scale of this global human tragedy, it is not particularly easy for us to talk about business success.

The Varengold Bank made a strong showing in a year shaped by the Corona pandemic and continued to demonstrate its profitable growth. In this challenging environment, we were able to increase our total revenue from EUR 25.9 million (2019) to EUR 30.3 million. The administrative expenses, however, grew only by 5 % to EUR 17.6 million (previous year: EUR 16.6 million), although we also further invested in 2020 and paved the way for more growth. Among others, these activities included the consistent implementation of our digitalization strategy and specifically the expansion of process automatization. Our efficient processes and our agility are what set us apart from many banks and make Varengold in Marketplace Banking a strong partner for FinTech's. Moreover, we invested in the training and development of our employees and also attracted new colleagues.

With all positive developments we act prudently and carefully observe the market environment. The economic and business consequences of the Corona pandemic are emerging in various ways throughout diverse industries. As a credit provider, we could not completely avoid certain consequences. This became apparent in the form of higher write-offs. That is why, as recommended by the ECB, we proceeded particularly conservatively with respect to risk management and invested in the protection of risks. For write-offs and provisions for receivables and losses on investments, as well as allocations to provisions expenses amounted to around EUR 7.4 million. After a deduction for these precautionary measures our earnings before taxes totaled EUR 1.9 million (previous year: EUR 3.6 million). We will also proceed in 2021 with sound judgement.

In the meantime, the global vaccination campaign is increasingly hopeful that a return to normalcy is around the corner. This is just one reason why we have an optimistic view of the future. Our development is demonstrating that the business model of the Varengold Bank is sustainable.

The early digitalization of essential business processes created further growth potential and enabled the highest degree of flexibility for us. In 2021 we will implement additional new work measures and further strengthen our position in competition for the best specialized personnel. As opposed to many companies, we did not use the situation to reduce office space. We rather see our new spaces as sites offering more opportunities for personal contact (after the danger of this passes).

Varengold remains, even in these challenging times, a rapidly growing bank. Together with our customers we are working passionately to grow profitably over the long term. We are very pleased that you support us in this goal and thank you for your trust.



Hamburg, June 2021

Board of Directors of Varengold Bank AG

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

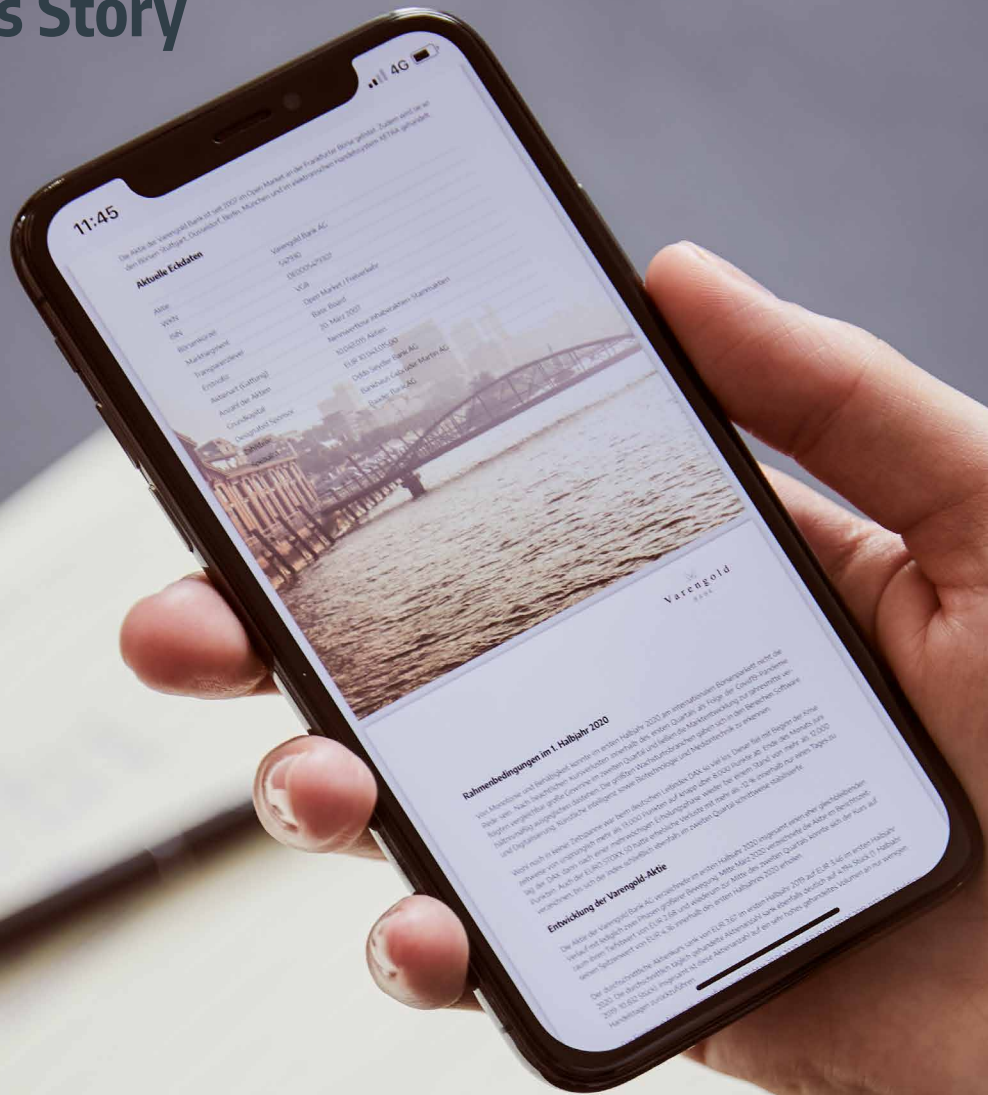
Dr. Bernhard Fuhrmann

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

Frank Otten

02

Success Story



Helping to shape the technology-based transformation of the financial sector

The Varengold Bank AG is a rapidly growing bank. For over 25 years the credit institution has demonstrated success in the financial sector and has contributed to its technology-supported transformation.

Development of specialized hedge fund strategies

The success story of Varengold began in **1995** with its founding as an asset management boutique. In **1999** the conversion of the GmbH into a publicly-held company took place. In the first years the company primarily focused on the development of its own specialized hedge fund strategy within the managed futures space. This investment strategy involved a concentration on the systematic trade of raw materials and stock indices and implemented these by virtue of derivative financial instruments. For diversification and for customized portfolios the unique trading approach of using complementary strategies on the fund of funds level was supplemented.

First German authorized managed futures fund of hedge funds

With the objective of a risk reduced rate of return the Varengold Bank launched in **2006** the HI Varengold CTA Hedge, the first German managed futures fund of hedge funds which was authorized for public sale. In the following years the HI Varengold CTA Hedge was awarded the best German fund of hedge funds several times. Over the course of these trade activities, the Varengold Bank recognized that transparency of the managed futures strategies was necessary for each individual transaction in order to ensure the successful monitoring and management in the sense of trade strategies.

Development of a managed account platform

In the sense of an optimized transaction structure, Varengold developed a managed account platform in **2009** which enabled real-time brokerage and online reporting. During peak periods nearly 9,000 customers worldwide, with an annual transaction volume of more than EUR 20 billion, use the Varengold access to the international finance markets. This single trading platform offers customs both stock exchange transactions, as well as off-market available products such as Forex and CFDs (Contracts for Differences).

Milestone full banking license

The license expansion from a securities trading bank (in the sense of §1 para. 3d sentence 3 KWG) to a deposit institute in the year **2013** marked a significant milestone in the history of the Varengold Bank. Parallel to receiving the full banking license, Varengold established the Transaction Banking/Commercial Banking business division.

Strategic focus on cooperation with FinTechs

Since **2015** the strategic focus of the bank has been on Marketplace Banking. Varengold maintains marketplaces which offer digital financial services to companies and consumers. This is a form of financial technology enterprise which is referred to as a “FinTech”. The Varengold Bank makes debt- and equity capital markets products, international payment transaction services, as well as fronting services of bank license obligations products available to you. With credit know-how, regulatory expertise and an excellent network in the European banking scene, it helps the credit market places to develop a successful and sustainable business. Varengold places great importance on cooperating with FinTechs, as opposed to duplicating their efforts. With the support of credit marketplaces Varengold Bank emphasizes their aspiration to facilitate a quick and uncomplicated access to capital and banking services for as many people and businesses as possible.

Focus on business areas with attractive risk-return ratios

In March **2016** the Varengold Bank decided to phase out the Capital Markets Brokerage business area. This was done to limit the risk and return volatilities and to place the future main focus on the business areas with better risk-return ratios. The capital market expertise developed over many years remained in the company and benefits the enterprise today by ensuring the international cash flows against currency fluctuations.

Success through customer-oriented approach

As a customer-oriented bank Varengold combines existing products in new ways or develops innovative customized solutions. All with the goal of creating relevant value for its demanding customers at home and abroad. This approach has proven to be very successful in particular for customer needs for which there are no standard solutions.

Partner for modern banking

The combination of traditional credit guidelines with high quality risk analysis and appropriate cost structures has created an attractive mixture of solidity and agility. This is how Varengold Bank built an excellent foundation for the successful core business areas Commercial Banking and Marketplace Banking. Additional growth potential was opened by the early introduction and consistent implementation of the digitalization strategy. With the help of business automation tools, Varengold Bank digitized its processes to a great extent and is therefore in the position to make decisions quickly. These efficient processes and maximum agility differentiate the Varengold Bank from many other banks and make it a strong partner for FinTechs which are revolutionizing the financial sector with user-friendly platforms.

Engaged for a desirable future

Convinced that without true sustainability neither a strong business foundation for the Varengold Bank, nor a desirable future for mankind will be possible in the long term, the financial service provider has engaged in the area of sustainability since **2018**. Through many small actions Varengold contributes to the achievement of the large global goals and works continuously on the reduction of its environmental footprint. In **2020** the Varengold Bank further strengthened its engagement for sustainability through the efforts lead by a dedicated interdisciplinary team of employees.

Business model proves future orientation during the Corona pandemic

The Varengold Bank demonstrated its strong presence in the Corona pandemic year **2020**. It continues to generate profitable growth and once again proves the sustainability of its business model.

03 Products and Services

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



Marketplace Banking

As a reaction to the financial crisis of 2008, online credit marketplaces across the globe emerged to focus on the financing of companies and consumers. As a rule, these marketplaces offer their customers a considerably faster, less complicated and therefore also more pleasant credit processing than established banks. In their core business area Marketplace Banking, the Varengold Bank successfully positions itself as partner of these marketplace drivers. It not only has the financial resources, but also the efficient processes and agility required for this modern way of banking.

With this the Varengold Bank helps its customers, who are typically concerned with receivables financing, real estate finance, trade finance, consumer finance or SME finance, to realize their business models and later to scale them. Varengold does not offer any of its own credit products to their target customers of the marketplace lending platforms and therefore does not compete with their customers. Together they have one objective: to enable people and companies who lie outside of the target market for many banks access to capital and financial services.

An anchor product of the Varengold Bank is the structured financing (lending). The refinancing of marketplace credit portfolios whose structures are firmly oriented on the demands of the customer is often just the beginning of a long-term cooperation. Additionally, the Varengold Bank supports its customers in the areas DCM (debt capital management) and ECM (equity capital management): if necessary, its loan and capital requirements would be covered with the help of a global network of investors.

Another anchor product in the core business area Marketplace Banking are fronting services (also referred to as banking as a service or BaaS). Varengold makes its banking license available to marketplaces across Europe who offer products and services requiring a banking license, but who do not hold the necessary license. Generally credit products and account services

are “fronted”. The profound process understanding, as well as the high level of technological competence of the Varengold Bank helps the customers to enter markets quickly and efficiently. This is profitable in particular to marketplaces which would like to enter highly regulated markets such as found in Germany.

Fundamentally, the Varengold Bank accompanies its customers in Marketplace Banking in an early phase of their company’s activities, also in the founding phase, which often leads to a growth phase. A benefit for customers is that the Varengold Bank has no conflict of interest in their customer relationship to the marketplaces.

Profile:

- › Expansion of credit volume with European-wide diversified portfolios
- › Strong network within the marketplace lending industry and institutional investors
- › Willingness to accompany companies also in the early phase to then support their growth
- › Existing “full banking” license
- › Possibility of EU Passporting
- › Innovative product solutions for finance-specific processes including KYC, credit and payments & account opening

Income components:

- › Interest income
- › Commission income

Transaction Banking / Commercial Banking Profile:

In the core business area Transaction Banking / Commercial Banking Varengold Bank supports international business customers in their global trade and investment activities. With the help of individualized products and solutions customers are given the possibility to develop transactions and trading activities across national borders safely, efficiently, and transparently. The regional focus of this trading specialization lies in Eastern Europe and the Middle East. Already during the inception of this business area in 2013, a solid customer base for trade finance transactions was developed which is continuously expanding.

The service portfolio offering spans the deposit business, as well as the areas of international payment transactions trade finance, Lombard credits and structured finance.

In the area trade finance Varengold Bank bundles selected solutions for financing, as well as bank guarantees and credit operations for international trade activities. The guarantee business includes, in addition to classical payment guarantees, also banking guarantees and delivery and performance bonds. Since the middle of 2020, the Varengold Bank has developed a special area for ECA covered trade financing which has a specific emphasis on Hermes covered forfeitures and buyer credit. In the future this area should expand to include other European ECA and WKV guarantees.

In the deposit business area private customers are offered no fee cash and fixed-term deposit accounts which combine the full flexibility of a daily available deposit (overnight money) with an attractive interest rate which creates a reliable basis for each investment portfolio. In addition to an interest rate guarantee, as well as a monthly interest calculation, the customers also benefit from the legally required deposit guarantee in the amount of up to 100,000 Euro.

- › 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 100,000 Euro per customer

Income components:

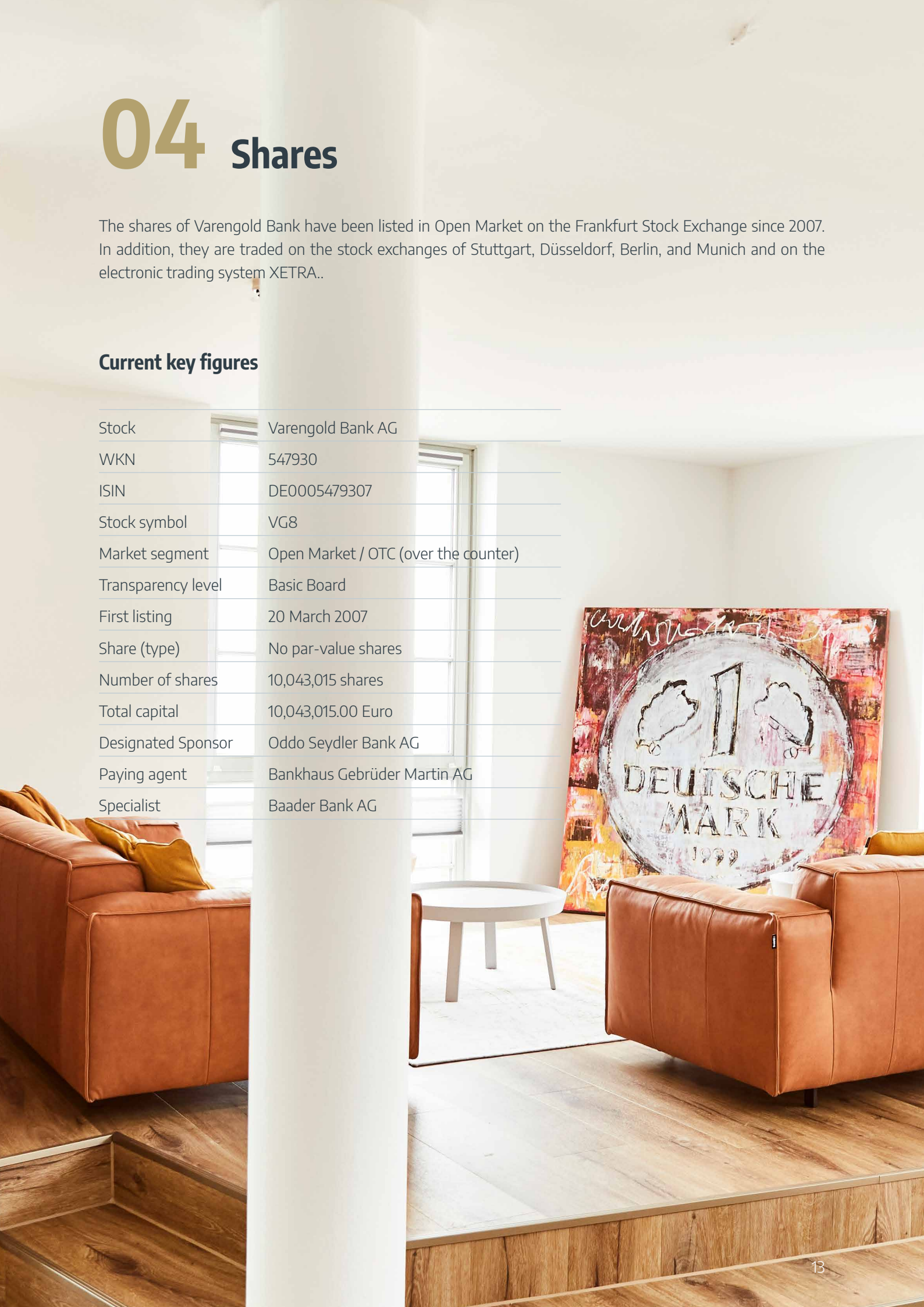
- › Interest income
- › Commission income

04 Shares

The shares of Varengold Bank have been listed in Open Market on the Frankfurt Stock Exchange since 2007. In addition, they are traded on the stock exchanges of Stuttgart, Düsseldorf, Berlin, and 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	10,043,015.00 Euro
Designated Sponsor	Oddo Seydler Bank AG
Paying agent	Bankhaus Gebrüder Martin AG
Specialist	Baader Bank AG



General conditions in year 2020

The stock year 2020 will certainly hold a place in history, for seldom have stock exchanges experienced such a strong slump in the market. The cause of this was the outbreak of the Covid-19 pandemic at the beginning of the past year. The German stock index DAX fell from its all-time high of 13,789 points in February 2020 nearly 40 percent within one month.

The impact of the Corona virus on the world economy was palpable for everyone: travel plans were cancelled, production lines were stopped, raw materials were unavailable, and events were postponed in addition to trading and services being limited. Many countries swung back and forth between lockdowns and loosening of restrictions as they rode the roller coaster of the pandemic. Governments and Central Banks around the entire world attempted to mitigate the economic effects of the Covid-19 pandemic with unheard of stimulus packages and emergency credit, in addition to lowering interest rates and utilizing bond purchasing programs.

After considerable low levels in first quarter 2020, numerous stock markets more than compensated for their losses by the end of the year. In the meantime, the DAX has also reached a level higher than before the crisis.

The largest growth sectors on the international stock markets were in the areas of IT, artificial intelligence and biotechnology and medical technology. The stock indices from countries such as Great Britain, Italy or Spain, which were hit even more strongly by the Corona crisis, have partially not yet been able to recover to the same degree.

It remains unclear how the Covid-19 pandemic will impact the economy and the profit of stock listed enterprises in the long term. This uncertainty will continue to burden the stock markets for a while longer and could also lead to volatile market developments in the future.

Development of Varengold shares

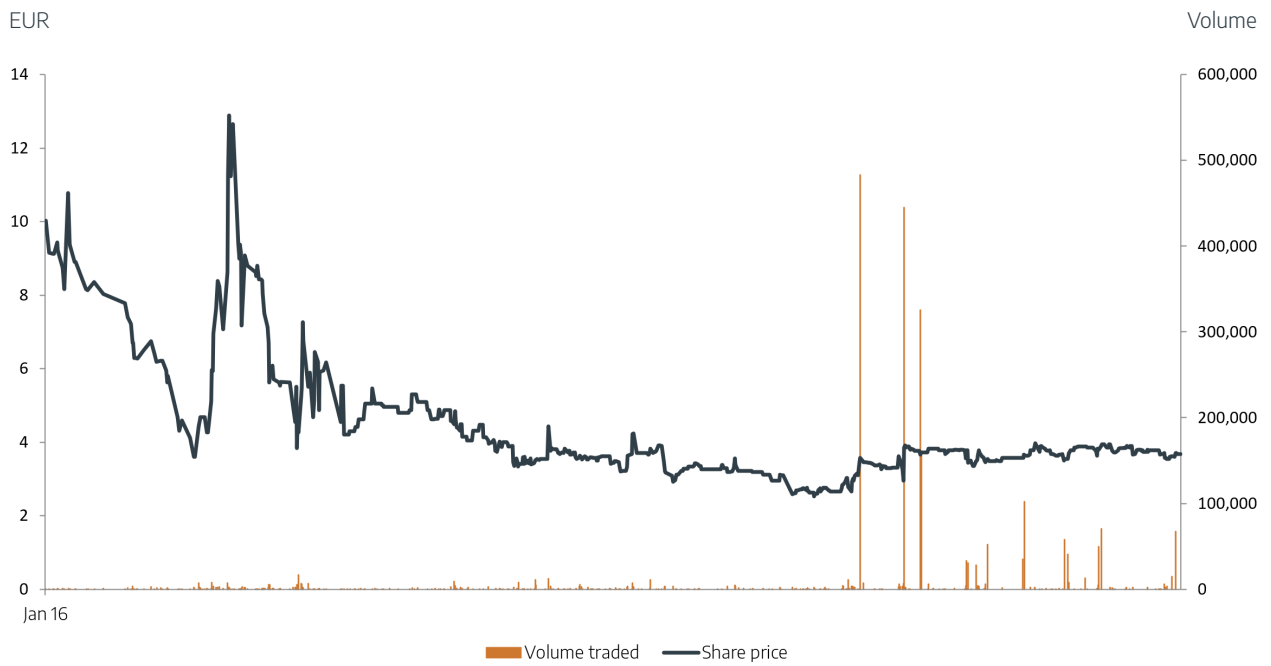
The stock of the Varengold Bank AG in year 2020 displayed overall an ongoing lateral movement with individual fluctuations in both directions. At the end of the first quarter 2020 the stock reached a yearly low value of 2.68 EUR and after a noticeable recovery phase the price reached its peak value of 6.50 EUR in November 2020.

The average share price fell from 3.71 EUR in year 2019 to 3.51 EUR in the recording period. The average number of daily traded shares increased to 3,861 shares compared to 3,575 shares in the previous year. The total volume however, as in the past years, can be traced back to very high trading volumes on just a few trading days.

The earnings per share remained stable for year 2020 at 0.17 EUR (2019: 0.17 EUR). The market capitalization grew by nearly EUR 2.5 million at the recording day 31.12.2020 to a total of EUR 36,958,295 (Recording day 31.12.2019: EUR 34,467,846).

Price history Varengold shares

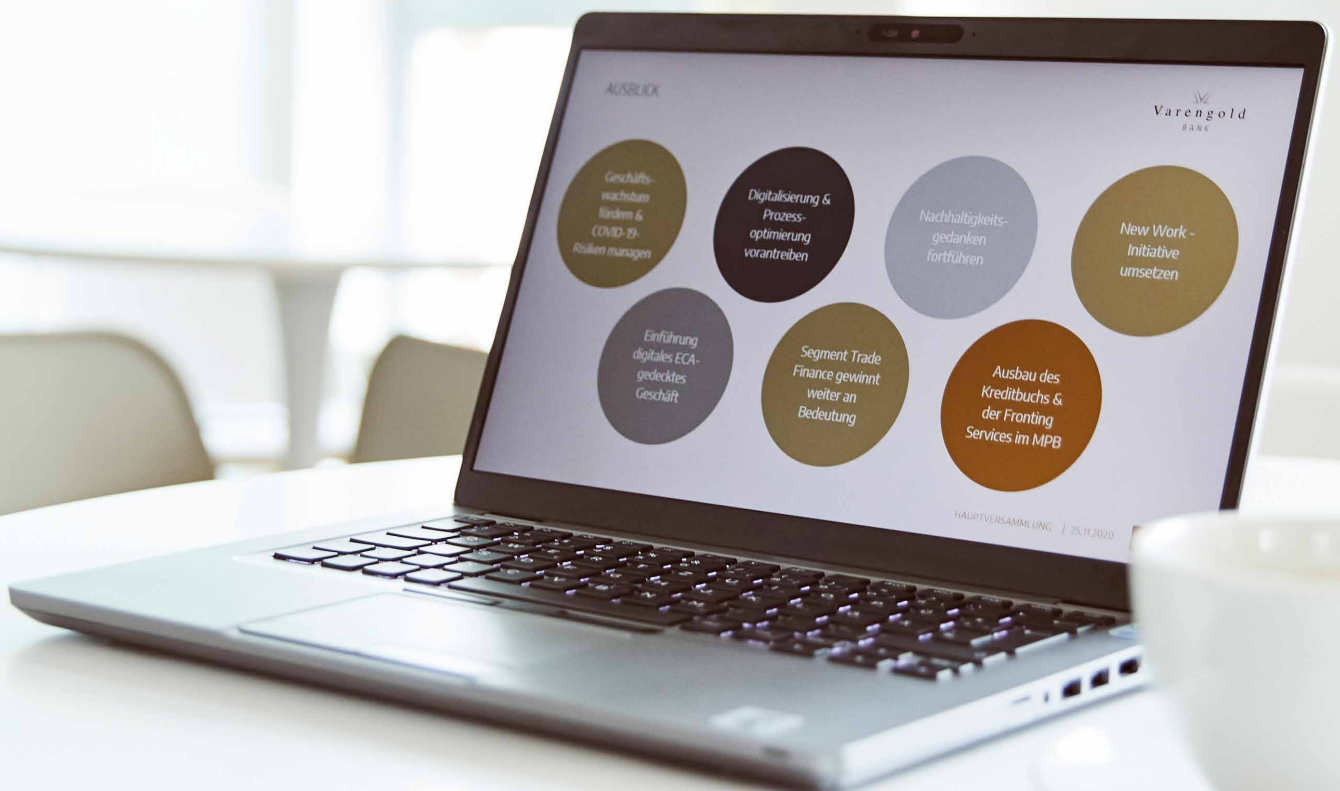
Please note: past price performance is not a reliable indicator of future price performance.



Source: Bloomberg

Time period: 01/2016 – 12/2020

05 Supervisory Board Report



Dear Shareholders,

The Varengold Bank AG continues to be experiencing a growth trend. The entire Varengold team consistently developed the business activities and initiated further strategic measures for the very positive development of the bank of the bank in the past year despite the overall pandemic-influenced situation. This was due in particular to an increasing focus on process optimization and digitization, as well as sustainability in the sense of “Corporate Social Responsibility.” The elapsed business year was thereby a decisive year for the transformation of Varengold as a top-performing bank. We on the Supervisory Board have closely accompanied this process and will continue to do so.

Cooperation of Supervisory Board and the Board of Directors

The Supervisory Board of the Varengold Bank AG was thoroughly engaged with the business and strategic development of the company and intensively accompanied the management of the business by fulfilling its advisory and monitoring function through the Board of Directors over the past business year. Over the entire course of the year 2020 the Supervisory Board observed all of its legally required responsibilities. Monitoring goals were oriented to the statutory regulations and were specifically adjusted to the internal and external developments during the year. Measures for this supervision were the legality, correctness, appropriateness, strategic meaning, sustainability and economic efficiency of the business leadership through the Board of Directors. The rules of procedure of the Board of Directors contains a catalogue for business activities and measures, the execution for which the Board of Directors must secure the approval of the Supervisory Board. These types of business activities and measures were discussed in detail between the two councils and reviewed by the Supervisory Board.

The information made available to the Supervisory Board was discussed in Supervisory Board meetings

in the form of circular resolutions, as well as in individual discussions. Moreover, outside of the formal meeting schedule the members of the Supervisory Board and the Board of Directors stay in close contact, in order to examine and discuss strategic options and current questions related to the business politics. The Board of Directors always answered and explained the questions of the Supervisory Board thoroughly and to their satisfaction. In order to expand its scope of information and to gather its own impressions of the business development, the Supervisory Board also made inquiries outside of the Management Board which included among others bank management and external advisors. The council was thereby always informed about the current business activities and received written reports of the monthly financial business situation and quarterly reports as to the risk situation of the bank. Furthermore, all internal audits and according to circumstances, relevant documentation, was delivered to the Supervisory Board. The always comprehensive and timely written and aural reports to the Supervisory Board by the Board of Directors complied with the requirements according to § 90 AktG. The Supervisory Board convinced itself of the suitability and the reliability of the individual members of the Board of Directors through regular exchange with and targeted questions of the individual members of the Board over the course of the year 2020.

Supervisory Board meetings 2020

In total four regular Supervisory Board meetings took place during the past business year on 10 March 2020, 5 June 2020, 29 September 2020 and on 25 November 2020. All meetings took place with all members of the Supervisory Board and both members of the Board of Directors. As a rule, each meeting entailed the Board of Directors reporting to the Supervisory Board on the development of the financial and economic relationships, including a status update with a particular focus on risk control and compliance issues.

At the meeting on 10 March 2020 the business development and the company key figures with a review of the previous business year 2019 were primarily discussed. Moreover, the business strategy 2020, the business plan 2020 and the multi-year plan, as well as the risk strategy 2020 were presented and debated and were subsequently approved by the Supervisory Board. Furthermore, the members discussed, among other topics, the compliance report 2019, the existing compensation system and its application, as well as the adherence to the requirements of § 25d KWG.

The essential agenda points of the meeting on 5 June 2020, in addition to looking back over the business development in the first half of 2020, were also the prevailing circumstances and consequences of the Covid-19 pandemic and the Annual Report 2019 (in direct discussion with the responsible annual auditor PricewaterhouseCoopers GmbH). In addition, the non-audit services of PricewaterhouseCoopers GmbH and planning for process optimization and digitization of der Bank were discussed.

In the meeting on 29 September 2020, the predominant focus of the daily agenda lay in the development of the business areas Marketplace Banking and Commercial Banking in view of the first three quarters 2020, and the ownership structure of the Varengold Group and the Bank, as well as legal risks.

At the last meeting of the year, on 25 November 2020, the targeted results development of the bank during year 2020 was reviewed in retrospect and the change of the internal audit was discussed. In addition, among other topics, personnel planning and the annual regulatory meeting with the Federal Financial Supervisory Authority and the German Central Bank were the central topics addressed.

In addition to these four meetings of the Board of Directors and the Supervisory Board, the Supervisory Board also periodically met alone via telephone

or video conference, to review the topics of the joint management meetings and to prepare the topics for the upcoming meetings. Moreover, further resolutions were adopted by circularization according to § 12 para. 2 of the Charter of the Varengold Bank AG.

The Supervisory Board thoroughly monitored the financial reporting process of the bank, the effectiveness of the existing internal control system, the work of the internal audit, and the risk management over the course of the year 2020. The Supervisory Board was also informed at all times of the planning and activities regarding the structural and technological transformation of the bank.

The Supervisory Board itself is routinely subject to an efficiency review of its work. The Supervisory Board has, in this reporting year as in past reporting years, decided not to create committees due to the size of the company and the fact that the Supervisory Board consists of only three members.

The Chairman of the Supervisory Board, Dr. Lemnitzer holds the required expertise in the area of accounting and auditing according to § 100 para. (5) AktG. The members of the Supervisory Board are entirely conversant with the sector in which Varengold Bank conducts business.

Granting the audit contract to PricewaterhouseCoopers GmbH

The accounting firm PricewaterhouseCoopers GmbH, Hamburg, was elected to be the auditor of annual accounts for the business year 2020 at the general shareholders meeting on 25 November 2020. Subsequently the Supervisory Board awarded PricewaterhouseCoopers GmbH the auditing contract. The assignment itself contains among other information, clear specifications of the scope of the audit, the conducting of the audit, as well as the practical cooperative engagement. Before this recommendation of the Supervisory Board to the general shareholders, the

accounting firm declared that no business, financial, personal or any other relationships exist which could cast doubt on their independence.

Annual audit 2020

For the business year 2020 appointed accounting firm PricewaterhouseCoopers GmbH, Hamburg, reviewed the compiled annual accounts of 31 December 2020 according to the rules of the HGB and reviewed the management report and issued an unconditional audit opinion.

To prepare for the balance sheet review meeting on 8 June 2021, the Supervisory Board received a draft of the auditor's report for year 2020 and the management report for review and examination. On 26 May 2021 the preliminary meeting of the annual audit 2020 between the Board of Directors and the accounting firm took place at which the Chairman of the Supervisory Board actively participated. All open questions could subsequently be clarified in the annual audit review meeting with the Board of Directors and the attending auditors from PricewaterhouseCoopers GmbH.

Through a unanimous decision of the Supervisory Board on 8 June 2021, the reviewed and issued with an unconditional audit certificate of the accounting firm on the annual financial report of Varengold Bank AG of 31 December 2020, which contains no substantial alterations from the draft according to § 12 in the sense of § 22 of the Charter of the Varengold Bank AG was subsequently reviewed and approved by the Supervisory Board. The annual financial accounting of the Varengold Bank AG for business year 2020 is thereby completed.

Personnel

The Supervisory Board of the Varengold Bank AG made an early determination on 13 May 2020 to extend the appointment of Dr. Bernhard Fuhrmann as member of the Board until 14 April 2026 and in this

context agreed to an extension of his employment contract with the same duration.

The Supervisory Board wishes to thank all shareholders, business partners and customers of the Varengold Bank AG for their demonstrated trust. We are particularly grateful to the members of the Board of Directors, as well as the employees of the Varengold Bank for their outstanding personal engagement and performance in year 2020.

For the Supervisory Board
Hamburg, 14 June 2021



Dr. Karl-Heinz Lemnitzer
Chairman of the Supervisory Board

06 Annual Report

in accordance with the German Commercial Tax Code (HGB)

**for financial year from 1 January 2020
to 31 December 2020**

Varengold Bank AG
Große Elbstraße 39
22767 Hamburg

Contents

Balance Sheet as of 31 December 2020	23
Profit and Loss Statement	25
Notes	27
1 General information	27
2 Accounting and valuation methods	27
3 Currency conversion	29
4 Notes to the balance sheet	30
4.1 Overall disclosures	30
4.2 Individual item details	32
5 Notes to the profit and loss account	38
5.1 Interest income	38
5.2 Current income from shares and other variable-income securities	38
5.3 Net commission	38
5.4 Other operating income	39
5.5 Personnel costs	39
5.6 Other administrative expenses	39
5.7 Other operating expenses	40
5.8 Taxes on income and earnings	40
6 Other information	40
6.1 Executive bodies	40
6.2 Employees	41
6.3 Other financial obligations	41
6.4 Forward transactions	41
6.5 Annual audit fee	42
6.6 Recommendation on appropriation of profit	42
6.7 Disclosures in accordance with Section 20 AktG	42
6.8 German Corporate Governance Code	42
6.9 Supplementary report	42

Management’s Discussion and Analysis	43
A. Principles of Varengold Bank	43
B. Economic report	43
1. Macro-economic and industry-related conditions	43
2. Business development	45
3. Position	47
3.1 Financial position	47
3.2 Financial situation	48
3.3 Liquidity position	49
3.4 Financial performance indicator	49
C. Risk, opportunity, and outlook report	49
1. Risk report	49
2. Opportunity report	54
3. Outlook report	55
The independent auditor’s report	59

Balance Sheet as of 31 December 2020

Assets	Euro	Financial year Euro	Previous year TEuro
1. Cash reserve			
a) Cash and cash equivalents	3,864.89		4.9
b) Balances at central banks	400,791,579.18		261,367.0
- of which:		400,795,444.07	261,371.9
at the Bundesbank: EUR 400,791,579.18			(261,367.0)
2. Loans and advances to banks			
a) Due on demand	12,434,338.47		23,307.9
b) Other receivables	4,554,241.55		3,509.8
		16,988,580.02	26,817.7
3. Due from customers		405,535,021.81	267,215.3
- of which:			
secured by mortgages: EUR 42,328.88			(40.9)
public sector loans EUR 172,808,959.02			(53,670.1)
4. Debt securities and other fixed-income securities			
a) Bonds and debt securities			
aa) From public issuers	21,426,821.95		18,828.6
- of which:			
acceptable as collateral at the Bundesbank: EUR 21,313,533.27			(18,737.8)
ab) From other issuers	0.00		2,372.8
		21,426,821.95	21,201.4
5. Shares and other variable-income securities		99,129,159.71	126,274.3
6. Participating interests		697,666.71	1,827.4
7. Shares in affiliated companies		44,687.75	900.0
- of which:			
in financial services institutions EUR 0.00			(855.3)
8. Trust assets		45,199,554.75	0.0
- of which:			
trust loans EUR 45,199,554.75			
9. Intangible assets			
a) Concessions acquired against payment	124,916.00		177.1
		124,916.00	177.1
10. Tangible assets		111,878.50	135.6
11. Other assets		4,977,382.28	1,328.6
12. Deferred income		163,721.26	84.5
Total assets		995,194,834.81	707,333.8

Liabilities	Euro	Financial year Euro	Previous year TEuro
1. Liabilities to banks			
a) Due on demand	21,070,834.28		28,258.6
b) With agreed maturity dates or periods of notice	101,066,166.25		0.0
		122,137,000.53	28,258.6
2. Amounts due to customers			
a) Other liabilities			
aa) Due on demand	434,372,384.76		355,287.6
ab) With agreed term or period of notice	342,356,565.30		276,634.3
		776,728,950.06	631,921.9
3. Trust liabilities		45,199,554.75	0.0
- of which:			
trust loans EUR 45,199,554.75			
4. Other liabilities		2,226,005.03	1,802.5
5. Deferred income		91,527.25	79.6
6. Provisions			
a) Reserves for pensions and similar obligations	225,643.00		98.6
b) Provisions for taxes	65,568.71		476.9
a) Other provisions	4,854,647.86		3,744.4
		5,145,859.57	4,319.9
7. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
8. Contributions made to implement capital increase resolved upon		0.00	1,800.4
9. Equity capital			
a) Subscribed capital		10,043,015.00	9,315.6
b) Capital reserves		44,705,492.65	42,632.5
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 loss		-16,100,970.03	-17,815.6
		38,665,937.62	34,150.9
Total liabilities		995,194,834.81	707,333.8
1. Contingent liabilities			
a) Liabilities arising from guarantees and warranty agreements		6,752,022.00	8,502.0
2. Other obligations			
a) Irrevocable loan commitments		15,260,073.70	12,488.0

Profit and Loss Statement

For the period 1 January 2020 to 31 December 2020

	Euro	Euro	Financial year Euro	Previous year TEuro
1. Interest income from				
a) Lending and money market transactions	9,472,425.63			8,935.8
Less negative interest from bank balances	-1,283,393.42			-706.2
	8,189,032.21			8,229.6
b) Fixed-income securities and debt register claims	485,226.64			324.8
Less negative interest	0.00			0.0
	485,226.64	8,674,258.85		8,554.4
2. Interest expenses	-2,785,417.56			-2,608.8
Less positive interest from banking business	1,476,659.56			613.1
		-1,308,758.00		-1,995.7
			7,365,500.85	6,558.7
3. Current income from				
a) Shares and other variable-income securities		1,036,311.61		1,634.1
			1,036,311.61	1,634.1
4. Commission income		19,528,675.83		14,611.2
5. Commission expenses		-1,600,606.92		-641.3
			17,928,068.91	13,969.9
6. Other operating income			1,040,631.60	1,085.3
7. General administrative expenses				
a) Personnel costs				
aa) Wages and salaries	-7,595,875.69			-7,521.2
ab) Social security contributions and expenses for pensions and other employee benefits	-1,366,681.11			-1,021.2
- of which: EUR 528,409.49 for pensions		-8,962,556.80		-8,542.4
b) Other administrative expenses		-8,623,450.06		-8,096.5
			-17,586,006.86	-16,638.9
8. Depreciation and amortisation of intangible assets and property			-96,083.88	-114.0
9. Other operating expenses			-2,955,143.73	-1,580.1
10. Depreciation and write-downs of receivables and certain securities and allocations to provisions in the lending business			-4,511,152.38	-925.2
11. Depreciation and provisions against participating interests, shares in affiliated companies and assets traded securities			-367,300.32	-395.8

	Euro	Euro	Financial year Euro	Previous year TEuro
12. Result from ordinary business activities			1,854,825.80	3,594.0
13. Taxes on income and earnings		-139,767.16		-1,977.8
14. Other taxes, provided they are not shown under item 10		-413.00		-0.4
			-140,180.16	-1,978.2
15. Annual net profit/loss			1,714,645.64	1,615.8
16. Loss carry-forward from previous year			-17,815,615.67	-19,431.4
17. Net loss			-16,100,970.03	-17,815.6

Varengold Bank AG, Hamburg
District Court Hamburg, HRB 73684

Notes

**For financial year 1 January 2020
to 31 December 2020**

1 General information

The annual financial statements have prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB), the German Stock Corporation Act (Aktiengesetz, AktG) and the German Accounting Regulations for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV).

In order to improve clarity and transparency, information relating to several items continues to be presented in general terms covering these items in deviation from Section 284 (1) (1) HGB.

As all subsidiaries pursuant to Section 296 (2) HGB are of lesser importance for a view of the group's assets, financial and earnings position that corresponds to actual circumstances, even combined, use is made of the exemption clause regarding the preparation of consolidated financial statements pursuant to Section 290 (5) HGB.

2 Accounting and valuation methods

The accounting and valuation methods have remained unchanged from the previous year. The following changes were made when reporting figures for the previous year: The previous year's figure of TEUR 155 shown under item 6 of the profit and loss account 'Net income from the trading portfolio' has been reported under item 4 'Commission income'. Due to reporting adjustments of the previous year's figures, other assets and liabilities each increased by TEUR 4.

To maintain clarity, unused items have not been included in the balance sheet and the profit and loss account, in accordance with Section 265 (8) HGB.

Assets and liabilities are measured in accordance with the provisions in Sections 252 et seq. HGB and also those in Sections 340 et seq. HGB.

Cash and cash equivalents and Balances at central banks are recorded at nominal value.

Loans and advances to banks and customers are recorded at nominal value. Where necessary, counterparty risks are covered by the formation of reserves for bad debt. The amount of risk provisions set aside for individually considered counterparty risks corresponds to the difference between the book value of receivables and the value likely to be collected. Bad debts are written off. Account is taken of the latent lending risk through the formation of reserves for bad debt. These are calculated in accordance with accounting standard BFA 7 based on an estimate of expected losses arising from a failure to meet contractual capital and interest obligations in the originally agreed amount or on the originally agreed payment dates over the remaining term (expected loss); proceeds from the realisation of loan collateral are factored into the calculation.

Provided they are reported as fixed assets, debt securities and other fixed-income securities are valued according to the diluted lower of cost or market principle. When assigning to the liquidity reserve, items are shown on the balance sheet according to the strict lower of cost or market principle.

Provided they are reported as fixed assets, shares and other variable-yield securities are valued according to the diluted lower of cost or market principle. When assigning to the liquidity reserve, items are shown on the balance sheet according to the strict lower of cost or market principle. A balance of TEUR 47,997 (book value) has been reported as fixed assets.

Shareholdings and shares in affiliated companies are valued in accordance with the applicable rules for fixed assets at cost, if applicable, less any value impairments to the lower value.

Trust assets and liabilities have been recognised at nominal value.

Purchased software is recognised under intangible assets, and as in the case of tangible assets, is measured at amortised cost less scheduled depreciation. Fiscal depreciation rates (asset depreciation) are used as a basis for expected useful life.

Fixed assets and intangible assets are valued at acquisition cost, less scheduled linear depreciation according to their expected useful life. The useful lives specified by the tax authorities (depreciation table for general assets (AV depreciation table)) are taken as a basis.

Low value assets are shown on the balance sheet in accordance with the provisions of Section 6 (2) and (2a) of the German Income Tax Act (EStG). Low value assets purchased at acquisition costs of between EUR 250 and EUR 1,000 are bundled into a compound item, which is of lesser importance and written off by one fifth in the financial year of formation and in each of the following four financial years. Assets with a value of less than EUR 250 are treated as immediate operating expenses.

Other intangible assets are stated at their face value.

Prepaid expenses and accrued income (mainly licences paid for in advance) are formed in accordance with Section 250 (1) HGB and recognised at nominal value.

Liabilities are carried as liabilities at their repayment amount.

Accruals and deferred income (mainly discount earned from forfaiting transactions) are formed in accordance with Section 250 (2) HGB and are written back over the residual term of the underlying transactions.

Pension provisions, which relate to provisions for surviving dependants, are calculated according to actuarial principles using the 2018G versions of the Klaus Heubeck guideline tables in accordance with Section 253 (2) HGB. The modified part-value method was used for valuation purposes. It was based on an actuarial interest rate of 2.3%, a salary and career trend of 2.0% and a fluctuation of 10%.

Provisions, including provisions for taxes, are shown at the repayment amount required in accordance with reasonable commercial judgement.

Instruments of additional regulatory core capital issued are valued at their face value. Interest expenses are deferred based on expected payments to instrument owners.

Interest-related transactions in the bank book are assessed annually in their entirety for excess liability. A present value oriented approach is used here taking account of risk and administrative costs that are likely to be incurred. The assessment demonstrated that there was no excess liability arising from interest-related transactions in the bank book (interest book) and therefore no need to form provisions for anticipated losses.

Contingent liabilities and Other obligations and all other balance sheet items are shown at their nominal amount.

Income and expenses are deferred on an accrual basis.

Negative interest from lending transactions and positive interest from borrowing transactions is recognised as a reduction of interest income or interest expenses and reported separately in the profit and loss account.

The Bank exercises its right to apply the cross-offsetting option in accordance with Section 340f (3) HGB in conjunction with Section 32 RechKredV and in accordance with Section 340c (2) HGB in conjunction with Section 33 RechKredV.

There may be rounding differences of +/- one unit in the tables for calculation reasons.

3 Currency conversion

All foreign currency transactions are separately hedged transactions within the meaning of Section 340h HGB.

If special hedging exists, both the expenditure and income from foreign currency conversion are recognised as income. Foreign currency conversion results for separately hedged transactions are offset and included in other operating income in accordance with IDW accounting standard BFA 4 (version: 18 August 2011).

Income and expenses incurred during the year are included in the profit and loss account at their respective current rate. Foreign currency items are converted into euros on the reporting date at the ECB reference rates in accordance with Section 256a HGB.

As at 31 December 2020, the foreign currency amounts listed below are included in the following balance sheet items:

	31.12.2020	31.12.2019
	TEUR	TEUR
Loans and advances to banks	8,243	15,642
Due from customers	7,974	7,692
Debt securities and other fixed-income securities	0	2,373
Shares and other variable-income securities	40,271	52,030
Shares in affiliated companies	45	900
Other assets	49	51
Prepaid expenses and accrued income	54	22
Amounts due to customers	32,583	31,769
Other liabilities	86	260

4 Notes to the balance sheet

4.1 Overall disclosures

4.1.1 Relations with affiliated companies

	31.12.2020	31.12.2019
	TEUR	TEUR
Due from customers	405,535	267,215
of which to affiliated companies	4,818	4,780

The 'of which' items relate to amounts owed by Varengold Capital Holdings Limited, British Virgin Islands and Varengold Capital Investment Company Limited, British Virgin Islands.

	31.12.2020	31.12.2019
	TEUR	TEUR
Amounts due to customers	776,729	631,922
of which to affiliated companies	87	294

The 'of which' items relate to amounts owed to Varengold Verwaltungs AG (in liquidation), Hamburg and Varengold Capital Investment Company Limited, British Virgin Islands.

4.1.2 Breakdown by remaining maturity

	31.12.2020 TEUR	31.12.2019 TEUR
Loans and advances to banks	16,989	26,818
due on demand	12,435	23,308
less than three months	0	39
between three months and one year	4,554	3,471
Due from customers	405,535	267,215
due on demand	24,647	3,766
less than three months	50,684	39,900
between three months and one year	233,720	170,452
between one and five years	96,104	53,097
more than five years	380	0
Debt securities and other fixed-income securities	21,427	21,201
less than three months	0	1,189
between three months and one year	0	1,688
between one and five years	21,427	18,324
Bank loans and overdrafts	122,137	28,259
due on demand	21,071	28,259
less than three months	0	0
between three months and one year	74,903	0
between one and five years	26,163	0
Amounts due to customers	776,729	631,922
due on demand	434,372	355,288
less than three months	71,123	43,462
between three months and one year	121,504	102,967
between one and five years	149,730	130,205

4.1.3 Securities

	31.12.2020 TEUR	31.12.2019 TEUR
Debt securities and other fixed-income securities	21,427	21,201
Not eligible for stock market listing	0	0
Eligible for stock market listing	21,427	21,201
- of which: listed	21,427	21,201
Shares and other variable-income securities	99,129	126,274
Not eligible for stock market listing	85,851	97,530
Eligible for stock market listing	13,278	28,744
- of which: listed	2,497	0
Shares in affiliated companies	45	900
Not eligible for stock market listing	45	900
Eligible for stock market listing	0	0*)
- of which: listed	0	0
Participating interests	698	1,827
Not eligible for stock market listing	0	1,000
Eligible for stock market listing	698	827
- of which: listed	349	478

* The previous year's figure has been adjusted.

4.1.4 Trust assets and liabilities

The Bank has been granting loans to customers under the KfW coronavirus instant loan scheme since May 2020. These are trust loans. Amounts owed to KfW under this scheme are recognised at the same amount under Trust liabilities. Trust assets and liabilities amounted to TEUR 45,200 as at 31 December 2020.

4.2 Individual item details

4.2.1 Receivables from customers

Receivables from customers of TEUR 405,535 (previous year TEUR 267,215) primarily consists of customer loans and public sector loans.

4.2.2 Debt securities and other fixed-income securities

Debt securities and other fixed-income securities amounting to TEUR 21,427 (previous year TEUR 18,829) are bonds and debt securities from public issuers.

4.2.3 Shares and other variable-income securities

This balance sheet item includes investment fund units amounting to TEUR 99,129.

TEUR 84,230 relates to investment assets in which the Bank holds over 10% of shares and which are broken down as follows:

in TEUR	Investment objective	Book value	Market value	Undisclosed reserve/charge	Disbursal in 2020
Dalma Corporate Bond Fund	Property	16,734	16,734	0	0
Varengold Fixed Income Fund SP	Commodity trade financing	21,996	22,050	0	0
Varengold Spezial I	Fixed-income bonds	45,500	47,001	1,501	23

There is an option to surrender within three months with the 'Dalma Corporate Bond' fund and within 90 days to the end of the month in the case of the 'Varengold Fixed Income' fund. The 'Varengold Spezial I' fund is not subject to any restrictions in terms of the daily surrender option.

Fund units with a book value of TEUR 2,497 (fair value TEUR 2,444) are reported as assets. Write-downs were not necessary as there was no permanent impairment.

4.2.4 Participating interests and shares in affiliated companies

Varengold Bank AG has the following unlisted shareholdings, where the companies under Varengold Capital Holdings Ltd have all been sold or are in liquidation. These have not been taken into account.

Company	Shareholding		Equity capital	Result
	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 Ltd., British Virgin Islands	100.00		357 ³⁾	348 ³⁾
Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg	100.00		400 ⁴⁾	-1 ⁴⁾
Klear Lending AD, Sofia	20.00		670 ⁵⁾	24 ⁵⁾

In accordance with Section 285 (11) HGB in conjunction with Section 271 HGB, the disclosure of participating interests below 20% is omitted.

1) Annual financial statements as at 31 December 2017

2) Annual financial statements as at 31 March 2015 (different financial year); business operations were discontinued in 2016

3) Figures in EUR were converted on 31 December 2020; price in HKD: 9.5142

4) Preliminary annual financial statements as at 30 November 2020 (different financial year)

5) Annual financial statements as at 31 December 2020, figures in EUR were converted on 31 December 2020; price in BGN: 1.95583

4.2.5 Gross-Assets analysis

	Purchase costs				Depreciation				Residual book value	
	01.01.20	Accruals 2020	Uses 2020	31.12.20	Cumulative 01.01.20	Annual accruals 2020	Uses 2020	Cumulative 31.12.20	31.12.20	31.12.19
	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	0	0	2,327	2,150	52	0	2,202	125	177
Fixed-assets	821	20	114	727	685	44	114	615	112	136
Total	3,536	20	114	3,442	3,223	96	114	3,205	237	313
	Change^{*)}									
Bonds and other fixed-income securities					-2,373				0	2,373
Shares and other variable-yield securities					2,497				47,997	45,500
Investments					-1,130				698	1,827
Shares in affiliated companies					-855				45	900

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

Intangible assets consist mainly of purchased software and licences. Tangible assets relate to operating and office equipment (including leasehold improvements).

4.2.6 Other assets

Other assets include receivables from the surrender of fund units in the amount of TEUR 3,231 (previous year TEUR 0), tax over-payments of TEUR 1,389 (previous year TEUR 1,116) and receivables from security deposits paid of TEUR 258 (previous year TEUR 171).

4.2.7 Prepaid expenses and accrued income

Prepaid expenses and accrued income include mainly licences paid for in advance (TEUR 115), rents (TEUR 23) and membership fees (TEUR 12).

4.2.8 Bank loans and overdrafts

Bank loans and overdrafts include liabilities of TEUR 21,071 (previous year TEUR 28,259) due on demand to seven financial institutions.

This item also includes liabilities of TEUR 100,850 due to Deutsche Bundesbank arising from open market transactions with residual terms of less than a year (TEUR 75,000) and less than five years (TEUR 25,850). Negative interest of TEUR 164 was deducted.

In addition, there are liabilities due to KfW arising from a loan that was transferred from the coronavirus instant loan scheme (trust loan) to the entrepreneur loan scheme (TEUR 380).

4.2.9 Amounts due to customers

The Amounts due to customers item includes liabilities of TEUR 434,372 (previous year TEUR 355,288) due on demand as well as liabilities with an agreed term or notice period in the amount of TEUR 342,357 (previous year TEUR 276,634). The liabilities consist of term deposits (TEUR 334,900), current accounts (TEUR 347,422), next-day maturities (TEUR 66,784), security deposits (TEUR 20,166) and other items (TEUR 7,457).

4.2.10 Other liabilities

Other liabilities all have a residual term of less than a year and mainly include trade payables in the amount of TEUR 1,389. This item also includes liabilities arising from tax effects in the amount of TEUR 677.

4.2.11 Reserves for pensions and similar obligations

Pension provisions have been formed for surviving dependants. The difference between the measurement of the pension provisions using the 10-year average interest rate (TEUR 226) and the 7-year average interest rate (TEUR 232) is TEUR 6 and is subject to a dividend payout restriction (Section 253 (6) (2) HGB). The actuarial interest rate is 2.3% (average market interest rate from the past ten financial years). Inter-est expenses arising from interest accruing amount to TEUR 3 (previous year TEUR 3).

4.2.12 Tax provisions

Tax provisions include provisions for corporation tax (tax rate 15% plus 0.825% solidarity surcharge) in the amount of TEUR 18 (previous year TEUR 224) and trade tax reserves (tax rate 16.45%) in the amount of TEUR 20 (previous year TEUR 233).

Moreover, there are tax provisions for the pro-rata profits of the London office for 2020 in the amount of TEUR 27 (previous year TEUR 19). An income tax rate of 20 % was taken as the basis here.

4.2.13 Other provisions

This item is broken down as follows:

	31.12.2020	31.12.2019
	TEUR	TEUR
Provisions for litigation	2,725	375
Variable remuneration	1,095	2,075
Audit and annual report costs	385	606
Provisions for holiday	228	91
Archiving costs	73	79
Entschädigungseinrichtung deutscher Banken [German statutory compensation scheme for depositors and investors]	91	76
Legal and consulting costs	240	363
Other	17	79
Total	4,853	3,744

4.2.14 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier 1 bonds ('AT1 bonds') of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated Varengold Bank bonds. The half-yearly interest payments for these bonds are calculated at their nominal values and in line with the development of the EURIBOR. The bond terms and conditions contain provisions according to which Varengold Bank can be both obligated and have the right to decide on its own at any time whether to cancel interest payments. Interest payments are not cumulative and will not be increased in subsequent years to compensate for any interest payments cancelled in previous years. The bonds have no maturity date. They may be called by Varengold Bank for the first time five years after their date of issue and subsequently after each interest payment date. Furthermore, under certain conditions, they may be called prematurely. The bond terms and conditions state inter alia that Varengold Bank AG must call the bonds in their entirety, not in portions, as long as there are specific regulatory or tax reasons to do so. Each premature calling of the bonds requires the prior approval of the competent supervisory authority. The repayment value and the nominal value of the bonds may be reduced in the event that circumstances give rise to this. A triggering event would be a drop in Varengold Bank's Tier 1 core capital ratio to below 5.125%. The value of the bonds may be appreciated under certain conditions if circumstances give rise to this.

Deferred interest expenses for these bonds amounted to EUR 0.00 as at 31 December 2020.

On 31 December 2020, the outstanding additional Tier 1 bonds were the following:

Currency	Amount in EUR	Type	Issue date	Interest rate	Maturity date
EUR	5,000,000	Variable interest, cumulative subordinated bonds	19.08.2014	Variable	Without maturity date

4.2.15 Equity capital

As at the reporting date, the fully paid share capital TEUR 10,043 (previous year TEUR 9,316) is divided into 10,043,015 no-par value ordinary shares. The capital increase implemented in the previous year became effective during the reporting year through its entry in the commercial register on 17 February 2020.

Capital reserves have developed as follows over the past five financial years from the issue of new shares:

Year	New shares	Premium	Allocation to reserves
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
As of 31.12.2015			18,917,165.80
As of 31.12.2020			44,705,492.65

In January 2020, the share capital was increased by EUR 621,000.00 using part of the 'Authorised Capital 2018' and by EUR 106,381.00 using part of the 'Authorised Capital 2019'. 'Authorised Capital 2018' then amounted to EUR 2,484,211.00 and 'Authorised Capital 2019' amounted to EUR 1,446,225.00. A resolution was passed at the Annual General Meeting on 25 November 2020 to release the 'Authorised Capital 2018', the 'Authorised Capital 2019' and the 'Authorised Capital 2020' in the amount of EUR 5,021,507.00.

According to a resolution passed by the General Meeting on 8 August 2012, 'Contingent Capital 2012 II' continues to exist. The share capital will be increased conditionally by up to EUR 140,000.00 by issuing up to 140,000 no-par value bearer shares (ordinary shares). The conditional capital increase will only be carried out insofar as the holders of share options issued by the Company in accordance with the resolution of the General Meeting as part of the 2012 share option programme ('SOP 2012') in the period up to 8 August 2017 (inclusive) exercise their right to subscribe for the Company's shares and the Company does not grant own shares or a cash settlement in fulfilment of the subscription rights. New shares carry a profit-sharing entitlement from the start of the financial year in which they arise as a result of exercising a subscription right. SOP 2012 serves as a target-oriented performance incentive for the program participants and should simultaneously foster a bonding between the participants and the Company.

In the context of SOP 2012, a total of up to 95,000 share options may be issued to members of the Company's Board of Managing Directors and a further total of up to 45,000 share options to selected executives and other top performers in the Company ('programme participants'). Each share option grants the option to purchase a Varengold Bank AG share at the strike price. The strike price for a Varengold share, i.e. the price payable when purchasing a share after exercising a share option right, is the mathematical mean of the closing price of Varengold stock trading on Xetra on the thirty stock exchange trading days prior to the distribution of the share options ('exercise price'). The options will be issued in at least three yearly instalments, whereby no instalment may exceed 50% of the total volume. The time frame for acquisition is 40 working days after receipt of the offer to purchase shares. The subscription rights arising from the share options may only be exercised after the end 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 Varengold stock trading on Xetra has exceeded the exercise price by at least 30% on the last thirty trading days prior to the exercise date.

Based on the above authorisation, the Board of Managing Directors issued a total of 85,500 shares to Company executives prior to the end of the reporting period. In total, 45,000 share options were issued to eligible employees. A further 40,500 share options were given to members of the Board of Managing Directors; 31,000 of these could not be exercised due to the departure of the respective Board members. In 2020, no share options were issued by the end of the reporting period.

4.2.16 Contingent liabilities

As at 31 December 2020, there were liabilities from guarantees and warranty agreements, essentially in the form of guarantee lines, of TEUR 6,752 (previous year TEUR 8,502). The risk of utilisation is classified as low. The guarantees are collateralised in full through cash, liquid securities or a combination of the two.

The risk of losses arising from the utilisation of contingent liabilities depends essentially on the principal's risk exposure. The Bank assesses the risk of loss arising from the utilisation of a contingent liability prior to making a binding commitment as part of a credit check on the principal and, where appropriate, with the aid of an assessment of the expected fulfilment of underlying obligations by the respective principal.

As at 31 December 2020, there were other liabilities in the form of irrevocable loan commitments of TEUR 15,260 (previous year TEUR 12,488) to customers who are able to draw on these in instalments as required. Contractual loan disbursement conditions apply to such utilisation; compliance with these conditions will be checked prior to the respective payment. The Bank assesses the risk of loss arising from utilisation of the irrevocable loan commitments prior to making a binding commitment as part of the credit check.

4.2.17 Transferred collateral

As of the reporting date, loans and advances to banks of TEUR 949 served as collateral for forward exchange transactions resulting from currency hedging transactions. In accordance with the terms for open market transactions, Deutsche Bundesbank was provided with collateral in the form of securities (ECB eligible bonds) as well as primarily loans against promissory notes totalling TEUR 163,359.

5 Notes to the profit and loss account

All income is accrued in Germany.

5.1 Interest income

Interest income is derived mainly from loans granted and fixed-income securities. Negative interest paid (mainly incurred at the Bundesbank and for deposited collateral) is openly deducted from interest income.

Interest expenses mainly include interest on customer deposits (instant access, fixed-term and time and notice deposits). Negative interest received in respect of deposited customer securities and customer deposits are also openly deducted from interest expenses.

5.2 Current income from shares and other variable-income securities

Income from shares and other variable-income securities only includes disbursements from investment funds.

5.3 Net commission

Commission income mainly includes income from commissions in payment transaction business (TEUR 15,985), lending business (TEUR 2,014) and documentary credit business (TEUR 1,213).

Commission expenses mainly involve fees incurred for the brokering of transactions in the Transaction Banking division.

	31.12.2020 TEUR	31.12.2019 TEUR
Commission income	19,529	14,611
Commission expenses	1,601	641
Commission surplus	17,928	13,970

5.4 Other operating income

Other operating income essentially includes income from on-debited costs and fronting proceeds (together TEUR 431) as well as from the reversal of provisions (TEUR 164) and the derecognition of liabilities (TEUR 239).

5.5 Personnel costs

	31.12.2020 TEUR	31.12.2019 TEUR
Wages and salaries	7,596	7,521
Social security contributions	839	766
Expenses for pensions and other employee benefits	528	255
Total	8,963	8,542

The increase in personnel expenses was due mainly to a further increase in the number of employees.

5.6 Other administrative expenses

	31.12.2020 TEUR	31.12.2019 TEUR
Consulting fees, costs of preparing financial statements and audit costs	2,981	2,982
IT expenses	2,725	2,564
Premiums and insurance	761	667
Expenses for premises	492	561
Communications expenses	430	341
Advertising, entertainment, travel expenses	189	270
Office supplies, magazines, training	123	91
Vehicle costs including leasing (not including road tax)	23	25
Other administrative expenses	899	596
Total	8,623	8,097

5.7 Other operating expenses

This item mainly includes losses resulting from foreign currency translation (TEUR 379, previous year TEUR 1,300) and allocations to other provisions (TEUR 2,500).

5.8 Taxes on income and earnings

The basis for calculating income tax is characterised primarily by non-deductible depreciation and contributions on the one hand and tax-free reversals of write-downs from previous years and allocations to the contingency reserve pursuant to Section 340f HGB on the other.

The tax result is due mainly to corporation tax of TEUR 318 and commercial tax of TEUR 279. These are offset by reversals of provisions in the amount of TEUR 224 (corporation tax) and TEUR 237 (commercial tax).

6 Other information

6.1 Executive bodies

6.1.1 Supervisory Board

Dr. Karl-Heinz Lemnitzer

Independent Auditor and Tax Consultant

Chairman

Mr. Vasil Stefanov

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

Vice Chairman

Mr. Francesco Filia

CEO Fasanara Capital Ltd.

6.1.2 Board of Managing Directors

Dr. Bernhard Fuhrmann

Back Office

Frank Otten

Front Office

Dr. Bernhard Fuhrmann and Mr. Otten are authorised representatives jointly with another member of the Board of Managing Directors or an authorised signatory.

6.1.3 Positions on statutory supervisory boards

All the following disclosures relate to the reporting date 31 December 2020.

Dr. Lemnitzer holds no other positions on statutory supervisory boards or similar supervisory bodies as defined by Section 125 (1) (5) AktG.

As at the reporting date, in addition to his work as a member of the Supervisory Board of Varengold Bank, Mr. Stefanov is also a member of the Supervisory Board of Insurance Company Euroins Georgia JSC (Tbilisi), director of Euro-Finance AD (Sofia), a non-executive director of Hanson Asset Management Limited (London), a member of the Supervisory Board of First Investment Bank AD (Moscow) and joint owner of Vinart Stefanovi Ltd. (Plovdiv) and Arkont-Invest Ltd. (Plovdiv).

As at the reporting date, in addition to his work as a member of the Supervisory Board of Varengold Bank AG, Mr. Filia is also CEO of Fasanara Capital Ltd. (London).

As at the reporting date, in addition to his position on the Board of Managing Directors of Varengold Bank AG, Dr. Fuhrmann was also engaged in the role of liquidator at Varengold Verwaltungs Aktiengesellschaft, Hamburg (in liquidation). He is also Managing Director of JUCLA Invest GmbH, Hamburg.

In addition to his position on the Board of Managing Directors of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of consulting firm, Arensburg Consult GmbH, Molfsee, a member of the Advisory Board of KERNenergie GmbH, Grosswallstadt, Managing Director of KERNenergie Hamburg Store GmbH and Chairman of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft, Hamburg (in liquidation).

Lukas Diehl and Dr. Volkart Tresselt, authorised representatives of Varengold Bank AG, are also members of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft (in liquidation), Hamburg.

6.1.4 Board remuneration and loans

We have made use of the let-out clause provided in Section 286 (4) HGB in respect of disclosures on the total remuneration paid to the Board of Managing Directors pursuant to Section 285 (9) (a) HGB and surviving dependants' remuneration pursuant to Section 285 (9) (b) HGB.

The members of the Supervisory Board received total remuneration of TEUR 338 (previous year TEUR 353) for their work in the period 1 January 2020 to 31 December 2020. This includes job-related remuneration (including any applicable VAT) of TEUR 333 (previous year TEUR 343) and travel expenses of TEUR 5.

No loans had been granted to members of the Supervisory Board or Board of Managing Directors as at the reporting date.

6.2 Employees

The average number of employees in the 2020 financial year was 86 (previous year 68); 35 of these employees were female (previous year 28). With the exception of 16 employees, all staff work in Germany. Five executive employees were granted commercial power of representation.

6.3 Other financial obligations

Other financial obligations essentially include obligations arising from lease agreements of TEUR 2,546 (new lease agreement). The residual terms for the largest individual amounts are between five and 60 months.

6.4 Forward transactions

Forward transactions not completed on the reporting date serve hedging purposes in the context of specific cover and are shown on the balance sheet at fair value.

	Nominal TEUR	Positive market value TEUR	Negative market value TEUR
Foreign currency	25,250	17	0

6.5 Annual audit fee

The total fee charged by the auditor calculated for the financial year in accordance with Section 285 (17) HGB amounts to TEUR 615. TEUR 425 (of which TEUR 19 for previous years) relates to auditing services, TEUR 30 to other assurance services (audit in accordance with Section 89 WpHG (Wertpapierhandelsgesetz [(German) Securities Trading Act]), TEUR 3 to voluntary assurance services and TEUR 157 to tax consulting services.

6.6 Recommendation on appropriation of profit

A recommendation will be made to the General Meeting to use the annual net profit to offset the loss carry-forward (net loss).

6.7 Disclosures in accordance with Section 20 AktG

No disclosures pursuant to Section 20 (1) AktG were made to Varengold Bank AG in the reporting year, therefore no announcements pursuant to Section 20 (6) AktG were made in the Federal Gazette (Bundesanzeiger).

6.8 German Corporate Governance Code

Varengold Bank AG shares (ISIN DE0005479307) were listed in the Entry Standard segment of the Frankfurt Stock Exchange between 20 March 2007 and 28 February 2017. Varengold shares have been listed in the Basic Board segment on the Open Market since the 1 March 2017 following the closure of the Entry Standard segment. Varengold Bank AG has decided not to publish a declaration of compliance with the German Corporate Governance Code (Section 161 AktG) as the Company is not listed in accordance with Section (3)(2) AktG.

6.9 Supplementary report

No events of particular significance occurred after the end of the 2020 financial year.

Hamburg, 31 May 2021

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

Management's Discussion and Analysis

A. Principles of 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 at the Federal Financial Supervisory Authority (BaFin) under 109 520 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 lending, 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. They 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 covering international payment transactions, trade and export finance, Lombard credits and structured finance. 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

The year 2020 was engulfed by the Covid-19 pandemic. The global economic performance staggered in the face of this so-called Corona crisis. Other economic policy topics, such as the trade conflict between the USA and China and Brexit were, to large degree displaced by this formidable situation. Nevertheless, these negative factors remain for the global economy, despite slightly lessening in the fourth quarter due to the election of the new US president Joseph Biden and the successful negotiations between Great Britain and the EU over their future economic and political relationships.

The first half-year 2020 increasingly demonstrated the massive consequences of the globally quickly spreading Corona virus SARS-CoV-2, which can lead to the lung disease Covid-19. It was very difficult to predict how relentless the course of the pandemic and the associated intrusions into private and economic lives would be. To fight the pandemic many countries instituted heavy restrictions on economic activities – in particular in the areas of travel, hospitality, and entertainment. The closings of businesses and many production facilities over the course of several lock-down measures restricted economic activity. In March and April 2020 portions of the German economy were essentially at a stand-still and this ultimately started a decrease of consumption and investment by consumers and businesses. In the entire year 2020 exports dropped 9.3 percent compared

to the previous year and imports of goods and services (adjusted for price) fell 7.1 percent. Private consumer spending shrank (adjusted for price) by 5.0 percent and constituted the strongest decline since 1970.

The eventual loosening of the pandemic-related restrictions, first coming to Germany in May 2020, led to a temporary general economic recovery over the summer months. This improvement, however, was short-lived as the arrival of the second wave of infections in autumn necessitated the implementation of new restrictions of economic and business life due to the renewed increases in infection rates. These events ushered Germany into one of the most severe recessions since World War II and left craters in the national budget at the end of the reporting period.

The overall economic performance in Germany on annual average and adjusted for price fell 5.0 percent compared to the comparable time period in 2019. The only stronger decrease in economic performance at a 5.7 percent drop in gross domestic product (GDP) occurred during the global financial crisis in the year 2009.

Similarly, the Corona crisis in year 2020 in Europe led to an economic downturn. After a period of growth of GDP of 1.3 percent in year 2019 compared to the previous year, the GDP plummeted 6.8 percent in the Eurozone within the reporting period.

Many other large national economies experienced similar results. The global economy is estimated to have shrunk in year 2020 by around 3.4 to 4.3 percent – at least partially related to lock down measures, which led to border closures and interruptions in supply chains, as well as severely impacted broad bands of the service sector. Less impaired were however, industrial production and deposit and infrastructure investments. Industrial goods in some instances, even profited from the developments. The economic activity in the USA and in the Eurozone according to the prognosis of leading organizations and economic institutes, recorded a significant drop while China was the only national economy which was able to achieve growth in the past year.

The number of unemployed in Germany grew from an average of 2.27 million in year 2019 to 2.7 million in year 2020, thereby reporting an increase of nearly 19 percent. At this rate, however, Germany remained under the average rate of unemployment within the Eurozone. The reason for this may be the comparatively lower infection rates than in other countries and the availability of public assistance.

The Corona crash on the international stock markets in March 2020 was in turn followed by a mid-year noticeable recovery rally, which enabled the stock markets to distinctly decouple themselves from the actual developments of the economy over the second half of year 2020.

Moreover, fears over impending insolvency of companies as a result of the crisis caused significant upheaval in the credit markets and with the availability of liquidity. As opposed to the financial crisis 2008/2009, the banking sector however, with respect to capital and liquidity resources, was considerably more resolutely positioned in year 2020 – likely due to the regulatory requirements of the past years. At the same time, banks represented in the context of the Covid-19 pandemic, a key link in the provision of financial measures for the crisis management – for example in Germany the cooperation with the KfW (German national development bank) support program.

The resilience of the finance and capital markets was also due to the commitment of governments and central banks to a continued zero interest policy. Comprehensive stimulus packages were implemented and short-time working arrangements were executed in the USA, as well as the Eurozone. The European Central Bank established an emergency purchase program (PEPP – Pandemic Emergency Purchase Program), through which bonds in the amount of EUR 1.85 billion could be purchased to ensure price stability and the effectiveness of the money policy in the Eurozone during the Corona crisis.

According to the assessment of the Varengold Bank, the crisis intensified the likelihood that the accompanying low-interest environment will remain for a considerably longer period of time, in addition to the previously existing problems in the banking sector, for example weak profitability. Moreover, banks must operate with increased risk provisioning due to the additional exposure brought about by uncertainties regarding the future course of the pandemic and its effects.

Ultimately, many bank-relevant markets were noticeably hindered by the Corona crisis and the global recession it provoked, whereby the degree to which these effects were experienced differed between individual sectors in industry, trade, and service providers. While for example, relevant foreign trade fell sharply for the Varengold Bank in the Commercial Banking / Trade Finance area in the first half-year 2020, the Varengold Bank recognized that a noticeable recovery trend began in the second half year, in particular with individual raw goods and materials.

At the same time, German banks in particular were newly faced with operational complexity due to the various regulatory intensifications and legal requirements, whose implementation continued to tie up both financial, as well as personnel resources. In addition, the Varengold Bank sustainability concept put into place over the past years, was increasingly expanded throughout the business and was anchored as an accompanying regulatory requirement of the business.

In addition to these strengthened sustainability concepts, another megatrend which existed long before Corona, gained tremendous momentum through the Corona pandemic – digitalization. This included, among other topics such as working from home office, home schooling and shopping, as well as a proliferation of video conferences and virtual shareholder meetings.

2. Business development

After its most successful year in history in 2019, the Varengold Bank AG initially started the following year very confidently and in its business planning anticipated an earnings before taxes result of EUR 3.8 million for the business year 2020.

In the first half year 2020 the Varengold Bank delivered results at the level of the previous year time period. Until the end of the year, the earnings grew considerably to EUR 30.3 million (previous year: EUR 25.9 million). However, the arrival of the Covid-19 pandemic brought with it risks which the bank addressed with appropriate risk provisioning measures. For write-offs and value adjustments for receivables, securities, and investments, as well as allocations for provisions, expenses in the amount of around EUR 7.4 million were recorded. The earnings before taxes therefore reached EUR 1.9 million for the business year 2020.

To expand the business volume and to strengthen capital resources a capital increase with subscription rights was undertaken at the beginning of the reporting period. The share capital was increased from EUR 9,315,634.00 to EUR 10,043,015.00 through the issuance of 727,381 new shares at the price of 3.85 EUR.

Looking back over Corona crisis impacted year 2020, the originally planned volume development of the lending business in the areas Marketplace Banking and Commercial Banking were not possible. Due to the pandemic, the concentration of the business activities in Marketplace Banking was focused strongly instead on Fronting / Banking as a Service (BaaS), internal process optimization and the acquisition of qualified employees. In addition, the bank focused on supporting German companies in coping with the financial consequences of the pandemic. The Varengold Bank was accredited for this purpose by the German Redevelopment Bank (KfW) for the special 2020 KfW - Corona assistance programme and together with the Berlin FinTech Kapilendo has been making quick and uncomplicated access to Corona assistance funds available to mid-sized German companies in financial distress.

In Commercial Banking the payment transaction business could be further expanded due to the consistently successful winning of new customers, new acquisitions in the credit business with fungible investments, and the intensification of the trade finance business. The commission income in the Commercial Banking area again proved to be an essential driver of the total improved earnings performance in year 2020, even though the arrival of the Covid-19 pandemic within the year where exports ground to a halt lead to partially lower commission income and generally heterogeneous business performance.

A major contribution to the positive business development was that the Varengold Bank AG had already equipped all employees with laptops in 2019. In addition to the implementation of productivity increasing IT solutions, and the use of management software for internal and external communication, a completely flexible working hour program was introduced to ensure the seamless continuity of business processes despite the Corona crisis. This was the first step in the introduction of the New Work Initiative. In accordance with the motto "New work – new Varengold ", the culture of the Varengold Bank in individual projects was shaped in the context of this initiative and all structures and processes were examined. This resulted in not only the selection of new office space, which would enable more efficient work, but also in the strong modernization and optimization of the entire working environment.

Within the scope of the personnel development, an additional FinTech hub in Berlin was planned at the beginning of 2020, whose goal was to provide regional support to customers in addition to the existing business locations of Hamburg, London, and Sofia. This plan, however, was shortly thereafter cancelled after a critical observation of the expansion of the Corona pandemic.

The Varengold Bank recognized the importance of sustainability long ago and has made this topic a central component of the business strategy in the past years.

In the context of sustainability efforts, the Varengold Bank primarily concentrates on the environment and social issues. A summary of the targeted measures, with respect to economic, business, and social interests is available to the public in the form of a sustainability report.

In May 2020 the Supervisory Board of the Varengold Bank also decided to renew its appointment of Dr. Bernhard Fuhrmann as member of the Board until 14 April 2026, in order to ensure the planning security at the top level of the company in a timely fashion. With Board colleague Frank Otten, the future growth objectives of the bank will be well-managed in the long-term.

In light of the continued strong results of the Varengold Bank under particularly difficult circumstances, the Board decided on the distribution of a Covid-19 bonus. This bonus of up to EUR 1,500 was distributed to the employees at the end of the year 2020. With this gesture the Varengold Bank recognized the additional hurdles, such as for example the establishment of a suitable workplace at home or the reorganization of family life. Other employees, on the other hand, exposed themselves daily to a higher risk as they made their way into the office to ensure that essential processes there continued to function throughout the challenging business year 2020.

3. Position

The following entries may include rounding errors.

3.1 Financial position

The interest income of the company increased from TEUR 8,554 in year 2019 to TEUR 8,674 in year 2020. The recorded interest income includes negative interest for Federal Bank credit balance in the amount of TEUR 1,283 (previous year TEUR 706). The increase (+82%) arises from the increase in the average balance (+78%).

The interest income continues to contain interest income from fixed-income securities. These increased from TEUR 325 to TEUR 485. This is due to the capital increase begun in year 2019 and continued in year 2020 (31.12.2018: TEUR 4,022; 31.12.2019: TEUR 18,738 and 31.12.2020: TEUR 21,314).

In contrast, interest expenses fell from TEUR 1,996 to TEUR 1,309. Thereby a volume-related increase of the interest expenses for overnight and term deposits of TEUR 2,609 to TEUR 2,785(+ TEUR 176) faced an increase in the interest income from charging on negative interest to customers in the amount of TEUR 613 compared to TEUR 1,477 (+ TEUR 864); ultimately resulting from an increase in customer volume.

An interest surplus of TEUR 7,365 (previous year TEUR 6,559) was recorded in the results.

The current earnings from shares and other variable-yield securities decreased from TEUR 1,634 to TEUR 1,036 and are characterized by the dividends of investment funds, the level of which were reduced from TEUR 126,274 to TEUR 99,129 in year 2020.

The commissions earnings increased from TEUR 14,611 to TEUR 19,529. The main driver of this strong growth (+34%) is the payment transaction business, where the commissions earnings were able to be further expanded from TEUR 11,411 to TEUR 15,985. At the same time, the provisions expenses grew from TEUR 641 to TEUR 1,601, thereby resulting in a commissions surplus of TEUR 17,928 (previous year TEUR 13,970).

The position other operating income in the amount of TEUR 1,041 (previous year TEUR 1,085) is primarily due to fees and recharged costs in project businesses in the amount of TEUR 421 (previous year: TEUR 244) and income from the reversal of provisions amounting to TEUR 164 (previous year: TEUR 600).

The general administrative expenses of the company increased by TEUR 947 (from TEUR 16,639 in year 2019 to TEUR 17,586 in 2020). The main reasons for this are based upon, in addition to increasing personnel expenses (TEUR +421) for the hiring of new employees, an increase in expenses for IT (TEUR +161), external and services (TEUR +329).

The depreciation and adjustments on intangible assets and fixed assets further decreased from TEUR 114 in the previous year to TEUR 96 in year 2020.

The other operating expenses increased from TEUR 1,580 in year 2019 to TEUR 2,955 in year 2020. In year 2020, these mainly contain expenses for the additions to other provisions. The expenses from forward transactions to secure the foreign currency positions and the fluctuations in currency exchange rate income and expenses of TEUR 1,300 in the previous year fell to TEUR 379 in year 2020.

The position depreciation and value adjustments on receivables and certain securities and allocations to provisions for the credit business amounted to TEUR 4,511 (previous year TEUR 925). The results of the liquidity reserve represented a portion here of TEUR 2,305 (previous year: TEUR 2,371). The corresponding expense for the creation of individual or general value adjustment was TEUR 1,528 following TEUR 4,028 in the previous year.

The depreciation and value adjustments on investments, shares in affiliated companies and fixed assets treated as securities decreased from TEUR 396 to TEUR 367. The expense resulted mainly from the planned depreciation of one investment.

In total, the income from normal business activities of the Varengold Bank AG was TEUR 1,855 (previous year TEUR 3,594).

After consideration of income taxes and earnings, other taxes, as well as extraordinary income, the annual net profit amounted to TEUR 1,715 (previous year TEUR 1,616). Opposing effects in the determination of taxable income and refunds from the previous year led to the considerable reduction of tax expenses in 2020.

The return on investment according to § 26a KWG is calculated as the ratio of net profit and balance sheet and reached 0.17 % after 0.23 % in the previous year.

3.2 Financial situation

In business year 2020 the balance sheet total grew after 33.2 % in the previous year, again 40.7% from EUR 707.3 million to EUR 995.2 million. The asset side is formed, in addition to customer receivables (EUR 405.5 million), in particular by the level of cash reserves (EUR 400.8 million), as well as the shares and other variable securities (EUR 99.1 million). Combined, these three positions constitute 91.0 % of the balance sheet. The customer deposits at EUR 776.7 million or 78.0 % continue to represent a large portion of the liabilities.

The core capital ratio (TIER 1) on 31 December 2020 was recorded at 18.82 %.

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

3.3 Liquidity position

At EUR 412.3 million, or 41.4 % of the total balance sheet, the regulation-required amount of cash and cash equivalents constitute a relatively large portion of the asset side of the balance sheet. The supervisory requirements liquidity ratio of 310.83 % on the reporting date, lay considerably over the regulatory requirements, as it did in the previous year. The liquidity position of the bank was at no time at risk.

3.4 Financial performance indicator

The main performance indicator is earnings before taxes. For 2020 earnings before taxes of EUR 3.8 million was projected. Despite the Covid-19 pandemic, the results were able to be strongly increased from EUR 25.9 million in year 2019 to EUR 30.3 million in year 2020. However, the altered overall economic environment brought with it risks, which from the perspective of the Board, required the application of appropriate risk management and provisioning. For depreciation and value adjustments on receivables, securities, and participating interests, as well as allocations to provisions, expenses in the total amount of around EUR 7.4 million were recorded. In the results, financial performance indicator in the amount of EUR 1.9 million was reached.

C. Risk, opportunity, and outlook report

1. Risk report

It is generally not possible in the banking business to earn income without entering into risks. In this respect conscious action, active management and ongoing identification, in addition to the 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 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 changing market conditions.

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

The risk strategy describes the implications of the business strategy on the risk situation of the Varengold Bank and describes the handling of the existing risks and the ability to carry the risks.

The 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.

Each potential future risk must be fully transparent from the very beginning. Only with complete transparency can a determination 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 primarily stipulated 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 the analysis is continuously evaluated for plausibility and the most recent state of the regulatory environment.

The risk controlling and risk management system of 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 is 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 risk, model risk, 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 comprehensive process includes the following steps which build 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 businesses activities are backed with sufficient risk coverage potential.

The department at the Varengold Bank AG responsible for the monitoring of adherence to the risk strategy is risk controlling. The results from risk controlling are transparently reported to the management team 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 substance 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 an economic perspective.

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 at least 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 which have an influence on the available capital are considered.

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 applied 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 31.12.2020 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 third quarter 2023. The hard minimum requirement of 11 % was maintained in all scenarios.

In the economic perspective the bank uses a present value modelling of risk carrying capacity. The risk-carrying potential in the amount of EUR 49.0 million is comprised of the regulatory equity capital, the contingency reserves according to § 340f HGB, 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 31 December 2020 was 58 %, of which 47 % was counterparty risk, 31 % market risk, 12 % operational risk, 2 % strategic and reputation risks and 9 % modelling risk.

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

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

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 additively 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 of 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 addition, the migration risk of the portfolio is determined for a time horizon of one year. For this risk external migration matrices are utilized. With the thus 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 migration risk figure.

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

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 %, an observation period of 250 days and a lookback of 520 days via historical simulation of changes in the term 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-carrying calculation.

The Bank defines credit spread risk as the negative market 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 the changes in asset swap spreads of the bonds.

The monitoring and regulation of the risks is oriented on the limit system, which is derived on based of 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 of at least three months and a daily minimum liquidity of EUR 20 million. The monitoring is conducted by risk controlling. In addition, an emergency liquidity control concept plan, 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, as well as the possible extent of loss and the probability of occurrence.

With respect to share transactions on each reporting day of business years 2010-2016, investigations are currently taking place of (current / former) employees and committees of 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 viewed as a possible secondary participant and in the worst-case scenario could possibly face a fine and / or a profit reduction which could constitute a significant expense for the company.

In this context external consultants have been engaged to handle the (ongoing) review and analysis of the files of the prosecutor’s office.

Based on the opinion of external consultants, the Board of Directors estimates the claim risk for the subsidiary Varengold Verwaltungs AG i.L.as conceivable, yet the risk of a liability of the Varengold Bank as very low.

From the investigation files and the current knowledge of the Board, there has been no statement from the prosecution regarding the probability of or amount of any possible measure against Varengold Bank AG.

Given this background, the Varengold Bank AG estimates the risk of these proceedings as low.

Moreover, both companies are involved in a civil case regarding transactions in 2010. The Board of Directors and the engaged external experts estimate the risk from these proceedings as low.

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

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, additional limits are set by the Board of Directors which are then continuously monitored.

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 fashion.

The impacts of the Covid-19 pandemic on the business activities and results of the bank are not currently estimable. At this time, the bank projects that the virus will have no significant influence on the planned objectives of the bank.

Within the scope of its business activities, Varengold Bank AG pursues its market opportunities and engages exclusively in responsible risk-taking.

2. Opportunity report

The Varengold Bank will have a sustainable positive future when they focus their product offering on the customer who is unsatisfied with the service offering of other providers or who cannot find a suitable offer. In this area Varengold can strengthen its position for the long term and improve the profitability and viability of the bank. Existing opportunities were just analyzed in the time of Corona with particular economic discipline. Numerous risk factors could, due to the unfortunate developments of the global situation, impact the results of coming years in unquantifiable dimensions as the pandemic is not yet over. The business year 2021 will, after the (also Corona-related) business consolidation in year 2020, be characterized by risk conscious business growth and operational as well as digital transformation.

The Varengold Bank has achieved market relevance in both of its core business areas, establishing a brand with its products and services in each market. In Marketplace Banking, as well as in Commercial Banking, the possibility to develop value-creating partnerships continues to be explored and the bank thereby concentrates strongly on the core competency of a regulated institution, which is of fundamental importance to existing and potential customers.

In the Marketplace Banking area, the focus is on the further development of loan book and fronting / Banking as a Service (BaaS). The bank will thereby attract more many more start-up companies as customers which were never before active on the market due to its existing “early-stage platforms,” whereby a business model is already implemented. The strategic goal to is differentiate itself from the competition through rapid and efficient implementation of funding and / or fronting projects with customers.

In the Commercial Banking area, the trade finance segment has become more important and has accelerated the introduction of digital ECA-covered business. Currently, during the Corona crisis, the ECA-covered business offering is suitable for business customers, who would like to protect their export business. ECA stands for Export Credit Agency and describes an institution which assumes credit risks on behalf of a country through credit default swaps, and thereby creates support for export businesses.

Moreover, the bank will continue its strong focus on export-oriented customers in niche markets with the basis products of Transaction Banking such as for example payment transaction account services to position itself as a strong transaction bank and to further develop the internationalization of these services. In particular, the further expansion of the branch office in Sofia is expected to strongly accentuate the focus in the south-eastern European region.

The objective is to interest more customers and also more employees in the bank. The structural transition, which in particular followed the division of work between the banks and FinTech companies in the financial sector, necessitated a permanent review of the existing strategy. Considerably shorter product cycles require a high level of innovation and modern work processes need a technologically sophisticated environment. To face the transformation of the work world, the bank started the New Work Initiative in the past year. This is an initiative in which all employees participate in the transformation and modernization of the enterprise. The first implementation measures succeeded in building an intensive team feeling despite the distance required by the pandemic and thus formed the current character of the Varengold Bank. Employees shall be connected to the company over the long term and the work processes optimized, in order to ultimately generate more value for customers and investors through increasing effectiveness.

The operations already changed in many ways with the move into new office space in the second quarter 2021. Employee satisfaction and the performance of the bank were clearly positively influenced by an optimal work environment. Collaborative work, concentrated independent work, and in home office, as well as the social exchanges and sufficient communication flows were supported through appropriate space structures and IT components. Creativity and brain storming blossomed in the provided space.

Furthermore, in the context of this initiative, the 6 pillars of Varengold Bank were defined. These 6 pillars are “Culture,” “Work Environment,” “Leadership,” “Digital Transformation,” “Empowerment” and “Corporate Social Responsibility.” The realization of the New Work-Initiative and implementation of the 6 pillars lead not only to contemporary working in optimized business offices but is an important milestone which is a further development of the exiting corporate culture identified values “Customer Centric,” “No Silos;” and “Go the extra Mile.”

The “Corporate Social Responsibility” pillar reinforces the sustainability model of the Varengold Bank which has been in place for many years and has rapidly increased in importance in the overall economy. This not only demonstrates a comprehensive understanding of sustainability, but also implements active measures to protect the environment and for social engagement, while also encouraging good company management. The goal of the Varengold Bank is to continue to reduce its ecological footprint in the future through, among other initiatives, measures to increase resource efficiency. Therefore, future sustainability aspects should flow more strongly into the various customer registration processes. Toward this end the Varengold Bank prepared an Environmental Social Governance (ESG) questionnaire which must be filled out by potential customers. The objective is to develop a ESG scoring model based on this data which will enable the bank to optimize the customer portfolio with respect to the ESG factors.

The Board of Directors continues to be convinced that Varengold Bank with its business model has a solid foundation to fulfill the requirements and needs of the actors on the financial market and to intensify the business growth in the long term. The focus continues to lie on the clear vision to help customers who have the potential to revolutionize their sector to realize their business ideas.

3. Outlook report

The future-oriented statements contained in this section are based on estimates and conclusions on the part of the 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, the affected statements 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 the actual results to vary significantly from the future-oriented statements.

The economic forecast continues to be affected by uncertainties. A lack of forecasting ability of concrete global economic developments due to the fluctuating conditions related to the Covid-19 pandemic, has existed since the beginning of the year 2020. Most national economies were not able to bring the Covid-19 virus completely under control since the outbreak of the pandemic. It is to be expected that the governments of the individual countries will continue to attempt to contain virus outbreaks in the year 2021 through local restriction measures, to hopefully avoid a new economically critical lock down.

Moreover, we cannot completely lose sight of the geopolitical activities which were pushed somewhat into the background by the Corona crisis. Great Britain has meanwhile left the European Union and the future of the economic relationship is defined in a trade agreement. The change of office in the White House creates hope for a more positive development of the international trade conflict negotiations, but a sustainable solution is not yet in place. Another smoldering conflict between the USA, China and Europe would have negative effects for the global economy and would also impact the export dependent German economy.

Even though initial growth impulses in particular in individual economies and industrial sectors have been noticeable in the year 2021 to date, the German government, and the German Institute for Economic Research estimate that the German economy will reach a comparable level to prior to the Corona crisis in the year 2022 at the earliest. A central requirement for this is the swift implementation of the vaccination campaign against the Covid-19 virus, in order to lift the restrictions on private and business life bit by bit in order for personal and business life to become normalized again. With this private consumption in particular, should be an important driver of the recovery phase.

The International Monetary Fund (IMF) expects a global economic growth of 6 percent in year 2021. In the Eurozone an economic growth of 4.4 percent is predicted. After a 5 percent drop in the German economy in the year 2020, the government expects the Gross National Product (GDP) to grow by 3.5 percent as compared to the previous year. An important downside risk for this prognosis based on the vacillating infection rates, is the possible need for further lock down measures. On the other hand, a quick success in the fight against the pandemic through a currently more rapid distribution of available vaccines, could offer the chance of a faster recovery.

According to the general diagnosis of leading economic institutes in Germany, the inflation rate in the year 2021 will amount to around 2.4 percent (2020: 0.5 percent). The most important reasons for this are the expiration of the limited value-added tax reduction and again higher energy prices, as well as increasing process of individual goods and raw materials, for which currently a considerably higher demand exists, generating at times also considerable delivery bottlenecks.

One legacy of the Corona crisis will be, even after the first signs of the recovery trend, higher business and national debts. The economic area of tension thereby also increases the danger to financial and capital markets. If they are substantial, they could create turbulence on the capital markets and a clearly higher amount of volatility. The course of the pandemic in year 2021 caused a dramatic slowing of the economic momentum.

Another deeper economic downturn during the continued course of the Corona crisis would also likely lead to serious losses due to receivables defaults and could therefore also harm the banking sector. Such an economic chain of events could also negatively impact upon the income possibilities of the Varengold Bank and expected growth, as well as the attainment of the financial goals.

Currently, the risks of problematic and defaulting credits are partially offset through the generous support of the fiscal and money policy, which also, in the foreseeable future must not deviate from the expansionary path. The key interest rate is expected to remain unchanged in 2021 and the low interest rate will continue to burden the banking environment.

Moreover, for several years the banking sector has experienced a digitization upheaval which is creating new market competition challenges for the banks. Tech-savvy companies such as FinTechs have alternative offerings and business models which are reforming traditional bank processes in many areas. This is precisely the area in which Varengold positions itself as an effective bank partner of these firms in order to establish promising business models together.

The banking environment remains under increasing pressure of comprehensive regulatory procedures and growing supervisory requirements which require additional costs and resources. These include for example, an additional MaRisk amendment, as well as numerous regulatory initiatives for information security, data protection and also for the topic of sustainability. To ensure a timely implementation of all regulatory projects, the compliance department monitors the external and internal implementation status in a monthly “Regulatory Radar.” The processing of individual relevant topics of the Varengold Bank is initiated in due time into corresponding projects. The regulatory measures of past years follow the goal, among others, of shaping the financial sector to become more resistant to crises mainly through improved equity capital and cash position, as well as the keeping the risks of business activities of the public sector at bay. In the context of the SREP processes, the European Central Bank (ECB), also with an eye on the Covid-19 pandemic, again more intensively examined the internal risk models of the bank.

The global economy and the labor market are facing turmoil which ultimately gained additional momentum due to the Covid-19 pandemic. The Varengold Bank supports this transition and is therefore well-positioned for the current market trends. The outlook for 2021 and the coming years has stabilized due to the deployment of an effective vaccine against Covid-19. Consequently, catch-up effects took place in almost all regions which strongly pushed economic growth and some sectors (such as tourism) have even experienced an unequivocal boom.

The planning for the year 2021 was no doubt a year of growth for the Varengold Bank. Even if the Corona crisis brings more large challenges within the current business year, the bank expects an economic upturn in some of its relevant markets – in particular in global foreign trade, which should further accelerate the business development in the Commercial Banking area. The necessary infrastructure and the digital set up of the Varengold Bank are essential for all business growth efforts and were significantly modernized over the past two years. Not the least important reason for doing this was to keep pace with the direct market competition. The corresponding investment measures were supported through active cost management.

Even though analysts anticipate an economic stabilization for the year 2021, the meaningfulness of analytical samples is somewhat questionable in the times of the Corona crisis. The Varengold Bank created a very stable foundation over the past years. Today the bank anticipates growth in the lending business in Marketplace Banking with a slight delay due to the current pandemic. In Commercial Banking the further development of the trade finance business in particular, should lead to significantly increasing revenue according to the estimates of the Board of Directors. At the same time the Varengold Bank foresees that the risk coverage in year 2021 will fall sharply, as compared to the previous year. Especially the structural changes and the new digital components should support the profitability of the bank and contribute to an overall positive view of the business development. In total, the Board of Directors does not anticipate significant negative Corona effects on the revenue situation of the bank in 2021 and calculates positive earnings before taxes in the amount of EUR 5.5 million.

Hamburg, 31 May 2021

The Board of Directors Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

The independent auditor's report

For Varengold Bank AG, Hamburg

STATEMENT ON THE AUDIT OF THE ANNUAL FINANCIAL ACCOUNTS AND THE MANAGEMENT REPORT

Audit opinion

We have audited the financial statements of the Varengold Bank AG, Hamburg, – consisting of the balance sheet of 31 December 2020 and the profit and loss statement for the business year from 1 January to 31 December 2020, as well as the notes, including the presentation of the accounting and valuation principles. In addition, we examined the Management Report of the Varengold Bank AG for the business year from 1 January to 31 December 2020.

In our opinion, based on the findings of the examinations conducted

- › the enclosed annual report complies with all main requirements of German commercial law, complies with German generally accepted accounting principles and presents an accurate depiction of the assets and financial situation of the business on 31 December 2020, as well as its earnings performance for the business year from 1 January to 31 December 2020 and
- › the attached Management Report conveys a suitable description of the company's position on the whole. This Management Report is consistent with the annual financial statements in all main aspects, satisfies the German legal requirements and accurately presents the opportunities and risks of the future development.

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

Basis for the audit opinion

We conducted our examination of the annual financial statements and the management report in accordance with § 317 HGB and the EU Annual Auditor Regulation (No. 537/2014; hereafter: "EU-APrVO") taking into consideration the accepted audit principles of the German Institute of Auditors (IDW). Our responsibility according to these guidelines and regulations is further described in section "Responsibility of the auditor for the examination of the annual financial statements and the management report" of our audit opinion. We are independent of the company in compliance with the European legal requirements and German commercial and professional regulations and have fulfilled our other German professional obligations according to these specifications. Moreover, we declare in accordance to Article 10 para. 2f EU-APrVO, that we provided no forbidden, non-auditing services according to Article 5 para. 1 EU-APrVO. We are of the opinion that the audit evidence obtained by us is sufficiently suitable to serve as a basis for our audit opinion of the annual financial statements and Management Report.

Particularly important components of the audit of the financial statements

Particularly important components are the issues, which according to our professional estimation, were the most meaningful in our examination of the annual financial statements of the business year from 1 January to 31 December 2020. These matters are considered together with our examination of the annual financial statements as a whole and considered in the formation of our audit opinion; we offer no separate audit opinion to these issues.

From our perspective the following issues were the most meaningful to our audit:

- 1) Risk provisioning in the customer credit business
- 2) Depiction of the commission revenues of payment transactions

We structured each of these particularly important audit components as follows:

1. Issue and problem
2. Examination procedure and findings
3. Reference to further information

Subsequently, we present the particularly important audit components:

- 1) Risk provisioning in the customer credit business
 1. In the annual report of the company a balance sheet item of “Receivables from customers” a customer credit business in the amount of € 405.5 million (41 % of the balance sheet) is listed. For the credit portfolio on 31 December 2020 a financial risk provision comprised of individual and general value adjustments exists. The assessment of the risk provisioning in the customer credit business is determined in particular through the structure and quality of the credit portfolio, as well as general economic influence factors and the estimates of the legal representatives regarding future credit defaults. The amount of the individual value adjustments in customer receivables corresponds to the difference between the outstanding exposure amount and its lesser value which is attached on the reporting date. Existing guarantees are taken into consideration. The general value adjustments are determined on the basis of the expected losses. The value adjustments in the customer credit business are very meaningful for the asset and earnings performance of the company and are also associated with considerable margin of discretion of the legal representatives. Moreover, the applied valuation parameters, with associated considerable uncertainties have an important impact on the formation or the amount of potentially necessary value adjustments. In this respect this issue was of particular importance in the context of our audit.
 2. Within our audit we initially assessed the suitability of the design of the controls in the relevant internal control system of the business and tested the functional capability of the controls. For this we took the business organization, the IT systems, and the relevant valuation models into consideration. Moreover, we assessed the valuation of the customer receivables, including the reasonability of the estimated values on the basis of checking random samples of the credit exposures. For this we reviewed, among other information, the existing business documents related to the economic relationships, as well as the recoverability of the guarantees in question. For the property collateral that the company provided for our review, we critically reviewed and developed an understanding

of the underlying source data, the applied valuation parameters and resulting suppositions and then judged whether they lay within a reasonable bandwidth. Furthermore, we examined the company-applied calculation methods for the individual and general valuation adjustments provided to us for review, as well as the underlying source data and parameters. Based on the audit procedures which we conducted, we were able to be convinced on the whole of the justifiability of the assumptions of the legal representatives for the recoverability of the credit portfolio, as well as the suitability and effectiveness of the implemented controls established by the company.

3. The company statements on accounting and valuation of risk provisioning in customer credit business appear in paragraph 2 of the notes.
- 2) Depiction of the commission revenues from payment transactions
1. In the company's financial statements commissions income in the amount of € 19.5 million are listed, of which the amount of € 16.0 million is posted to commission income from services for payment transactions (82 % of the commission income). For the recording and limiting of these proportionally high level of earnings revenue, various payment transaction services of the company were taken into consideration. Based on the heterogeneity of these services, the different compensation scales, as well as a large number of transactions to process, the business implemented systems and processes for the creation of commission income. This was the reason that this issue was of particular importance to our audit.
 2. Within the scope of our audit we developed an understanding of the processes and controls for the calculation of commission income that the company applied. Building upon that, we assessed the suitability and effectiveness of the relevant controls of the internal control systems for the collection and realization of the commission income including the IT systems which were utilized. Moreover, among others, we reproduced the calculation and the financial depiction of the various income components by reviewing samples of the provided documentation. For this we also compared the commission rates of the issued invoices with the rates agreed upon by contract and verified the computational accuracy of the commission invoices by testing random samples. Furthermore, we confirmed the continuity and consistency of the applied processes for limiting the accruals accounting of the commission income.

We were convinced that the implemented systems and processes, as well as the implemented controls are on the whole suitable and that the performed estimations and following assumptions of the legal representatives of the company for the appropriate calculation and limiting of the commission income are sufficiently documented and justified.
 3. The company statements on commission income can be found in the notes under the explanations for the profit and loss statement (para. 5.3 Commission income).

Other Information

The legal representatives are responsible for the Other information. The annual report is expected to be published after the publication date of the Auditor's Report.

Our audit opinion on the annual financial statements and the Management Report does not include the Other information and we therefore offer no opinion or any other form of audit conclusion from that section of the Annual Report.

In the scope of our audit, we are obliged to read the Other information and thereby to ascertain whether the Other information

- › contains significant inconsistencies with the annual financial statements, the Management Report or our knowledge based upon our audit or
- › otherwise seems significantly incorrectly presented.

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

The legal representatives are responsible for the creation of the Annual Report which adheres to all of the provisions of German commercial law in all main aspects and that the Annual Report presents an accurate description of the assets, financial and revenue situation of the company by observing the standard guidelines for accounting principles. Moreover, the legal representatives are responsible for the internal controls, which they have determined to be necessary according to the German standard guidelines for accounting principles, to enable the creation of an annual report which is on the whole free of – intentional or unintentional – incorrect depictions.

In the scope of creating the Annual Report, the legal representatives are responsible for assessing the ability of the company to continue the business activities. Moreover, they are responsible for the reporting of information relevant to the continuation of the business activities. Furthermore, they are responsible for balancing the accounts related to the continuation of business activities according to standard accepted accounting principles, provided that no actual or legal circumstances are opposed to such action.

In addition, the legal representatives are responsible for the presentation of a management report which conveys a generally, accurate image of the condition of the company and which is furthermore consistent with the financial statements in all main aspects, adheres to the German regulatory requirements, and accurately describes the opportunities and risks of the future development. The legal representatives are also responsible for the provisions and measures (systems) which they have deemed necessary to ensure the preparation of a management report in compliance with the required German guidelines and to be able to provide sufficient suitable evidence for the statements in the management report.

The Supervisory Board is responsible for the supervision of the accounting process of the company used to prepare the annual financial statements and the Management Report.

Responsibility of the auditor for the examination of the annual financial statements and the Management Report

Our aim is to obtain adequate certainty that the annual financial statements on the whole are free from important – intentional or unintentional – incorrect statements, and that the Management Report on the whole conveys an accurate image of the situation of the company and which is also consistent with the annual financial statements in all main aspects, as well as the findings resulting from the audit, the German regulatory requirements, and which furthermore depicts the opportunities and risks of future development accurately to issue an Auditor's Report which contains our audit opinion on the annual financial statements and the Management Report.

Adequate certainty is a high level of certainty, but no guarantee that no important incorrect statement in the conducted audit may be revealed according to § 317 HGB and the EU-APrVO in compliance with the Institute of Auditors (IDW) determined German guidelines for accepted audit principles. Incorrect statements can result from violations or inaccuracies and are considered important if it can reasonably be expected that financial decisions of the audience based upon the financial statements and Management Report would be influenced in part or on the whole.

During the audit we exercise our professional duties and maintain a critical stance. In addition, we

- › identify and evaluate the important risks – intentional or unintentional – of incorrect statements in the annual financial statements and in the Management Report, plan and lead the audit procedures as a response to these risks by obtaining audit evidence which is sufficient and suitable to serve as the foundation of our audit opinion. The risk that important incorrect statements are not detected is higher for violations than by inconsistencies because violations fraudulently interact with and may contain falsifications, intentional incompleteness, misleading depictions or may bypass internal controls.
- › acquire an understanding of the relevant internal control systems important for the auditing of the annual financial statements and for the relevant procedures and measures important for the auditing of the Management Report in order to plan the audit procedures which are appropriate given the current situation, however not with the goal of assessing the effectiveness of these systems of the company.
- › evaluate the suitability of the accounting methods applied by the legal representatives, as well as the viability of the estimated values presented by the legal representatives and the associated statements.
- › draw conclusions as to the suitability of the accounting procedures applied by the legal representatives to provide for the continuation of business activities, and on the basis of the obtained audit evidence determine whether a meaningful uncertainty regarding events or circumstances exists which could cast doubt upon the ability of the company to continue their business activities. If we conclude that an important uncertainty exists, we are obliged to call attention to the relevant statement in the annual financial statements and in the Management Report, or, if the statements are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence provided to us by the date of our audit opinion. Future events or conditions could, however, lead to the possibility that the company may no longer be able to continue their business activities.
- › assess the overall presentation, preparation and the content of the annual financial statements including entries, as well as whether the annual financial statements depict the underlying business trans-

actions and events in such a way as to convey an accurate image of the asset, financial and earnings situation of the company while observing the German guidelines of generally accepted accounting principles.

- › evaluate the conformity of the Management Report with the annual financial statements, its corresponding principles, and the image of the situation of the business it portrays.
- › conduct the audit procedures of the future-oriented statements in the Management Report provided to us by the legal representatives. On the basis of sufficiently suitable audit evidence, we develop an understanding in particular of the future-oriented statements of the legal representatives and their underlying meaningful assumptions and determine the appropriate conclusions of the future-oriented statements from these assumptions. We do not offer a separate audit opinion on the future-oriented statements or their underlying assumptions. There is a considerable unavoidable risk that future events may strongly deviate from the future-oriented statements.

We discuss with the parties responsible for the supervision, among other issues, the planned scope, and the time schedule of the audit, as well as the meaningful audit findings, including possible deficiencies in the internal control system which we detect during our audit.

We make a declaration to the parties responsible for the supervision that we have upheld the relevant independence requirements and discuss with them all relationships and other circumstances which could reasonably be assumed to have an impact upon our independence and the protective measures undertaken for that purpose.

We determine, from the facts and circumstances that we receive from the parties responsible for the supervision, which data and information was the most meaningful for the current reporting period in the audit of the annual financial statements and which are therefore the particularly important facts and circumstances for the audit. We describe these facts and circumstances in the audit opinion, unless legal or other regulatory guidelines prohibit the public disclosure of the information.

OTHER LEGAL AND OTHER REGULATORY REQUIREMENTS

Other information according to Article 10 EU-APrVO

We were elected to be the auditors at the general shareholders meeting 25 November 2020. We were engaged by the Supervisory Board on 17 December 2020. We have been engaged as the auditors of the Varengold Bank AG, Hamburg continuously since business year 2015.

We declare that the auditor conclusions contained in this Auditor's Opinion conform to the "additional report of the audit committee" according to Article 11 EU-APrVO (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Lothar Schreiber.

Hamburg, 31 May 2021

PricewaterhouseCoopers GmbH
Auditing and consultancy company



Lothar Schreiber
Certified public accountant



ppa. Uwe Gollum
Certified public accountant

Corporate Information

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Board of Directors

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Frank Otten

Supervisory Board

Dr. Karl-Heinz Lemnitzer (Chairman)
Vasil Stefanov
Francesco Filia

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).

DISCLAIMER

Notes on the content

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

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

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

Forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that include not only the past but are also statements about beliefs and expectations and their underlying assumptions. These statements are based on plans, estimates and projections available to the Board of Directors of Varengold Bank AG at the time of preparation of this Annual Report. Forward-looking statements 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

This English version of the annual report 2020 is for informational purposes only. Legally binding is solely the German version of the annual report 2020.