



Varengold

BANK

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Interim Report for 30 June  
**2019**

# Key Figures of Varengold Bank AG

Key figures per share	30.06.2019 in EUR	30.06.2018 in EUR	Change in EUR
Earnings per share	0.12	-0.07	+0.19
Market capitalization	35,958,347	21,674,376	+14,283,971

Profit and loss statement	01.01.2019 to 30.06.2019 in TEUR	01.01.2018 to 30.06.2018 in TEUR	Change in TEUR
Interest income	3,504	3,429	+75
Current income from shares and other variable income securities	739	298	+441
Commission income	6,145	8,108	-1,963
Net income from trading portfolio	40	105	-65
Other operating income	-510	-292	-218
Administrative expenses	-7,683	-7,079	-604
Depreciation and value adjustments	-547	-3,361	+2,814
Income from normal business operations	1,688	1,208	+480
Income/loss for the year	1,122	-464	+1,586

Balance sheet	30.06.2019 in TEUR	30.06.2018 in TEUR	Change in TEUR
Total assets	503,015	665,455	-162,440
Net assets	33,657	23,792	+9,865

Disclaimer:

This English version of the interim report 2019 is for informational purposes only.  
Legally binding is solely the German version of the interim report 2019.

# Preliminary notes

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

Statement of the legal representatives:

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

20 September 2019

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



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# 01 Letter to the Shareholders

## Dear Shareholders,

With a pre-tax result of EUR 1.78 million, the Varengold Bank AG secured an increase of 47.1 percent over the previous year. (30 June 2018: EUR 1.21 million). Compared to this time period in the previous year, the 150 percent increase in new customer acquisition was a driving factor in this success.

Based on this positive development, we feel validated in our consequently pursued strategic orientation as “Bank for the marketplace lending industry”. The Shareholders are also convinced of this direction and participated in a capital increase at the start of 2019. With the newly raised funds in the amount of approximately EUR 7.8 million, our bank is well-situated for its further growth.

The major area for growth will continue to be the support of marketplaces that offer companies and consumers digital financial solutions. The Varengold Bank provides debt and equity capital markets products, international transactions and fronting services of products requiring bank licenses. With our credit know-how and regulatory expertise, as well as our network in the European banking scene, we help the marketplaces to develop sustainable successful businesses.

A central success factor that we have identified is our ability to provide innovative solutions for our customers, who are usually outside of the focus of competitors, and offer quick business decision-making. In so doing, a high quality of risk analysis and the adherence to solid traditional credit rules are simultaneously observed.

This is only possible with a highly qualified team. Despite the continuing shortage of specialists, we were able to increase our average employee count in the first half-year by 13.8 percent over the previous year. The Varengold team will continue to grow in the second half of 2019.

In order to fulfill the increasing demands for efficiency and speed, we introduced digital solutions for process and project management, as well as for internal and external communication in the first half-year.

In the second half of 2019 we will continue to resolutely follow this established path. And with the belief that only the increase in customer value can provide a long-term sustainable business model. Parallel to the further digitalization, the close and trustworthy personal contact with our customers will always be central to our actions.

We take the opportunity at this time to thank everyone who accompanies us, constructively, but also critically, on our path toward our common goal of giving more people and companies access to important banking services. The holes that other providers leave for us in the market hide a wealth of potential for the Varengold Bank. There is still much to do to completely uncover the possibilities. We are looking forward to this journey for the rest of the business year 2019 with enthusiasm and optimism.



Hamburg, September 2019

Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

# 02 The business areas

	Marketplace Banking	Commercial Banking
Brief description	In light of the disruptive technology developments in the financial services sector, the strategic focus of the Varengold Bank AG for many years has been on the bank side provision of credit marketplaces, which means a special type of finance technology companies (FinTechs). The fundamental concept of these credit marketplaces is to replace the classical extension of credit by traditional banks through a combination of clearly more favorable conditions and an improved customer experience. In order to first launch their business model and then later to scale it, they often require – in addition to so-called “peer funding” – institutional funding. We close these gaps either with our own capital or through the mediation of a third-party credit lender. Furthermore, Varengold offers the marketplaces support with processes requiring a bank license.	In the Commercial Banking area (also known as Transaction Banking) Varengold Bank AG presents itself as a global partner for demanding customers. With the help of our individualized products and solutions business partners are given the possibility to process transactions and trading activities over international borders. Customers profit from Varengold’s many years of expertise supported by the extensive experience of our highly qualified employees. The BaFin license we received in June 2013 as a deposit credit institute, makes it possible for us to offer our customers an expanded product palette of banking services to support their global goods and commodities trading activities.
Products	<ul style="list-style-type: none"> <li>› Lending</li> <li>› Fronting services</li> <li>› Debt capital markets</li> <li>› Equity capital markets</li> </ul>	<ul style="list-style-type: none"> <li>› International transactions</li> <li>› Deposit accounts</li> <li>› Lombard loans</li> <li>› Bank guarantees</li> <li>› Letters of credit</li> <li>› Structured finance</li> <li>› Trade &amp; export finance</li> </ul>

	Marketplace Banking	Commercial Banking
Unique selling proposition	<ul style="list-style-type: none"> <li>› Building credit volume with European-wide diversified credit portfolios</li> <li>› Very strong network in the marketplace lending sector</li> <li>› Willingness to accompany businesses even in the early phase in order to grow together</li> <li>› Existing “full bank” license and possibility of EU passporting</li> <li>› Innovative product solutions</li> </ul>	<ul style="list-style-type: none"> <li>› Expertise and well-developed network in emerging markets</li> <li>› Dynamic adjustments to market changes</li> <li>› Status of a German regulated bank</li> <li>› Deposit protection up to maximum of 100,000 EUR per customer</li> </ul>
Client structure	<ul style="list-style-type: none"> <li>› Credit marketplaces</li> <li>› FinTechs</li> </ul>	<ul style="list-style-type: none"> <li>› Corporate customers</li> <li>› Private customers</li> </ul>
Return components	<ul style="list-style-type: none"> <li>› Interest yield</li> <li>› Commission revenue</li> </ul>	<ul style="list-style-type: none"> <li>› Interest yield</li> <li>› Commission revenue</li> <li>› Fees</li> </ul>

# 03 The shares

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

## Key figures

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock symbol	VG8
Market segment	Open Market / Free trading
Transparency level	Basic Board
First listing	20 March 2007
Share (Type)	No par value, bearer common shares
Number of shares	9,315,634 shares
Total capital	9,315,634 EUR
Designated sponsor	Oddo Seydler Bank AG
Paying agent	Bankhaus Gebrüder Martin AG
Specialist	Baader Bank AG

## General conditions and development 1<sup>st</sup> half-year 2019

Based on the positive development over the entire year 2018, the stock markets faced high expectations on the part of the investors. The gains on the international trading floor found themselves heavily influenced by the direction of the ECB and the Fed, which drove a loosening of money policy measures and thereby promising more liquidity on the market. Dax and Stoxx 50 each recorded an increase of almost 20% in the first half-year 2019. Nevertheless, political conflict situations, such as the uncertainty about the process of trade negotiations between the USA and China remain additional drivers of stock market results. The development of the euro, as compared to other currencies, for example the US dollar, could not maintain the stable performance of the first half-year of 2018. Again, in this case, the monetary policy of the central banks was a deciding factor on the exchange ratio of the currencies.

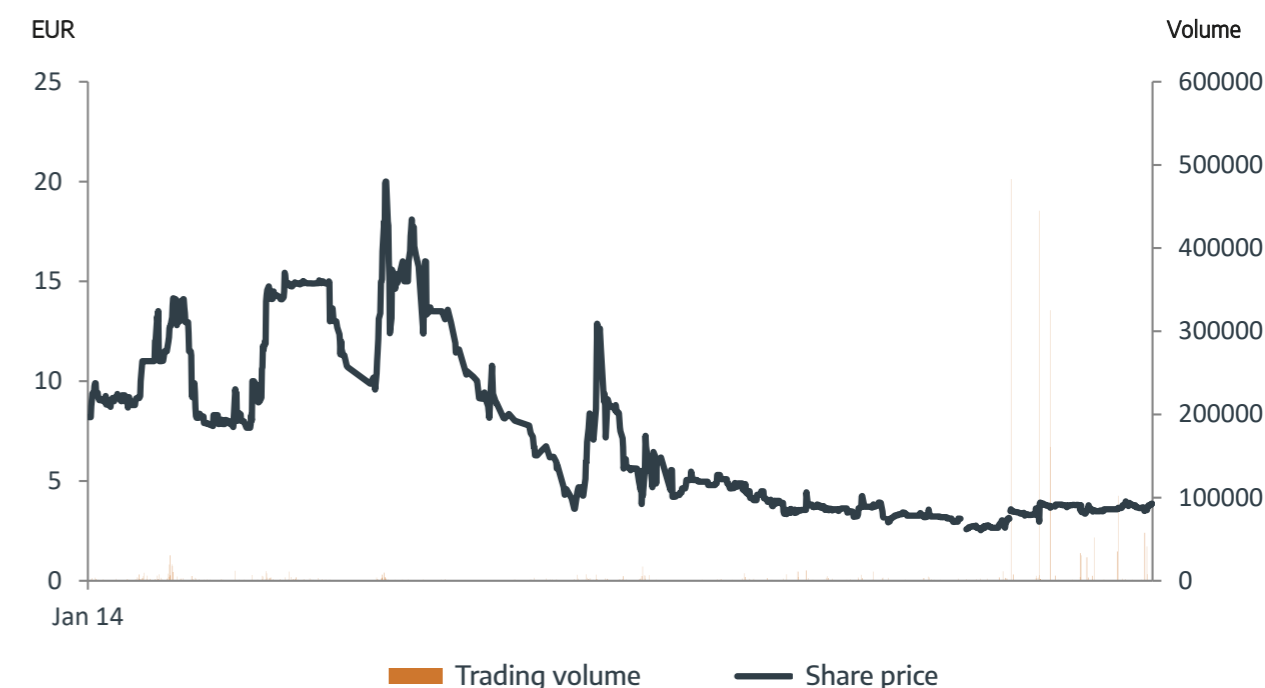
The shares of Varengold Bank AG in the first half-year 2019 recorded overall share performance in a sideways movement without significant fluctuations. In the middle of the first quarter the shares reached their low point of EUR 3.36 and after a short recovery trend, the course swung in a relatively consistent sideways movement until it reached its peak of the first half-year 2019 of EUR 3.98 in early May.

On average, the course of the Varengold stock fell negligibly from EUR 3.71 to EUR 3.67 in the first half of 2019. The average number of shares traded daily was significantly higher in the reporting period at 10,832 shares (1<sup>st</sup> half-year 2018: 1,314 shares) which was due to a very high trading volume on just comparatively few trading days.

The earnings per share grew in the first half-year 2019 to EUR 0.12 (1<sup>st</sup> half-year 2018: -0.07). Market capitalization rose considerably through a new capital increase to EUR 35,958,347 on the reporting date 30.06.2019 (reporting date 30.06.2018: EUR 21,674,376).

## Price history of Varengold shares

Please note: The past value development is not a dependable indicator for the future value development.



Source: Bloomberg  
Date: August 2019

# 04 Half-year report

In accordance with the German commercial tax code  
**As of 30 June 2019**

Varengold Bank AG  
Große Elbstraße 14  
22767 Hamburg

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Varengold Bank AG, Hamburg

## Interim balance sheet as of 30 June 2019

Assets	Euro	Financial year Euro	31.12.2018 TEuro
1. Cash reserve			
a) Cash holdings	7,404.00		2.8
b) Balances with central banks	92,849,078.27		134,495.2
- of which:		92,856,482.27	134,498.0
With the German Central Bank: Euro 92,849,078.27			(134,495.2)
2. Loans and advances to credit institutions			
a) Due on demand	16,938,086.01		5,878.5
b) Other receivables	7,185,296.58		7,318.2
		24,123,382.59	13,196.7
3. Customer receivables		263,376,151.17	267,363.1
- of which:			
Secured by mortgages: Euro 40,129.60			(39.4)
Municipal loans: Euro 42,026,500.00			(43,700.0)
4. Bonds and other fixed-income securities			
a) Bonds and debt			
aa) From public issuers	2,776,342.67		4,078.2
- of which:			
Acceptable as collateral at the German Central Bank: Euro 2,755,805.00			(4,021.7)
ab) From other issuers	6,091,274.51		4,915.1
		8,867,617.18	8,993.3
5. Shares and other variable-yield securities		108,767,679.84	101,150.4
6. Participating interests		1,631,418.74	1,678.5
7. Shares in affiliated companies		900,001.00	1,299.4
- of which:			
In financial services institutions Euro 855,313.25			(855.3)
8. Intangible assets			
a) Self-created industrial and similar rights and assets	0.00		0.0
b) Paid concessions	190,701.67		154.5
		190,701.67	154.5
9. Fixed assets		140,355.26	156.2
10. Other assets		1,628,580.72	1,557.2
11. Accruals and deferred income		288,228.59	191.2
12. Deferred tax assets		244,710.16	695.9
<b>Total assets</b>		<b>503,015,309.19</b>	<b>530,934.5</b>

Liabilities	Euro	Financial year Euro	31.12.2018 TEuro
1. Liabilities to banks			
a) Due on demand	7,538,415.20		5,947.0
b) With an agreed term or notice period	0.00		12,840.4
2. Liabilities to customers		7,538,415.20	18,787.5
a) Other liabilities			
aa) Due on demand	231,838,720.98		250,777.7
ab) With an agreed term or notice period	220,332,181.25		217,564.2
		452,170,902.23	468,342.0
3. Other liabilities		597,002.17	9,572.9
4. Accruals and deferred income		156,422.55	237.1
5. Provisions			
a) Reserves for pensions and similar obligations	83,673.00		83.7
b) Provisions for taxes	54,066.18		692.9
c) Other provisions	3,757,354.27		3,446.4
		3,895,093.45	4,223.0
6. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
7. Share equity			
a) Subscribed capital		9,315,634.00	6,210.4
b) Capital reserves		42,632,456.80	37,974.6
c) Retained earnings			
ca) Legal reserves	1,700.00		1.7
cb) Other retained earnings	16,700.00		16.7
		18,400.00	18.4
d) Net loss		-18,309,017.21	-19,431.4
<b>Total liabilities</b>		<b>503,015,309.19</b>	<b>530,934.5</b>
1. Contingent liabilities			
a) Liabilities from guarantees and indemnity agreements		8,928,359.95	677.9
2. Other liabilities			
a) Irrevocable loan commitments		11,041,238.14	25,629.9



Varengold Bank AG, Hamburg

# Profit and loss statement

For the period 1 January 2019 to 30 June 2019

	Euro	Euro	Financial year Euro	Previous year TEuro
1. Interest income from				
a) Credit and money market transactions	4,437,883.37			4,240.5
Less negative interest from bank balances	-263,983.48			-447.1
	4,173,899.89			3,793.4
b) Fixed-income securities and debt register claims	214,253.46			425.5
Less negative interest	0.00			0.0
	214,253.46	4,388,153.35		4,218.9
2. Interest expenses	-1,202,726.10			-1,190.9
Less positive interest from the banking business	318,705.24			401.1
		-884,020.86		-789.8
			3,504,132.49	3,429.1
3. Current income from				
a) Shares and other variable-yield securities		739,240.76		298.3
b) Participating interests		0.00		0.0
c) Shares in affiliated companies		0.00		0.0
			739,240.76	298.3
4. Commission income		6,592,723.01		9,303.2
5. Commission expenses		-448,089.74		-1,194.9
			6,144,633.27	8,108.3
6. Net income from trading portfolio			40,145.09	105.2
7. Other operating income			589,619.92	96.9
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-3,749,288.83			-3,247.1
ab) Social security contributions and expenses for pensions and other employee benefits				
- of which: for pensions				
119,417.69 Euro (30.06.2018: 123.1 TEuro)	-489,571.38	-4,238,860.21		-434.7
				-3,681.8
b) Other administrative expenses	-3,444,162.07			-3,397.7
			-7,683,022.28	-7,079.5
9. Depreciation and amortization of intangible assets and property			-57,239.18	-66.2
10. Other operating expenses			-1,100,108.90	-388.5

	Euro	Euro	Financial year Euro	Previous year TEuro
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business			-198,891.51	-3,295.6
12. Income from attribution of shares, shares in affiliated companies and asset traded securities			-290,692.76	0.0
<b>13. Income from ordinary business activities</b>			<b>1,687,816.90</b>	<b>1,208.0</b>
14. Extraordinary income	91,059.88			0.0
15. Extraordinary expenses	0.00			0.0
16. Extraordinary results		91,059.88		0.0
17. Taxes on income and earnings	-656,484.32			-1,671.7
18. Other taxes, not recorded under position 10	0.00			-0.4
			-656,484.32	-1,672.1
<b>19. Annual profit / loss</b>			<b>1,122,392.46</b>	<b>-464.1</b>
20. Loss from previous year			-19,431,409.67	-19,946.8
21. Net loss			-18,309,017.21	-20,410.9

**Varengold Bank AG, Hamburg**

Hamburg District Court, HRB 73684

# Notes

**For the period from 1 January 2019  
to 30 June 2019**

## 1 General information

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

Entries that apply to multiple positions are grouped together to provide greater clarity and, unlike Section 284 paragraph 1 sentence 1, HGB continue to be posted in a comprehensive entry.

As all subsidiaries pursuant to Section 296 paragraph 2 HGB, even combined, are of lesser importance for an effective view of the group's assets, financial and earnings position; use is made of the exemption clause on the preparation of group financial statements pursuant to Section 290 paragraph 5 HGB.

## 2 Accounting and valuation methods

The accounting and valuation methods remained unchanged compared to last year.

For a better overview, unused positions in the balance sheet and the profit and loss statement, are shown separately in accordance with Section 265, paragraph 8 HGB.

Assets and liabilities are valued according to the requirements of the Sections 252 ff. HGB and additionally to Sections 340 ff. HGB.

The cash position and deposits in Central Banks are recorded at nominal value.

Claims to banks and customers are generally recorded at nominal value. Where necessary, possible counterparty risks are covered by the formation of individual value adjustments. The amount of the provision for individual counterparty risks is determined by the difference between the book value of the claim and the probable recoverable amount. Irrecoverable debts are written off. The deferred credit risk is covered by the formation of a general value adjustment. Their establishment is carried out in accordance with the document of the Federal Ministry of Finance dated 10 January 1994.

Bonds and other fixed-income securities which are assigned to fixed assets are valued according to the diluted lower of cost or market principle. The allocation of liquidity reserve is calculated using the strict lower of cost or market principle. Fixed assets of securities with a book value of TEUR 2,290 are recorded. The book value is the current market value.

Stocks and other non-fixed asset securities that are recorded under fixed assets are valued according to the lower value principle. The recording of the liquidity reserve is conducted using the strict lower value principle. Fixed assets are recorded in the amount of TEUR 30,000 (book value).

The internal institutionally established criteria for recording the financial instruments in the trading portfolio have not changed in the financial year. According to Section 340e paragraph 3 sentence 1 HGB, financial instruments held for trading are valued at fair value less a deduction for risk. The fair value, according to Section 255, paragraph 4, sentence 1 HGB, is the market price of the financial instrument.

The risk premium is determined using the value at risk method with a confidence level of 99.9 %, a holding period of 250 days and an observation period of 520 days with a historical simulation. The calculation of the value at risk is identical to the method used for internal purposes of risk monitoring in accordance with MaRisk implemented methods.

The investments and shares in associated companies are valued using the corresponding rules for acquisition costs and when applicable, less depreciation at lower of cost or fair value.

Purchased software is recorded under intangible assets, and like tangible assets are classified as assets and measured at amortized cost less scheduled depreciation. To calculate the expected useful life, the AfA tax depreciation tables are used as a basis.

The fixed assets and intangible assets are valued at acquisition cost, less scheduled linear depreciation according to expected useful life. Here the prescribed usage periods are oriented upon the depreciation table for general assets (AfA table AV) specified by the tax authorities.

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

Other intangible assets are recorded at nominal value.

Active prepaid expenses (primarily prepaid licenses, insurance premiums and rents) are recorded in accordance with Section 250, paragraph 1 HGB.

Active deferred taxes amounting to TEUR 245 (31.12.2018: TEUR 696) are carried forward as tax losses. The deferred tax assets are subject to legal distribution restriction. The Management Board expects the full utilization in the next five years of the deferred tax assets formed in previous years. For the calculation of deferred taxes, a tax rate of 32.275 % was used as a basis, which is composed of corporate tax (15.0 %), a solidarity surcharge (0.825 %) and commercial tax (16.45 %).

Liabilities are treated as deferred items at their repayable amount.

Accruals and deferred income (mainly interest received in advance and provisions for payment transactions) are reported in accordance with Section 250, paragraph 2 HGB and are written back over the residual term of the underlying transactions.

Pension provisions, which are based on provisions for surviving dependents, are calculated according to actuarial principles using the 2018G guideline tables of Klaus Heubeck in accordance with the Section 253, paragraph 2 HGB. For the valuation process, the modified par-value method is used. It is based on an actuarial interest rate of 3.21 %, a salary and career trend of 2.0 % and a fluctuation rate of 10 percent.

Provisions, including provisions for taxes, are measured at the amount expected to become payable in accordance with reasonable commercial judgement.

The issued instruments of the regulatory core capital are valued at their nominal value. The interest expenses are limited on the basis of expected payments to the owners of the instruments.

The interest-related transactions in the bank book are examined annually in their entirety for excess liability. For this, a present value-based approach, which takes expected future risks and administrative costs into account, is used. The valuation of the interest-related business of the Banking book (Interest book) resulted in no excess liability and therefore no need to form a provision for expected losses.

The irrevocable loan commitments, other financial obligations and all other balance sheet items are reported in nominal amounts.

Income and expenses are limited on an accrual basis.

Negative interest from the lending business and positive interest from the deposit business are recorded as a reduction of the interest income or interest expense and are separately listed on the profit and loss statement.

The Bank exercises its right of vote on the cross-offsetting option according to Section 304f paragraph 3 HGB in conjunction with Sections 32 and 340c paragraph 2 HGB and Section 33 of the Regulations on Accounting for Banks (RechKredV).

The amounts, unless otherwise indicated, are expressed in TEUR.

For computational reasons, there may be rounding differences in tables of +/- one unit.

### 3 Currency conversions

All foreign currency business not recorded in the trading portfolio is treated and evaluated in each currency as predominantly hedged business, according to Section 340h HGB.

For the determination of special coverage, the expenses and the income from the currency conversions are recorded as income. The results of currency conversions of predominantly hedged business are contained in other operating income, according to RS BFA 4 number 22.

During the year, accruing income and expenses are entered into the profit and loss statement at each current daily rate. Foreign currency positions are converted with the ECB reference prices according to Section 256a HGB as of 30 June 2019.

As of 30 June 2019, the following balance sheet items contain the following foreign currency amounts:

	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>TEUR</b>	<b>TEUR</b>
Loans and advances to credit institutions	17,254	7,379
Customer receivables	14,686	18,639
Bonds and other fixed-income securities	2,290	1,125
Shares and other variable income securities	50,001	50,411
Shares in affiliated companies	900	900
Other assets	49	241
Prepaid expenses and deferred income	38	74
Amounts owed to customers	32,227	28,678
Other liabilities	101	81

### 4 Notes to the balance sheet

#### 4.1 Overall disclosures

##### 4.1.1 Relationships to associated companies

	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>TEUR</b>	<b>TEUR</b>
Customer receivables	263,376	267,363
of which to associated companies	4,657	4,657

The "of which" item results from claims against the Varengold Capital Investment Company Limited, British Virgin Islands.

	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>TEUR</b>	<b>TEUR</b>
Amounts owed to customers	452,171	468,342
of which to associated companies	567	565

The "of which" item results from liabilities owed to Varengold Verwaltungs AG i.L., Hamburg, Varengold Capital Holdings Limited, British Virgin Islands, Varengold Capital Investment Company Limited, British Virgin Islands, Varengold Capital Asset Management Limited, Hong-kong and Varengold Investment Funds SPC, Cayman Islands.

##### 4.1.2 Breakdown by remaining maturity

	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>TEUR</b>	<b>TEUR</b>
<b>Loans and advances to credit institutions</b>	24,123	13,197
due upon demand	16,938	5,878
to three months	0	340
more than three months to a year	7,185	6,979
<b>Customer receivables</b>	263,376	267,363
due upon demand	3,987	2,770
to three months	106,832	26,709
more than three months to a year	88,306	156,467
more than one year to five years	64,213	81,378
more than five years	38	39
<b>Bonds and other fixed-interest securities</b>	8,868	8,993
of which due in the current financial year	2,810	0
of which due in the following financial year	507	4,696
<b>Liabilities to banks</b>	7,538	18,787
due upon demand	7,538	5,947
to three months	0	340
more than three months to a year	0	12,500
<b>Amounts owed to customers</b>	452,171	468,342
due upon demand	231,839	250,778
to three months	21,309	53,128
more than three months to one year	101,242	63,495
more than one year to five years	97,781	100,941

#### 4.1.3 Securities

The following table indicates the securities contained in the balance sheet items:

	30.06.2019 TEUR	31.12.2018 TEUR
<b>Bonds and other fixed-income securities</b>	8,868	8,993
unlisted	0	0
listed	8,868	8,993
- of which publicly listed	8,868	8,993
<b>Shares and other variable-yield securities</b>	108,768	101,150
unlisted	108,768	101,150
listed	0	0
- of which publicly listed	0	0
<b>Shares in affiliated companies</b>	900	1,299
unlisted	0	399
listed	900	900
- of which publicly listed	0	0
<b>Participating interest</b>	1,631	1,679
unlisted	1,105	1,100
listed	526	579
- of which publicly listed	478	531

#### 4.2 Post-individual disclosures

##### 4.2.1 Customer receivables

The customer receivables (TEUR 263,376) consist primarily of customer loans and und municipal loans.

##### 4.2.2 Bonds and other fixed-income securities

The position bonds and other fixed-income securities is comprised of TEUR 2,776 (31.12.2018: TEUR 4,078) of notes and bonds from public sector issuers and of TEUR 6,091 (31.12.2018: TEUR 4,915) of notes and bonds from other issuers. In addition to three European government bonds, there are three corporate bonds in the total position.

##### 4.2.3 Shares and other variable securities

This posting includes investment funds in the amount TEUR 108,768.

The amount of TEUR 83,593 is attributed to investment funds, for which the bank holdings represent more than 10 % and which are structured as follows:

in TEUR	Investment objective	Book value	Market value	Hidden reserve	Distribution in 2019
Dalma Corporate Bond Fund	Real estate	16,429	17,152	723	0
Varengold Fixed Income Fund SP	Trade finance	29,178	29,645	467	0
Varengold Spezial I	Bond trade	30,000	30,507	507	0
Fasanara Real Estate Finance Fund	Real estate	5,000	5,001	1	0
Fasanara Receivables Finance Fund	Receivables	2,986	2,986	0	0

The return option for Dalma Corporate Bond Fund is possible within one month and for Varengold Fixed Income Fund possible within 90 days. Varengold Special I Fund has no restrictions regarding daily return option. The Fasanara Real Estate Finance Fund and Fasanara Receivables Finance Fund have a return option of 90 days as of the end of the month.

##### 4.2.4 Equity ownership and shares in affiliated companies

Varengold Bank AG owns the following unlisted shareholdings:

Company	Ownership stake		Share equity		Result
	direct %	indirect %	30.06.2019 TEUR	30.06.2019 TEUR	
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		0 <sup>1)</sup>	-1,073 <sup>1)</sup>	
Lava Trading Ltd., Valetta, Malta	49.79		-6 <sup>2)</sup>	-6 <sup>2)</sup>	
Varengold Capital Holdings Limited, British Virgin Islands	100.00		-359 <sup>3)</sup>	0 <sup>3)</sup>	
Varengold Capital Securities Limited, Hong Kong	100.00		680 <sup>3)</sup>	1 <sup>3)</sup>	
Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg	100.00		528 <sup>4)</sup>	-1 <sup>4)</sup>	
Varengold Capital Asset Management, Limited, Hongkong		100.00	760 <sup>3)</sup>	143 <sup>3)</sup>	
Varengold Capital International Company Limited, British Virgin Islands		100.00	-649 <sup>3)</sup>	-1 <sup>3)</sup>	
Varengold Investment Funds SPC, Cayman Islands		100.00	-640 <sup>3)</sup>	0 <sup>3)</sup>	
Varengold Capital Investment Company Limited, British Virgin Islands		100.00	-237 <sup>3)</sup>	147 <sup>3)</sup>	
Varengold Capital Management Limited, British Virgin Island		100.00	-665 <sup>3)</sup>	-339 <sup>3)</sup>	
Naga Brokerhouse GmbH, Hamburg		33.00	52 <sup>5)</sup>	0 <sup>5)</sup>	

According to Section 285 No. 11 HGB in conjunction with Section 271 HGB, holdings under 20 % are not listed.

1) Annual financial statements as of 31 December 2017

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

3) Entries in EUR were converted on reporting day 30.06.2019; rate HKD: 8.8866

4) Interim annual financial statements as of 31 May 2019 (different financial year)

5) Annual financial statements as of 31 December 2016

#### 4.2.5 Gross assets analysis

	Purchase				Depreciation				Residual book value	
	Accruals	Uses	30.06.19	Accumulated	Accruals	Uses	Accumulated	30.06.19	30.06.19	31.12.18
	01.01.19	2019			01.01.19	2019	2019			
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	
Intangible assets										
Self-created intellectual property rights and similar rights and assets	388	0	0	388	388	0	0	388	0	0
Purchased concessions, intellectual property rights and similar rights and assets, as well as licenses to such rights and assets	2,246	72	0	2,318	2,091	64	0	2,155	162	154
Fixed assets	786	27	0	813	630	54	0	684	130	156
<b>Total</b>	<b>3,420</b>	<b>99</b>	<b>0</b>	<b>3,519</b>	<b>3,109</b>	<b>118</b>	<b>0</b>	<b>3,227</b>	<b>292</b>	<b>311</b>
	<b>Change<sup>*)</sup></b>									
Notes and other fixed-interest securities				1,165					2,290	1,125
Participations				-48					1,631	1,679
Shares in affiliated companies				-399					900	1,299

\*) As permitted by Section 34 paragraph 3 RechKredV, the option to summarize the financial assets is used.

The intangible assets consist mainly of purchased software and licenses. The fixed assets are omitted from operational expenses (including tenant fixtures).

#### 4.2.6 Trading portfolio

There are no financial instruments to attribute to the trading portfolio.

#### 4.2.7 Other assets

The position other assets include mainly tax receivables amounting to TEUR 1,167 (31.12.2018: TEUR 1,181) and receivables from paid security deposits in the amount of TEUR 168 (31.12.2018: TEUR 168).

#### 4.2.8 Deferred income

Prepaid expenses and accrued income included primarily prepaid licenses (TEUR 10), insurance premiums (TEUR 15) and rents (TEUR 12).

#### 4.2.9 Liabilities to banks

Liabilities to banks are exclusively due upon demand liabilities in the amount of TEUR 7,538.

#### 4.2.10 Liabilities to customers

The liabilities to customers position contains due upon demand liabilities of TEUR 231,839 (31.12.2018: TEUR 250,778) and liabilities with an agreed term or notice period in the amount of TEUR 220,332 (31.12.2018: TEUR 217,564). The liabilities are the combination of fixed-term deposits (TEUR 220,332), payment transaction accounts (TEUR 117,313), call money (TEUR 102,486) and security deposits (TEUR 12,040).

#### 4.2.11 Other liabilities

The other liabilities all have a term of up to one year and include mainly liabilities from delivery and performance of service in the amount of TEUR 165. In addition, this position contains primarily wage tax liabilities (TEUR 100) and liabilities from advance payments amounting to TEUR 84.

#### 4.2.12 Reserves for pensions and similar obligations

Pension reserves have been formed for dependents. The difference between the value of the pension provision with the 10-year average interest rate (TEUR 84) and the 7-year average interest rate (TEUR 92) is TEUR 8 and is subject to a distribution restriction (Section 253 paragraph 6 sentence 2 HGB). The actuarial interest rate is 3.21 % (average market interest rate of the past 10 financial years).

#### 4.2.13 Provision for taxes

The provisions for taxes position includes corporate accruals (tax rate 15 % plus 0.825 % solidarity contribution) in the amount of TEUR 11 (31.12.2018: TEUR 328) and commercial tax provisions (tax rate 16,45 %) in the amount of TEUR 11.

The remaining tax provisions for pro-rata profits from the London business location for the half-year 2019 amount to TEUR 32. Here a base income tax rate of 20 % is utilized.

#### 4.2.14 Other provisions

This position is comprised of the following:

	<b>30.06.2019</b>	<b>31.12.2018</b>
	<b>TEUR</b>	<b>TEUR</b>
Variable remuneration	1,141	1,365
Legal and consulting fees	498	421
Provision for process and legal conflict	410	318
Annual financial report costs	322	615
Compensation Scheme German Banks	222	70
Audit	157	157
Vacation accrual	120	110
Archiving costs	82	87
Other	805	303
<b>Total</b>	<b>3,757</b>	<b>3,446</b>

#### 4.2.15 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds (“AT1 bonds”) in the amount of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated bonds of Varengold Bank AG. The semi-annual interest payments for these bonds are measured at their nominal values and the development of the EURIBOR. Varengold Bank AG is both obligated and has 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 the coming year to compensate for possible cancelled interest payments in the previous year. The bonds have no date of maturity. They may be called by Varengold Bank AG only after five years after their date of issue and after each interest payment due date. Furthermore, under certain conditions, they may be prematurely called. The bond regulations include, among others, that Varengold Bank AG must call the bonds in their entirety, not in portions, as long as there are supervisory review process or tax reasons to do so. Each premature calling of the bonds requires the prior approval of the supervisory authorities. The repayment and the nominal value of the bonds may be reduced by demonstrating triggering circumstances. Such an instance of factual circumstances would be if the Tier-1 core capital ratio of Varengold Bank were to fall below 5.125 %. The bonds may be subject to depreciation by providing documentation of the factual circumstances under certain conditions.

The limited interest expenses for these bonds was TEUR 0.00 on 30 June 2019.

On 30 June 2019 the outstanding Tier-1 bonds included the following:

<b>Currency</b>	<b>Amount in EUR</b>	<b>Type</b>	<b>Date of issuance</b>	<b>Interest rate</b>	<b>Due date</b>
EUR	5,000,000	Variable interest, cumulative subordinated	19 August 2014	variable	without maturity date

#### 4.2.16 Share equity

Fully paid-up share capital (TEUR 9,316) is divided on the balance sheet date into 9,315,634.00 no-par value registered shares on 30 June 2019. The capital reserve in the amount of TEUR 42,632 derives mainly from the capital increase in the first half of 2012 when 133,100 new shares were issued at a premium of EUR 40.35 per share (premium TEUR 5,371), from the capital increase in the second half of 2013 through the issuance of 146,397 new shares at a premium of EUR 22.90 per share (TEUR 3,352), in the first half of 2014 when 159,571 new

shares were issued at a premium of EUR 19.00 per share (premium TEUR 3,032), the capital increase in April 2015 when 176,963 new shares were issued at a premium of EUR 19.00 per share (premium TEUR 3,362), the capital increase in February 2016 through the issuance of 974,184 new shares at a premium of EUR 12.00 per share (premium TEUR 11,690), the capital increase in July 2017 through the issuance of 1,217,730 new shares at a premium of EUR 2.99 per share (premium TEUR 3,641) and the capital increase in February 2018 through the issuance of 2,070,171 new shares at a premium of EUR 1.80 (premium TEUR 3,726).

In addition, The Board of Directors with the approval of the Supervisory Board exercised the option to increase the share capital authorised by resolution of the General Shareholders' Meeting of Varengold Bank AG on 21 August 2018 to increase the share capital of the Company and issued an additional 3,105,211 new shares at a premium of EUR 1.50 (premium TEUR 4,658). The entry of this capital increase into the commercial registry took place on 29 January 2019.

The Company has furthermore an authorised capital 2018 in the amount of EUR 3,105,211,00 as of 30 June 2019.

According to the resolution of the annual general shareholders meeting on 8 August 2012, a “Conditional Capital 2012 II” still exists. The share capital is conditionally increased by up to EUR 140,000.00 through the issuance of up to 140,000 no-par value bearer shares. The conditional capital increase will only be carried out insofar as the holders of stock options issued in accordance with the resolution of the General Meeting under the stock option program of 2012 (AOP 2012) in the period up to 8 August 2017 (inclusive) exercise their rights to subscribe shares of the Company and the Company does not fulfil the subscription rights of its own shares, or a cash settlement is granted. The new shares will participate in profits distribution from the beginning of the financial year in which they are created in the exercise of subscription rights. The AOP 2012 serves as a target-oriented performance incentive for the program participants and should simultaneously foster bonding between the participants and the Company.

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

Based on the existing authorization, the Supervisory Board made a stock option offer of a total of 85,500 shares to management personnel of the Company at the end of the reporting period. In total 45,000 shares options were distributed to particularly high-performing employees. An additional 40,500 options were given to members of the Board of Directors; 31,000 share options could not be exercised due to the departure of the respective Board members. In the year 2018 up to the reporting date, no stock options were issued.

The distribution block pursuant to Section 268, paragraph 8 HGB is attributed to deferred tax assets in the amount of TEUR 245 and the difference between pension obligations (TEUR 8).

#### 4.2.17 Contingent liabilities

As of 30 June 2019, liabilities from guarantees and indemnity agreements, primarily in the form bank guarantee credits in the amount of TEUR 8,928 (31.12.2018: TEUR 687). The claim risk is considered to be low. The guarantees are completely cash collateralized.

The risk of loss from contingent liabilities is reduced, through the possibility of recourse for the individual customer, and is therefore mainly associated with the credit risk of the customer.

The Bank estimates the risk that a loss will result from a contingent liability prior to a binding execution of their responsibilities in the context of a credit review of the customer and where appropriate an assessment of the expected fulfillment of underlying obligations for each customer.

As of 30 June 2019, other obligations in the form of an irrevocable credit commitment in the amount of TEUR 11,041 (31.12.2018: TEUR 25,630) towards customers who may make partial withdrawals as necessary exists. For such an eventuality, certain prerequisites for

disbursement must be met, which are verified before each respective payout. The Bank estimates the risk that a loss will result from the irrevocable credit commitment, prior to making a binding obligation in the course of the credit review.

#### 4.2.18 Transferred guarantees

On the reporting date, receivables from banks in the amount of TEUR 3,048 served as guarantees for the futures exchange business.

## 5 Notes to the profit and loss statement

All earnings occurred on the domestic market.

### 5.1 Interest income

The interest income is derived mainly from loans granted and fixed-income securities. Negative interest paid (mainly incurred at the German Central Bank and for securities deposited as collateral) is openly deducted from interest income.

Interest expense is primarily interest for customer deposits (cash, notes and term deposits). Negative interest paid (mainly incurred at the German Central Bank and for securities deposited as collateral) is openly deducted from interest income. Received negative interest for customer security and customer deposits are also openly deducted from interest expenses.

### 5.2 Income from shares and other variable-yield securities

Income from shares and other variable yield securities are mainly proportional interest all distribution from bonds and other fixed-income securities.

### 5.3 Commission income

Commission income includes mainly income from the Transaction Banking area for commissions in payment transactions, guarantee and credit transactions (TEUR 5,643).

The commission expenses are mainly comprised of fees in the Transaction Banking business area.

	30.06.2019 TEUR	30.06.2018 TEUR
Commission income	6,593	9,303
Commission expenses	448	1,195
<b>Commission surplus</b>	<b>6,145</b>	<b>8,108</b>

### 5.4 Other operating income

Other operating income is mainly generated from reversal of provisions (TEUR 157).

### 5.5 Personnel expenses

	30.06.2019 TEUR	30.06.2018 TEUR
Wages and salaries	3,749	3,247
Social security benefits	371	312
Expenses for pensions and employee benefits	119	123
<b>Total</b>	<b>4,239</b>	<b>3,682</b>

### 5.6 Other administrative costs

	30.06.2019 TEUR	30.06.2018 TEUR
IT expenses	1,260	883
Consulting, accounting and auditing costs	982	892
Premiums and insurance	336	528
Occupancy	295	260
Expenses for communication	161	186
Advertising, entertainment, travel expenses	91	143
Office supplies, publications, training	45	49
Vehicle costs including leasing (without vehicle tax)	12	14
Other general administrative expenses	262	443
<b>Total</b>	<b>3,444</b>	<b>3,398</b>

The total auditor's fees calculated according to Section 285 Number 17 are TEUR 358. Of which TEUR 182 are for auditing services, TEUR 58 for other confirmation services (confirmation according to Section 89 WpHG) and TEUR 118 for tax consulting services. The tax consulting services contain in particular support services for the preparation of tax returns, the tax audit and international tax issues.

### 5.7 Other operating expenses

The position other operating expenses include primarily results from currency conversions (TEUR 988).

### 5.8 Taxes on income and profits

The assessment basis for the taxes on earnings is characterized by non-deductible write-downs of shares in affiliated companies.

The tax result resulted mainly from the liquidation of deferred taxes in the amount of TEUR 451, corporate tax of TEUR 152, as well as trade tax amounting to TEUR 44. The expenses of liquidating deferred taxes are non-cash items.

## 6 Other information

### 6.1 Institutions

#### 6.1.1 Supervisory Board

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

**Mr. Michael Stephen Murphy** (Deputy Chairman)  
investment banker

#### Mr. Vasil Stefanov

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

#### 6.1.2 Management Board

Dr. Bernhard Fuhrmann  
Back Office

Mr. Frank Otten  
Market

Dr. Fuhrmann and Mr. Otten are each entitled to represent the Company jointly with another Board member or an authorised representative.

#### 6.1.3 Mandates held in supervisory bodies

Dr. Lemnitzer and Mr. Murphy hold no further mandates in statutory supervisory boards or similar regulatory bodies in the sense of Section 125 paragraph 1 sentence 5 AktG.

Mr. Stefanov is as of 30 June 2019 in addition to his role as Supervisory Board member of the Varengold Bank, also holds the positions of Chairman of the Supervisory Board of insurance company Euroins Ukraine, Kiev (until the end of February 2019), Management Board member of Euro-Finance AD, Sofia, Non-executive Director of Hanson Asset Management Limited, London, Supervisory Board member of First Investment Bank AD, Moscow, as well as co-owner of Vinart Stefanovi Ltd., Plovdiv, and Arkont-Invest Ltd., Plovdiv.

As of 30 June 2019, Dr. Fuhrmann accepts a seat on the management board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg in addition to his responsibilities as management board member of Varengold Bank AG. Moreover, he is CEO of JUCLA Invest GmbH, Hamburg.

In addition to his duties on the Board of Directors of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of Ahrensburg Consult GmbH, Molfsee, member of the Supervisory Board of KERNenergie GmbH, Großwallstadt, Managing Director of KERNenergie Hamburg Store GmbH, Hamburg, as well as Chairman of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg.

Mr. Lukas Diehl, authorised representative of Varengold Bank AG, is also a member of the Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg.

#### 6.1.4 Remuneration and loans

Regarding the total remuneration of the management board according to Section 285 No. 9 Letter a HGB and the surviving dependent benefits according to Section 285 No. 9 Letter b HGB, the safeguard clause of Section 286 paragraph 4 HGB is utilized.

The members of the Supervisory Board received total remuneration in the amount of TEUR 177 for their work within the time period 1 January 2019 to 30 June 2019 (30.06.2018: TEUR 154).

As of the balance sheet date, there are no credit claims against members of either the Supervisory Board or the Board of Directors.

### 6.2 Employees

The total average number of staff employed up to 30 June 2019 was 66 (31.12.2018: 60), of which 27 were female employees (31.12.2018:24). Of total staff, nine employees work outside of Germany.

### 6.3 Other financial obligations

Other financial obligations are mainly obligations from rental and leasing contracts in the amount of TEUR 1,211 with remaining time periods of up to 38 months.

### 6.4 Forward transactions

Forward transactions not yet processed by 30 June 2019 are for trading purposes within the framework for special coverage and are recorded at fair value.

	Nominal TEUR	Positive market value TEUR	Negative market value TEUR
Foreign currency	50,250	168	0

### 6.5 Note regarding Section 20 AktG

In the reporting year there are no notes according to Section 20 paragraph 1 AktG submitted to Varengold Bank AG and therefore no announcements of such published in the Federal Gazette according to Section 20 paragraph 6 AktG.

### 6.6 German Corporate Governance Code

From 20 March 2007 to 28 February 2017 the shares of Varengold Bank AG (ISIN DE0005479307) were listed in Entry Standard on the German stock exchange. Since the discontinuation of Entry Standards, Varengold stock has been listed in Basic Board on Open Market since 1 March 2017. Varengold Bank AG is not obliged to publish a statement of compliance with the German Corporate Governance Code (Section 161 AktG) as the Company is not listed in the sense of Section 3 paragraph 2 of the Code.

### 6.7 Supplementary report

With the authorization of the General Shareholders Meeting on 28 August 2019, the Board of Directors, with the approval of the Supervisory Board, was authorized to increase the capital of the company until the date of 27 August 2024, one or multiple times by up to EUR 1,552,606.00 through the issuance of up to 1,552,606 new bearer shares without nominal value (no-par value shares) with a pro-rata amount of the share capital of each EUR 1.00 against cash or non-cash contributions (Approved Capital 2019).

The term of office of the current members of the Supervisory Board who determined the discharge of financial year 2018 ended on 28 August 2019. With authorization of the General Shareholders Meeting, Dr. Karl-Heinz Lemnitzer, Mr. Vasil Stefanov and Mr. Francesco Filia were appointed to the Supervisory Board from the period of the ending of the General Shareholders Meeting 2019 to the ending of the General Shareholders Meeting which determines the discharge of the fourth financial year after the beginning of the term of office. Subsequently on 28 August 2019, the Board of Supervisors elected Dr. Lemnitzer to Chairman of the Supervisory Board and Mr. Stefanov as his Deputy Chairman. Mr. Filia is Chairman of Fasanara Capital Ltd., London (Great Britain).



Hamburg, 18 September 2019

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten



# Management's discussion and analysis

## A. Principles of Varengold Bank

Varengold Bank AG is a German bank with a full banking license that was founded in 1995 and in addition to its headquarters in Hamburg, has branch offices in London (UK) and Sofia (Bulgaria). The bank is registered with the Federal Financial Supervisory Authority (BaFin) under the number 109 520 and the Varengold stock (ISIN: DE0005479307) is listed in Basic Board on the Open Market of the Frankfurt Stock Exchange.

Varengold Bank is active in two core business areas: Marketplace Banking and Transaction Banking (also known as Commercial Banking).

The activities in the Marketplace Banking area, begun in 2015, have slowed due to the worldwide online marketplaces which have emerged over the past ten years and are engaged with financing companies and consumers (Peer-to-Peer Platforms). As a rule, they offer customers faster, easier and therefore also more pleasant credit processing than other established banks. Moreover, these financial technology companies (FinTechs), through their more efficient processes, are able to offer financing to customers who stand outside of the standard framework of traditional banks. To meet their objectives they require financial resources, as well as, dependent upon each regulatory environment, particular banking licenses.

Varengold Bank supplies these marketplaces with the necessary finance and regulatory products. The bank thereby helps its customers to optimally realize and later to scale their business ideas which as a rule encompass receivables finance, real estate and trade finance, as well as consumer finance and small and mid-sized enterprises (SME) finance.

The core business area Transaction Banking includes the areas of international payment transactions, trade & export finance, Lombard credit and finance. With products such as deposit accounts, private customers are offered call money and term deposit accounts which combine the full flexibility of a daily-available deposit account with an attractive interest rate and in this way create a dependable basis for every investment portfolio.

In Transaction Banking Varengold Bank presents itself as a global partner for demanding customers and investors, by giving them the possibility to develop their transactions and trading activities across national boundaries with the help of the individualized products and solutions. In this way a solid customer base for trade finance transactions has been developed over the past years.

Independent from each business area, the defined goal of Varengold Bank is to give people and companies the possibility to access capital and banking services and in addition, to offer them clear added value. On the way toward this goal, customer groups that generally are not in the focus of the competition will also be serviced.

## B. Economic report

### 1. Macro-economic and industry-related conditions

Over the course of the first half-year 2019 global economic growth reduced in strength. The reasons for this were the ongoing high number of geopolitical uncertainties. These included economic risks based on the trade conflict between the USA and China, as well as geopolitical trouble spots such as sanctioned Iran and the protracted Brexit process.

In the European region the economy remained on a moderate growth trend with an increase in economic activity of around 0.7% in the first half-year 2019. The German economy and the macro-economic performance increased by 0.5% as compared to the previous year's reporting period after adjusting for price. This was generated by the increase in private consumption and the robust development of the labor market. In addition, high demand in the real estate sector (in particular in construction investment) sent positive impulses for domestic economic outputs.

On the European financial markets, in addition to the consequences of Brexit, the continuing low interest rate environment, as well as the ongoing instability of the Italian banks were central topics. Thereby the high margin pressure, in light of risk-adequate pricing of credit financing became a problem. Moreover, especially German banks encountered new administrative expenses in view of various regulatory intensifications and legal requirements the adherence to which continued to be associated with financial costs and personnel resources.

### 2. Business development

In the reporting period Varengold Bank AG consistently followed its strategy and further developed its activities in the Marketplace Banking and Transaction Banking business areas. The needs of the customers in Marketplace Banking were even more thoroughly satisfied through an extension of the product palette – in particular with modular fronting services. The Bank often acts as an early-phase credit granter. In the Transaction Banking area, in contrast, the internationalization of the services was resolutely promoted. As a consequence, a noticeable increase in new customer acquisition in both Marketplace Banking, as well as in Transaction Banking occurred, which was a decisive factor in the first half-year 2019 being able to close over expectations.

The branch office in Sofia also played a role in the positive business development from where new customers were acquired whose product needs currently are handled by Hamburg. The office in Sofia continues to be expanded since its inception in the middle of 2018, while personnel reductions took place in the branch office in London (UK), due to uncertainties regarding the implications of Brexit.

Major progress was made regarding the digital transformation of Varengold Bank since the beginning of the year. In addition to the introduction of productivity-increasing IT solutions, the mobility of hardware was increased. Furthermore, within the scope of the 2018 adopted environmental partnership with the city of Hamburg, several measures to address sustainability were implemented.

To expand the business volume in the area of refinancing of credit platforms and to strengthen the equity capital, a capital increase was conducted at the beginning of the year by way of public offering and subsequent private placement. The share capital was increased from EUR 6,210,423.00 against cash contributions to EUR 9,315,634.00. All 3,105,211 shares were issued at a premium of 2.50 EUR per share. In addition to existing investors, further institutional investors, mainly from the finance and insurance sector, were acquired. These banking customers are convinced by the orientation of Varengold Bank for the marketplace lending industry, as well as strong supplier of Transaction Banking products.

In the middle of the second quarter the Supervisory Board of Varengold Bank also prematurely decided to reappoint Frank Otten as member of the Board of Directors until 30 April 2025 to ensure long-term continuity at the top of the Company and to thereby continue to drive the successfully introduced strategic orientation forward.

### 3. Position

#### 3.1 Financial position

The interest income of the Company increased from TEUR 4,219 in the first half-year 2018 to TEUR 4,388 in the first half-year 2019. The growth of TEUR 169 can mainly be traced back to increased interest income from the credit business. The interest income includes negative interest for Central Bank balances in the amount of TEUR 264. The interest income from fixed-rate securities and debt register claims fell from TEUR 416 to TEUR 214 due to volume reduction. Moreover, interest expenses increased primarily due to the 11.9 % increase in term deposits from TEUR 790 to TEUR 884, so that an interest surplus of TEUR 3,504 (previous year TEUR 3,429) was achieved. The interest expenses position contains interest income from customer recharged negative interest in the amount of TEUR 319.

The current income from shares and other variable-yield securities increased from TEUR 298 to TEUR 739 and are due to the distributions from investment funds.

The commissions income decreased from TEUR 9,303 to TEUR 6,593. Moreover, the commissions expenses fell as of 30 June 2019 to a value of TEUR 448 (previous year TEUR 1,195).

Other operating income increased from TEUR 97 in the first half-year 2018 to TEUR 590 in the first half-year 2019. Other operating income is characterized by revenue from the reversal of accruals.

The general administrative expenses of the Company grew by TEUR 603 from TEUR 7,080 in the first half-year 2018 to TEUR 7,683 in the first half-year 2019. The causes of this are derived mainly from increased personnel expenses which increased in particular due to an increase in the number of employees from TEUR 3,682 to TEUR 4,239. Moreover, expenses for IT grew by TEUR 377.

The depreciation and value adjustments of intangible assets and fixed assets declined slightly from TEUR 66 in the previous half-year to TEUR 57 in the first half-year 2019.

The other operating expenses grew from TEUR 389 in the first half-year 2018 to TEUR 1,100 in the first half-year 2019. This position mainly includes expenses from futures transactions to secure foreign currency positions.

The position depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business reached TEUR 199 (previous year income TEUR 3,296). This mainly contains specific value adjustments.

The income from attribution of shares, shares in affiliated companies and asset traded securities increased to TEUR 291. The expenses resulted primarily from the depreciation of shares in an affiliated company.

In total the results of normal business activities of Varengold Bank AG are TEUR 1,688 (previous year TEUR 1,208).

Considering income tax and earnings, as well as other taxes, there is an annual net profit as of 30 June 2019 of TEUR 1,122 (previous year TEUR -464). The comparatively high tax position resulted mainly from value adjustments in the credit and investment portfolio which are not recognized for tax purposes.

The return on investment in accordance with Section 26a KWG is calculated on the ratio of net profit and balance sheet and is 0.22 %

#### 3.2 Financial situation

In the half-year 2019 total assets dropped 5.3 % from EUR 530.9 million to EUR 503.0 million. The asset side is, in addition to advances to customers (EUR 263.4 million), particularly determined by shares and other variable-yield securities (EUR 108.8 million) and the level of cash reserves (EUR 92.9 million). Combined, these three positions constitute 92.4 % of the balance sheet total. The customer deposits at EUR 452.2 million or 89.9 % continue to represent the determining position on the liabilities side.

The core capital ratio (TIER 1) as of 30 June 2019 stood at 15.69 %.

Varengold Bank AG has an orderly asset and capital structure.

#### 3.3 Liquidity position

At EUR 92.9 million or 18 % of the balance sheet total, liquid assets represent a relatively large proportion of the balance on the asset side. The supervisory requirements liquidity ratio at 170.13 %, as in the previous year, lies considerably above the regulatory requirements. The liquidity position of the Bank was at no point at risk.

## C. Risk, chance and outlook reports

### 1. Risk report

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

The mission of Varengold Bank AG is to develop itself into the leading bank in the marketplace lending industry. The achievement of this goal through applying company objectives in the marketplace of Varengold Bank means the consistent conscious assumption of risk. A fundamental aspect of the business strategy of the Bank is to offer flexible, competitive products and services and to permanently adapt to changing market conditions.

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

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

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

Every potential future risk must be fully transparent from the start. Only with complete transparency can it be ascertained whether a risk should be approved. This decision is made 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 stipulated primarily in the risk-bearing capacity assessment and compliance 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 corresponds to the provisions of Minimum Requirements of the Risk Management (MaRisk) of the Federal Financial Supervisory Authority (BaFin).

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

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 are built upon each other:

- › Risk identification
- › Risk measurement
- › Risk management
- › Risk control and reporting

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

Risk controlling at Varengold Bank is responsible for monitoring the adherence to the risk strategy. The results from risk controlling are transparently reported to the management team in order to enable adequate management.

On 24.05.2018 the Federal Financial Supervisory Authority (BaFin) and the German Central Bank published the revised manual “Internal Capital Adequacy Assessment (ICAAP) – New orientation”. It contains guidelines, principles and criteria which designate the supervision of the evaluation of the bank’s internal risk-bearing capacity concept of the institution for which so-called “less significant institutions” (LSI) are governed by the German banking authorities. The risk-bearing capacity concept as a central component of the ICAAP according to Section § 25a para. 1 sentence 3 No. 2 KWG in conjunction with AT 4.1 note 1 (and note 2) MaRisk is composed of two perspectives: a normative perspective and an economic perspective. Both serve to ensure the long-term continuing business of the institute from its own current asset situation and earning power. To this end, the normative perspective has the explicit goal of supporting the continuation of the institute and the economic perspective the goal of protecting the creditor from losses from an economic perspective.

For the normative perspective the risk coverage potential (RDP) and the risk compliant concept for both the current, as well as future planning periods are determined. The capital planning refers to the point in time from preparation to a time period of at least three years and contains the regulatory required plan and an adverse scenario. Additionally, the Bank also utilizes the multiple-risk scenarios stress test for “serious economic downturn”, according to the possibility described in note 35 of the new RTF guidelines and in alignment with AT 4.3.3 note 3 MaRisk. In the capital planning scenario risks from the economic perspective which have an impact upon the available capital are taken into consideration.

The risk coverage potential in the normative perspective includes the regulatory equity capital, as well as the contingency reserves according to Section 340 f HGB. The applied procedures for risk quantification in the normative perspective for default risk, market price risk and operational risks result from the legal requirements of the CRR, whose risk-weighted amounts are used. In the plan scenario the complete equity capital requirements are complied with, in the adverse scenario “serious economic downturn” a shortfall in the combined capital reserves requirement will be undertaken according to Section 10i KWG.

As of 30.06.2019 all capital requirements in plan, as well as in adverse scenario were fulfilled as of the reporting date, as well as for the three-year planning horizon. Only in the third year of the “serious economic downturn” scenario did the combined capital reserves fall below requirement according to Section 10i KWG.

In the economic perspective the Bank uses a present value modelling of risk-taking capability. The risk-bearing potential is comprised of the regulatory equity capital, the contingency reserves according to Section 340 f HGB and hidden charges and reserves.

Fundamentally, the maximum tolerated capacity is limited to 100 percent. Capacities over 90 % of the total limit and capacities over 100 % within the individual risk types require a reaction of the Management Board.

The capacity of the risk-bearing potential as of 30 June 2019 was 58 %, of which 69 % is default risk, 15 % is market price risk, 4 % is operational risk, 3 % are strategic and reputational risks and 9 % is modeling risk.

Common models are utilized for the monitoring of the main default risks and market price risks.

For quantification purposes, the default risk is comprised, strictly speaking, of the risk-bearing capacity of default risk together with the migration risk. The two total risks are added together.

The quantification of the default risk, strictly speaking, is derived from the risk figures of expected loss and unexpected loss. The expected loss is determined on the basis of the probability of default under consideration of the loss given default (LGD). The unexpected loss 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 considered. In addition, the migration risk of the portfolio is determined using a time horizon of one year. External migration matrices are used for this. With the as such determined increased default ratios a new calculation of the default risk is conducted with the help of the Gordy Model. The difference in the default risk strictly speaking comes from the migration risk.

The market price risk is determined by adding the sums of the risks of exchange risk, credit spread risk and interest change risk. No correlations are taken into consideration in this instance.

The market price risk is quantified with the help of a value at risk model. For both the trading book and the banking book, this is measured with a confidence level of 99.9 %, a time horizon of 250 days and a lookback of 520 days via historical simulation. The monitoring and regulation of the market price risk is oriented on the limit system, which is derived based on the risk-capacity potential for market price risk.

The price risk is calculated and restricted for the total portfolio, as well as separately for the banking book, the trading book and the foreign currency futures. Included here are, in addition to investments in securities, which present a price risk, the open foreign currency positions, as well as the foreign currency futures held for hedging purposes.

The measurement of interest change risk takes place quarterly through risk controlling. For this the present value change of the interest book is determined at ad hoc interest changes of +200 basis points and -200 basis

points. The larger negative change (minimum 0 EUR) of the two interest changes flows into the risk-bearing capacity as a risk value.

As credit spread risk, the Bank defines the negative market value change of the shares in the event of a deterioration of the credit rating of an issuer, which has not yet been reflected in the rating. To determine the credit spread risk, the market value loss of the shares is multiplied at a basis point of the market value by the duration. This value is then multiplied by a credit standing value. Subsequently, the portfolio is not monitored; instead the values are conservatively added together.

To monitor the 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 distance to liquidity (at least three months) and a daily minimum liquidity of EUR 20 million. The monitoring is conducted by risk controlling. In addition, an emergency plan which sets off an early warning system, has been defined by the liquidity management concept.

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 risk. The scenarios are assessed by examining possible "bad case" scenarios of the risk type and possible extent of loss and the probability of occurrence. Share transactions by former and current employees of the bank on respective dividend recording dates of years 2010-2013, are currently under investigation for suspicion of tax evasion by the district attorney's office, Cologne. The outcome could theoretically lead to a significant expense for the company. Varengold Bank and the engaged external experts, however, estimate the probability of this risk as extremely low.

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

For the model risk the risk-bearing capacity assessment is established as total risk in the amount of 10 % of the total risk of default, market price, and operational risks of at least TEUR 400.

To restrict the concentration risks the Management Board established further limits which are continuously monitored.

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

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

## **2. Chance report**

Varengold Bank continues to pursue its newly formulated strategy of the past two years and persists in examining possibilities for value added partnerships in both core business areas Marketplace Banking and Transaction Banking. Thereby the Bank ensures that they concentrate strictly on the core competence of a regulated bank, that is fundamentally important for its customers. Varengold Bank would like to create customer advantage and further increase new customer acquisitions by providing real added value.

Varengold Bank is currently intensively active in the development of technical progress on the financial and capital market. Paired with the technological expertise of the FinTechs or so-called marketplaces in the area of Marketplace Banking, sustainable banking products are created which combine the best of both worlds. The supply of credit is thereby the central anchor point of customer acquisition.

Parallel to these activities the bank will continue to be dedicated to providing export-oriented customers in niche markets with base products for transaction banking, as well as trade finance products in order to position itself as a strong transaction bank. In particular also, the additional development of the branch office in Sofia, should push the Southeast European region into focus.

These goals are supported by the considerably optimized corporate identity with new corporate design and improved marketing presence already launched in 2018. Over the course of the year, this foundation will be further expanded to increase social media channel usage, initiate online promotional activities and to drive active participation in trade shows and conferences.

To increase productivity the Bank introduced new software solutions in the first half-year 2019. In addition to a platform for internal communication and inter-divisional project management, customer relationship management software was also implemented. This enables communication with customers and business partners to be archived in a central databank and made available to many operators. Moreover, within the context of the management systems Objectives and Key Results (OKR), an efficiency program for introducing and implementing process digitization was engineered.

The Board of Directors evaluates the business of 2019 to date as positive and is convinced that Varengold Bank has a solid foundation with its business model and has taken the right steps to meet the coming demands and needs of the stakeholders on the financial market and to drive further business growth.

Fundamentally, the Bank concentrates on opportunities in which it is particularly competitive and where it can strengthen its position for the long-term. The Bank will use resulting chances on the market to improve long-term profitability and rentability. Existing opportunities will be thoroughly analyzed with economic discipline and precision.

### 3. Outlook report

The future oriented statements contained in this section are based on estimates and conclusions made by Varengold Bank at the time of the preparation of these reports. The included statements are based upon assumptions and unless specifically noted, are declarations derived from internal estimations. The Bank explicitly states that the all of the future oriented statements are associated with known or unknown risks and uncertainties and the resulting conclusions are affected by future events outside of the influence of the Bank. Numerous important factors may lead to the actual results varying significantly from the future oriented statements.

Current international political and economic events are leading to a structural loss of momentum and could add further braking mechanisms to the economic development of the global economy. Experts are predicting an economic growth rate of around 3.3 % in the year 2019. The reasons for this, among others, could be in addition to the advanced position of the business cycle, the ongoing manifestation of the trade conflict between the USA and China. The further developments or the potential implications for global trade flows are very difficult to estimate and in addition, an expansion of the trade relationships with the European Union could be the result.

Nevertheless, a falling unemployment rate is to be expected for the majority of the labor markets in the Euro zone.

The annual average inflation rate is expected to reach nearly 1.4 percent.

The political conflict realm increases danger for the financial and capital markets. The interest surplus of the banks remains under pressure due to the ongoing low interest rate environment, from which a significant increase of profitability is not to be expected. The continuous low interest policy promotes fundamental risk of misallocations and the formation of bubbles, in particular in the real estate and securities markets.

The banking environment also remains under increasingly stronger pressure of ever more comprehensive regulatory procedures and intensifying supervisory requirements. Ultimately this development of the regulatory environment is to be considered as a risk factor for banks, because new supervisory requirements necessitate an increase in costs and utilize resources. The banks have already stood under considerable conforming and cost pressure for years in a competition-driven structural transformation.

The German banking and financial services sectors are also characterized by intense competition. In addition, the banking environment has been experiencing a digitalization upheaval for years, thereby creating new challenges for banks. Technology-oriented companies such as FinTechs have alternative offerings and business models that are reforming traditional bank processes in several areas. Varengold positions itself as banking partner precisely in this space, as many of the new types of financial services providers, as a rule, have neither the necessary financial resources nor meet the regulatory requirements.

Provided that geopolitical risks in the total economic environment do not become a significant issue and based upon the successful implementation of the planned business objectives, as well as the increase in operational efficiency, an already predicted positive results before taxes (as central financial performance indicator) of between EUR 2.8 million and EUR 3.2 million is expected for 2019.

Hamburg, 18 September 2019

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

# Corporate information

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## Board of Directors

Dr. Bernhard Fuhrmann  
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)

Finance Authority Hamburg, DE247069729

## Corporate Governance

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](http://www.bafin.de).

## Permissions/Approvals of 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

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



# DISCLAIMER

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

All designations which appear exclusively in masculine gender are meant to also apply to the feminine gender.

## 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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