Varengold BANK

Annual Report 2023

Key data

Key figure per share	31/12/2023 in EUR	31/12/2022 in EUR
Earnings per share	1.45	0.90
Market capitalisation	30,932,486	57,245,186

Profit and Loss Account	1/1/2023 to 31/12/2023 in TEUR	1/1/2022 to 31/12/2022 in TEUR
Interest income	42,887	13,598
Current income from shares and other variable-yield securities and shares in affiliated companies	422	302
Commission result	20,095	65,303
Other operating income	2,628	-4,872
Administrative expenses	-37,984	-35,704
Depreciation, amortisation and write-downs	-140	-8,184
Transfer to fund for general banking risks	-5,400	-5,000
Income from ordinary business activities	22,506	25,443
Annual net profit	14,523	9,057

Balance Sheet	31/12/2023 in TEUR	31/12/2022 in TEUR
Total assets	1,353,852	1,421,365
Equity capital	79,411	64,888

Foreword

At the time of writing this Annual Report, a special audit of Varengold Bank AG's business operations is being carried out by the Federal Financial Supervisory Authority (BaFin) in accordance with Section 44 (1) sentence 2 of the German Banking Act (KWG). Two out of a total of three audit areas have been completed as of the date of writing this report. The Bank has yet to be notified of a specific end date for the ongoing special audit.

The sections in this Annual Report relate solely to the mandatory disclosures required in the context of publishing the annual financial statements for the 2023 financial year. As was the case in the last annual report for 2022, the additional voluntary content published in previous years unfortunately had to be omitted when writing this Annual Report. The reason for this is the delayed publication of the 2022 Annual Report and the associated delayed start of the 2023 audit of the annual financial statements, and consequently the intention was to fulfil the obligation to publish as quickly as possible based on the minimum disclosures in the context of publication pursuant to Section 115 of the German Securities Trading Act (WpHG).

Looking at the 2023 financial year, which is now well behind us, Varengold Bank was able to achieve a satisfactory result overall despite the events described above. Earnings before tax were EUR 22.5 million (same period in the previous year: EUR 25.4 million), with a slight increase in administrative expenses of around EUR 38 million (despite the cost-cutting programme). This increase of 6.4% is due to costs in connection with the special audit. Earnings before tax also include a net allocation to risk provisions of TEUR 8,748 (same period in the previous year: TEUR 13,199), including an allocation, to the fund for general banking risks.

As far as the 2024 financial year, which has also already passed, is concerned, the first half of the year was initially characterised by dealing with the consequences of the special audit. The second half of the year on the other hand was crucial in terms of the Bank's further development and focused on looking ahead with a highly motivated mindset. In September 2024, the Board of Managing Directors and Supervisory Board began adjusting the business model, focusing on the supply of credit as the anchor product. In addition to the established Lending segment in the Marketplace Banking division, the expansion of ESG financing business with a special focus on energy transition will be stepped up in future. Furthermore, payment transaction business in the Commercial Banking division with a connection to Iran was discontinued completely.

In the last quarter of 2024, the Bank also worked on another change - Varengold Bank's new look. A brand refresh and the development of a new corporate website were planned for 2023. However, this project was put on hold as part of the cost-cutting programme, but resumed in the second quarter of 2024 for technical reasons. It is therefore all the more pleasing that our optimised website has been sporting a new design since January 2025. What began a few years ago with an internal cultural change is now being openly communicated to the outside world with our new image.

This strategic and visual change marked the end of the 2024 financial year, which Varengold Bank closed with preliminary unaudited earnings before taxes (EBT) of EUR 11.3 million. Varengold Bank is currently expecting EBT of between EUR 3 and 5 million for 2025.

5 March 2025

Contents

Supervisory Board Report
About the 2023 financial year

Dear Shareholders,

The newly constituted Supervisory Board has a clear and focused forward-looking view, but in March 2025 we looked back and reviewed the year 2023. Although the Supervisory Board had a different composition then, the current members and in particular the Chairman of the Supervisory Board gained a comprehensive picture of the company's development at the time, extraordinary events and measures taken.

In terms of the economic environment in 2023, the geopolitical situation continued to deteriorate significantly compared with the previous year. The war between Russia and Ukraine persisted with no end in sight. In addition, the conflict between the Palestinian organisation Hamas and Israel escalated in October 2023. Along with the wide-ranging consequences of these conflicts, persistent inflation and the effects of key interest rate hikes by central banks such as the European Central Bank (ECB) and the US Federal Reserve (FED) contributed to the global economy losing further momentum in 2023. In spite of this, the financial markets remained stable and European banks were largely spared major defaults. At the same time, regulatory requirements increased. In addition to the previous focus on interest rate risks as well as IT and cyber security, ESG criteria (environmental, social and governance) are becoming more prominent. Sustainability and net zero are gaining increasing importance in the financial sector in the process.

2023 was a particularly challenging year for Varengold Bank AG, characterised by the still ongoing special audit in accordance with Section 44 of the German Banking Act (KWG) and delays at various levels. Interim findings by the special auditors involved led to restrictions and restructuring measures in the payment transaction business at the beginning of June 2023 due to possible compliance violations, resulting in a significant deterioration in the earnings situation due to a lack of commission income. This was ultimately followed by short-term restructuring measures and the development of reorganisation guidelines for the Bank as whole. For further details of the special audit, please see information in the Management Report for the 2023 financial year. In this context, the Supervisory Board independently commissioned a legal firm to conduct additional forensic investigations into the Board of Managing Directors based on a review and audit of data.

These turbulent events also meant that the audit of the financial statements for the 2023 financial year by PricewaterhouseCoopers GmbH could not begin until June 2024 following receipt of the unqualified audit opinion for 2022. The consequences of this timing will continue to impact development in the current year and led, among other things, to the fact that the new auditors, PKF Treuwerk AG, were not able to start the main audit for the 2024 financial year until March 2025.

These prolonged circumstances did not however change the willingness of the Board of Managing Directors and the Supervisory Board to set the course for the future, and a decision was made at the Supervisory Board meeting on 10 September 2024 to adjust the Bank's current business model. In order to hone its profile and adapt to changing circumstances, a decision was also made to immediately discontinue payment transactions with Iran for the processing of humanitarian imports. The Bank will concentrate on the established Lending division in Marketplace Banking and the expansion of ESG financing business with a special focus on energy transition. The Bank’s strategy profile is currently being honed and put into operation with the support of external expertise.

Varengold

Cooperation between the Supervisory Board and the Board of Managing Directors in 2023

The entire Varengold team worked together to keep the company on course in 2023 through great commitment and the immediate and consistent implementation of safeguarding measures. The Supervisory Board monitored this development closely in the independent exercise of its duties.

In the 2023 financial year, the Supervisory Board fulfilled its duties as defined by law and the Articles of Association. It worked hard on the business and strategic development of the Bank and, as part of its advisory and supervisory role, monitored the Board of Managing Directors' performance of its management activities. Its monitoring objectives were based on statutory requirements and were adapted to internal and external developments as required. The criteria for this monitoring included the legality, regularity, expediency, strategic relevance, sustainability and economic efficiency of the Board of Managing Directors' management. In addition, the Board of Managing Directors' rules of procedure include an inventory of transactions and measures for which the Board of Managing Directors must obtain the approval of the Supervisory Board. These transactions and measures were discussed in detail by the two boards and certified by the Supervisory Board. The Supervisory Board was always informed about business activities and received a monthly written report on the financial situation as well as quarterly reports on the Bank's risk situation. All internal audit reports and compliance reports and, depending on the individual case, additional documents, were also made available to the Supervisory Board.

The information provided was explained and discussed in detail at the Supervisory Board's meetings, as part of circular resolutions and in individual discussions. The regular, comprehensive and timely written and oral reports provided by the Board of Managing Directors to the Supervisory Board complied with the requirements under Section 90 of the German Stock Corporation Act (AktG). The members of the Supervisory Board and the Board of Managing Directors were also in close contact outside of regular meetings in order to discuss strategic options and current business policy issues. The Board of Managing Directors always answered the Supervisory Board's questions in detail and to its satisfaction. Over the course of 2023, the Supervisory Board also satisfied itself of the suitability and reliability of the individual members of the Board of Managing Directors through regular discussions and specific questions.

In order to expand the information base and gain its own impressions of the company's development, the Supervisory Board also obtained information from the Bank's senior managers, Internal Auditing, external advisers and the competent supervisory authorities.

Audit Committee

The Supervisory Board of Varengold AG set up an Audit Committee on 1 January 2022, based on the Financial Market Integrity Strengthening Act (FISG). This committee is automatically composed of the three members of the Supervisory Board. The responsibilities of the Audit Committee are derived from those of the Supervisory Board and, pursuant to Section 100 (5) AktG, two financial experts are represented on this committee, one for accounting and one for auditing. The Audit Committee is primarily responsible for monitoring the quality of the audit of the annual financial statements and checking the independence of the auditors. The Audit Committee also has the right to receive information directly from the Bank's middle management. Due to the size of the company and the fact that the Supervisory Board only has three members, the

Supervisory Board refrained from forming additional committees in the 2023 reporting year.

Supervisory Board Meetings in 2023

A total of four ordinary and one extraordinary Supervisory Board meetings were held in the past financial year. These took place on 6 January 2023, 28 March 2023, 7 June 2023, 9 August 2023 and 30 November 2023. All of the meetings were attended by all members of the Supervisory Board, both members of the Board of Managing Directors, the Chief Operating Officer/Representative Director and, depending on the matters under discussion, guest speakers from the respective specialist departments. At each ordinary meeting, the Board of Managing Directors reported to the Supervisory Board on current financial and economic developments and provided a status update, specifically on risk controlling and compliance matters.

The Supervisory Board meeting on 6 January 2023 focused on the preliminary results for the 2022 financial year and the forecast for the 2023 financial year prepared at that time. The main items on the agenda of the meeting held on 28 March 2023 were the annual financial statements for the 2022 financial year, the business plan for the period 2023-2025, the approval of the 2023 business strategy and the 2023 risk strategy, and an update on the ongoing regulatory audit. As well as a review of business development in the first half of 2023, the meeting held on 7 June 2023 focused in particular on the progress of the Section 44 KWG special audit. The Board of Managing Directors reported to the Supervisory Board on restructuring measures taken, cost savings and projects that needed to be stopped. At the meeting on 9 August 2023, the events surrounding the special audit and cooperation with the special representative KPMG were discussed again, an update was given on the delayed audit of the 2022 annual financial statements and current business development was presented. The commissioning of suitable forensic experts to evaluate the findings of the special auditors to date was also discussed, and a decision was reached without the Board of Managing Directors being present. The last meeting on 30 November 2023 mainly covered the agenda items business development, progress of the special audit, IT security and the potential use of artificial intelligence.

In addition to these joint meetings of both boards, the Supervisory Board also held occasional telephone and video conferences in order to follow up on matters from the joint meetings and to prepare matters for upcoming joint meetings. Further resolutions were passed in a written circulation procedure in accordance with Article 12 (2) of Varengold Bank AG's Articles of Association.

Award of audit assignment to Pricewaterhouse-Coopers GmbH

Based on a resolution of the Supervisory Board on 4 June 2024, the Chairman of the Supervisory Board in post at the time commissioned auditing firm PricewaterhouseCoopers GmbH (PwC), Hamburg, to perform the statutory audit of the annual financial statements of Varengold Bank AG for the financial year 1 January to 31 December 2023, including the accounts and the management report, in accordance with Section 340k in conjunction with Sections 316 et seq. of the German Commercial Code (HGB). The assignment mandate contained clear arrangements regarding the scope of the audit, performance of the audit and constructive cooperation. Its subsequent election as auditor by the ordinary General Meeting on 13 August 2024 strengthened PwC's position as 'statutory auditor' for the 2023 financial year. Prior to the Supervisory Board's recommendation regarding the proposed election to the Annual General Meeting, the auditor also declared that there were no business, financial, personal or other relationships that could cast doubt on its independence.

In a letter dated 22 August 2024, the Supervisory Board also commissioned PwC with an additional key area for its audit. Based on the audit findings still outstanding as of 31 December 2023 with regard to the 'Precautionary measures to prevent money laundering, terrorism financing and criminal acts', PwC was asked to examine and assess whether the processes defined by Varengold Bank and newly implemented by 31 August 2024 on the basis of the defined measures are appropriate to remedy these objections.

PricewaterhouseCoopers GmbH, Hamburg, audited the annual financial statements as of 31 December 2023 (consisting of balance sheet, profit and loss account and notes) and the management report for the 2023 financial year, which were prepared in accordance with the provisions of the German Commercial Code. In preparation for the Supervisory Board meeting on 5 March 2025 to discuss the accounts, the Supervisory Board received the draft audit report on the 2023 annual financial statements for perusal and review. On 3 March 2025, the final discussion of the audit report relating to the 2023 annual financial statements took place between the Board of Managing Directors and the auditor, in which the Chairman of the Supervisory Board also actively participated. All outstanding questions were then answered at the Supervisory Board accounts meeting with the Board of Managing Directors and the auditors from PricewaterhouseCoopers who were present. Following its own review, the Supervisory Board concurred with the audit findings. The audited annual financial statements of Varengold Bank AG as of 31 December 2023, which were issued with an unqualified audit opinion by the auditor, were approved unanimously by the Supervisory Board on 5 March 2025 following a final review by the Supervisory Board pursuant to Article 12 in conjunction with Article 22 of Varengold Bank AG's Articles of Association, and were consequently deemed adopted. The Supervisory Board also approved the Board of Managing Directors' proposal to carry forward the retained earnings in full and not to pay a dividend for the 2023 financial year.

Personnel

In a resolution passed by the Hamburg District Court on 6 February 2023, Florin Isac was appointed to the Supervisory Board with effect from 26 February 2023. He replaced previous member Francesco Filia. Mr Isac had to step down from his position early for personal reasons with effect from 5 July 2023. At the request of the Board of Managing Directors, Marcus Columbu was then legally appointed as a member of the Supervisory Board with effect from 6 July 2023 until the end of the company's next Annual General Meeting. In a resolution passed by the Annual General Meeting on 13 August 2024, Dirk Auerbach was finally elected to the position. At a constituent meeting of the Supervisory Board held on the same day, the Board elected Mr Auerbach as its new Chairman.

Tobias M. Weitzel was also appointed as a member of the Supervisory Board of Varengold Bank AG effective 20 January 2025 at the request of the Board of Managing Directors to the Hamburg District Court. Mr Weitzel succeeded Dr Karl-Heinz Lemnitzer, who unfortunately stepped down from his position on the Supervisory Board in January 2025. The Board of Managing Directors and the Supervisory Board thank Dr Lemnitzer most sincerely for his many years of service, his dedicated approach and competent execution of his role in which he has actively supported the further development of Varengold Bank since 2015.

The Supervisory Board would like to take this opportunity to express our special appreciation to the employees and Board of Managing Directors of Varengold Bank for their personal commitment. We would also like to thank our shareholders, business partners and customers for the trust they have placed in Varengold Bank AG, whose business focus will be outlined in more detail over the months ahead. The focus will initially be on Varengold Bank's recognised strengths in Marketplace Lending for fintechs, the financing of innovative, medium-sized companies and energy transition projects. Business involving high-risk countries has been discontinued and will no longer play a role in future. The Bank's Board of Managing Directors and the Supervisory Board are looking forward to working with the whole Varengold team to position the Bank much more strongly in the relevant markets going forward.

5 March 2025

On behalf of the Supervisory Board:

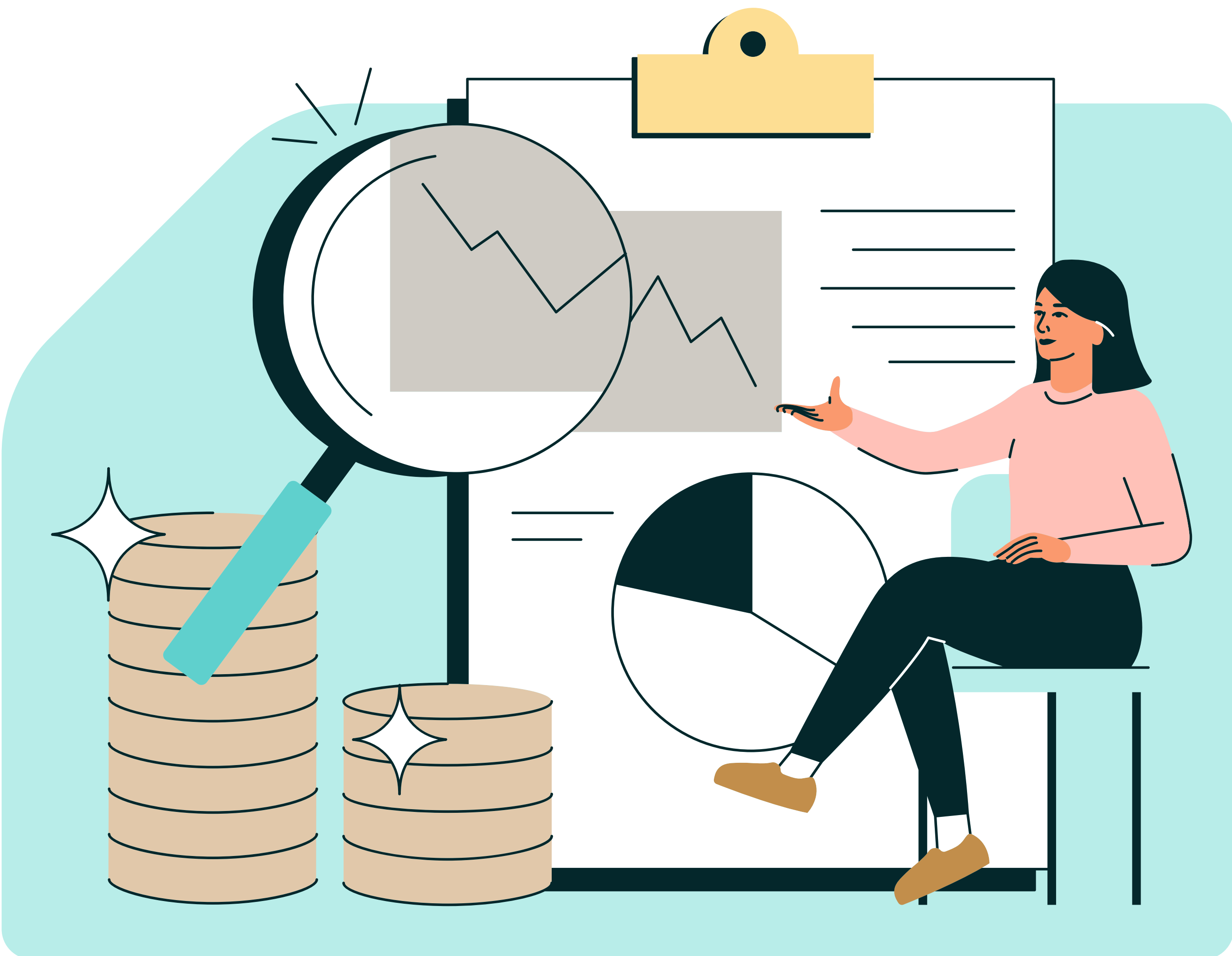
Dirk Auerbach
Chairman of the Supervisory Board

Annual financial statements
as of 31/12/2023

In accordance with the
German Commercial Code (HGB).

**For the financial year from 1 January 2023
to 31 December 2023.**

Varengold Bank AG
Große Elbstraße 39
22767 Hamburg, Germany



Balance Sheet

As of 31 December 2023.

Assets		**EUR**	**Financial year EUR**	**Previous year TEUR**
1.	Cash reserve			
	a) Cash and cash equivalents	2,151.53		1.8
	b) Balances at central banks	2,619,139.73		13,897.9
	↳ of which:		2,621,291.26	13,899.7
	With the Bundesbank: EUR 2,570,658.04			(13,826.5)
2.	Loans and advances to banks			
	a) Due on demand	792,932,817.74		783,805.1
	b) Other receivables	11,190.48		7.0
			792,944,008.22	783,812.1
3.	Loans and advances to customers		383,318,219.33	432,932.1
	↳ of which:			
	secured by mortgages: EUR 0.00			(43.7)
	Public sector loans: EUR 85,394,191.35			(191,290.5)
4.	Bonds and other fixed-income securities			
	a) Bonds and debt securities			
	aa) From public issuers	16,394,705.92		25,808.3
	↳ of which:			
	acceptable as collateral at the Bundesbank: EUR 16,210,356.72			(25,582.7)
	ab) From other issuers	7,843,858.36		2,086.7
	↳ of which:			
	acceptable as collateral at the Bundesbank: EUR 5,387,057.00			(2,071.2)
			24,238,564.28	27,895.0
5.	Shares and other variable-yield securities		92,273,643.77	100,255.6
6.	Participating interests		4,271,082.22	3,988.9
7.	Shares in affiliated companies		750,000.00	500.0
8.	Trust assets		34,987,307.49	39,406.3
	↳ of which:			
	trust loans EUR 34,987,307.49			(39,406.3)
9.	Intangible assets			
	a) Concessions acquired against payment	45,468.00		86.0
			45,468.00	86.0
10.	Fixed assets		185,246.50	180.4
11.	Other assets		18,013,290.79	18,299.4
12.	Prepaid expenses and deferred charges		204,006.78	109.5
Total assets			**1,353,852,128.64**	**1,421,365.0**

Assets

		EUR	Financial year EUR	Previous year TEUR
1.	Bank loans and overdrafts			
	a) Due on demand	75,090,427.42		121,144.1
	b) With agreed term or period of notice	332,340.09		2,962.8
			75,422,767.51	124,106.9
2.	Amounts due to customers			
	a) Other liabilities			
	aa) Due on demand	728,545,375.57		845,386.1
	ab) With agreed term or period of notice	386,876,626.64		299,825.6
			1,115,422,002.21	1,145,211.7
3.	Trust liabilities		34,987,307.49	39,406.3
	↳ of which:			
	trust loans EUR 34,987,307.49			(39406.3)
4.	Other liabilities		2,513,281.00	1,098.6
5.	Deferred income		427,469.59	686.9
6.	Provisions			
	a) Provisions for pensions and similar obligations	1,601,000.00		1,294.0
	b) Provisions for taxes	2,770,668.00		5,885.7
	a) Other provisions	25,896,232.40		28,786.6
			30,267,900.40	35,966.3
7.	Instruments of additional regulatory core capital		5,000,000.00	5,000.0
8.	Fund for general banking risks		10,400,000.00	5,000.0
9.	Equity capital			
	a) Subscribed capital	10,043,015.00		10,043.0
	b) Capital reserves	44,705,492.65		44,705.5
	c) Retained earnings			
	ca) Statutory reserve	1,700.00		1.7
	cb) Other retained earnings	16,700.00		16.7
		18,400.00		18.4
	d) Net profit	24,644,492.79		10,121.4
			79,429,800.44	64,888.3
Total equity and liabilities			**1,353,852,128.64**	**1,421,365.0**
1.	Contingent liabilities			
	a) Liabilities arising from guarantees and warranty agreements		820,550.00	50.0
2.	Other obligations			
	a) Irrevocable loan commitments		47,988,225.47	46,027.2

Profit and Loss Account

For the period 1 January 2023 to 31 December 2023.

		EUR	EUR	Financial year EUR	Previous year TEUR
1.	Interest income from				
	a) Lending and money market transactions	49,562,936.58			15,288.2
	Less negative interest from bank balances and customer loans	0.00			-3,182.9
		49,562,936.58			12,105.3
	b) Fixed-income securities and debt register claims	721,024.03			524.5
	Less negative interest	0.00			0.0
		721,024.03	50,283,960.61		12,629.8
2.	Interest expenses	-7,397,329.56			-2,413.0
	Less positive interest from open market transactions and banking business	0.00			3,381.3
			-7,397,329.56		968.3
				42,886,631.05	13,598.1
3.	Current income from				
	a) Shares and other variable-yield securities		421,629.45		302.3
	b) Shares in affiliated companies		0.00		0.0
				421,629.45	302.3
4.	Commission income		22,520,456.76		72,777.5
5.	Commission expenses		-2,425,559.51		-7,474.4
				20,094,897.25	65,303.1
6.	Other operating income			3,277,841.89	5,123.7
7.	General administrative expenses				
	a) Personnel costs				
	aa) Wages and salaries	-10,925,294.37			-12,050.8
	ab) Social security contributions and expenses				
	for pensions and other employee benefits	-2,024,079.13			-2,539.1
	↳ of which: for pensions EUR 1,446,465.15		-12,949,373.50		-14,589.9
	b) Other administrative expenses		-25,034,731.26		-21,113.8
				-37,984,104.76	-35,703.7
8.	Depreciation and amortisation of intangible assets and property			-86,969.38	-116.1
9.	Other operating expenses			-650,339.86	-9,996.2
10.	Depreciation and write-downs of receivables and certain securities and allocations to provisions in the lending business			-380,425.43	-6,828.6

		EUR	EUR	Financial year EUR	Previous year TEUR
11.	Transfer to fund for general banking risks			-5,400,000.00	-5,000.0
12.	Depreciation and write-downs on participating interests, shares in affiliated companies and securities treated as assets			327,056.40	-1,239.4
13.	Income from ordinary business activities			22,506,216.61	25,443.2
14.	Taxes on income and earnings		-7,982,454.25		-16,386.3
15.	Other taxes, provided they are not recognised under item 9		-684.82		-0.0
				-7,983,139.07	-16,386.3
16.	Annual net profit			14,523,077.54	9,056.9
17.	Profit carried forward from previous year (loss carried forward previous year)			10,121,415.25	1,064.5
18.	Net profit			24,644,492.79	10,121.4

Notes

For the period from 1 January to 31 December 2023

Preliminary notes

At the time of preparing the financial statements, a special audit of business operations was being carried out by the Federal Financial Supervisory Authority (BaFin) in accordance with Section 44 (1) sentence 2 of the German Banking Act (KWG).

The unqualified audit opinion on the 2022 annual financial statements and the 2022 Management Report was issued on 18 June 2024.

There may be rounding differences of +/- one unit for computational reasons.

1 General disclosures

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

To improve clarity and transparency, disclosures relating to multiple items continue to be presented in general terms covering these items, in deviation from Section 284 (1) sentence 1 HGB.

The Bank has at least one subsidiary within the meaning of Section 290 (1) clause 2 HGB and is therefore obliged to prepare consolidated financial statements in accordance with Section 340i (1) in conjunction with Section 290 (1) clause 1 HGB.

All subsidiaries (in accordance with Section 290 (1) clause 2 HGB in conjunction with Section 290 (2), (3) HGB) are individually or collectively of minor importance in terms of presenting a true and fair view of the net assets, financial position and earnings performance of the Group. Therefore, all subsidiaries are not required to be included in the consolidated financial statements pursuant to Section 296 (2) HGB. The Bank makes use of Section 290 (5) HGB and does not prepare consolidated financial statements.

2 Accounting and valuation methods

The accounting and valuation methods are unchanged from the previous year, unless explained otherwise below.

Items in the balance sheet and profit and loss account without an amount have been omitted in accordance with Section 265 (8) HGB for ease of reference.

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 stated at nominal value. Overnight deposits at the Bundesbank are recognised as loans and advances to banks.

Loans and advances to banks and customers are generally recognised at nominal value. Where necessary, possible default risks are covered by the formation of provisions for losses on individual accounts. The amount of risk provisioning for each case of default risk is based on the difference between the book value of receivables and the probable recoverable amount. Bad debts are written off. Latent lending risks are carried through the formation of general bad debt provisions. General bad debt provisions are calculated in accordance with the accounting standard of the expert banking committee at the Institute of Public Auditors in Germany (IDW), IDW RS BFA 7 (Risk provisions for foreseeable, not yet individually specified default risk in the lending business of banks ('general bad debt provisions') based on an estimate of expected losses arising from the failure to meet contractual capital and interest obligations at the originally agreed amount or on the originally agreed payment dates over the remaining term (expected loss); proceeds from the realisation of loan collateral that has been received are factored into the calculation.

The structured financial instruments included in loans and advances to customers from the granting of loans and share options against cash payment without obligation to exercise are recognised uniformly in accordance with IDW accounting standard HFA 22 (For uniform or separate accounting of structured financial instruments), as both the underlying instrument and the derivative are subject to the same risks. When the options are exercised, the acquisition cost of the assets is determined by the cash payment for exercising the option.

On the reporting date, there were open share option transactions without an obligation to exercise. These options are not used to cover interest rate, exchange rate or market price fluctuations and are not used for trading purposes. Open transactions are intended for the acquisition of participating interests that are designed to serve the Bank on a permanent basis.

If they are allocated to fixed assets, bonds and other fixed-income securities are recognised in accordance with the moderate lower of cost or market principle. If they are allocated to the liquidity reserve, they are recognised using the strict lower of cost or market principle.

If they are allocated to fixed assets, shares and other variable-yield securities are recognised in accordance with the moderate lower of cost or market principle. If they are allocated to the liquidity reserve, they are recognised using the strict lower of cost or market principle. A balance of TEUR 60,264 (previous year TEUR 63,098) has been allocated to fixed assets. This is recognised at amortised cost.

Participating interests and shares in affiliated companies are measured in accordance with the rules applicable to fixed assets at cost, and in the event of expected permanent impairment, less any value impairments, at the lower value.

Trust assets and liabilities are recognised at nominal value.

Intangible assets (software) and fixed assets are measured at cost less scheduled straight-line depreciation over their useful lives. The useful lives specified by the tax authorities (depreciation table for generally usable assets – 'Asset depreciation table') serve as a guide.

Low value assets purchased at acquisition costs of between EUR 250 and EUR 1,000 are entered as a compound item under assets and 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 an immediate operating expense.

Other assets are stated at their nominal value. Individual loss provisions totalling TEUR 1,000 (previous year TEUR 1,000 were made for doubtful items.

Prepaid expenses and deferred charges are recognised in accordance with Section 250 (1) HGB.

Liabilities are recognised at their settlement amount.

Deferred income is recognised in accordance with Section 250 (2) HGB and are written back over the residual term of the underlying transactions.

Provisions for pensions and similar obligations are recognised in accordance with the actuarial report of Funk Vorsorgeberatung GmbH, Hamburg, and mainly serve to provide for surviving dependants. Valuation is based on recognised actuarial principles using the projected unit credit method (PUC method). The 2018 G mortality tables by Prof. Klaus Heubeck were used as the basis for biometric calculation. The calculation was based on a salary and pension trend of 2.0% and an average fluctuation of 10% or 15%, depending on the group of beneficiaries. An average remaining term of 15 years was assumed for discounting in accordance with Section 253 (2) sentence 2 HGB. An average market interest rate of the past ten years determined by the Bundesbank on the reporting date in accordance with Section 253 (2) sentences 2, 4 and 5 HGB of 1.82% (previous year: 1.78%) was used as the discounting factor.

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

The relevant instruments of additional regulatory core capital are valued at their nominal value. Interest is accrued in accordance with contractual arrangements and recognised under Other liabilities.

In the reporting year, the company increased the fund for general banking risks in accordance with Section 340g HGB by TEUR 5,400 from TEUR 5,000 to TEUR 10,400.

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

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

Income and expenses are deferred on an accrual basis.

Negative interest from lending transactions and positive interest from borrowing transactions no longer exist.

The Bank exercises its right to vote on 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.

3 Currency translation

Receivables and liabilities are initially measured at the European Central Bank (ECB) reference rate.

There are both transactions in foreign currency with or without separate hedging.

The company manages its currency hedging through an independent treasury fund.

For transactions without separate hedging, the results from currency translation are not offset by hedging transactions in the profit and loss account. Currency results are recognised in other operating expenses.

Any exchange rate-related overruns of the acquisition costs for these transactions in foreign currency are offset by recognising an adjustment item on the liabilities side in accordance with IDW RS BFA 4, 21 (Special features of foreign currency translation for banks under commercial law), which is reported under Other liabilities.

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

For separately hedged transactions, 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.

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.

The following balance sheet items include the foreign currency amounts listed below:

	31/12/2023 TEUR	31/12/2022 TEUR
Balances at central banks	48	71
Loans and advances to banks	4,179	8,219
Loans and advances to customers	36,442	59,711
Shares and other variable-yield securities	32,009	37,158
Participating interests	1,234	921
Other assets	48	43
Amounts due to customers	51,384	61,085
Other liabilities	14	11

4 Notes to the balance sheet

4.1 Overall disclosures

4.1.1 Relationships with affiliated companies

Subsidiary company Elbe2021 Incubator GmbH changed its name to VARP Finance GmbH at the beginning of 2023.

	31/12/2023 TEUR	31/12/2022 TEUR
Loans and advances to customers	383,318	432,932
↳ of which to affiliated companies	1,557	1,186
↳ of which to VARP Finance GmbH	1,557	1,186
Amounts due to customers	1,115,422	1,145,212
↳ of which to affiliated companies	207	170
↳ of which to VARP Finance GmbH	207	170

4.1.2 Breakdown by residual term

Loans and advances to banks include overnight deposits at the Bundesbank totalling TEUR 786,963 (previous year TEUR 774,575).

	31/12/2023 TEUR	31/12/2022 TEUR
Loans and advances to banks	792,944	783,812
Due on demand	792,933	783,805
Up to three months	0	0
Between three months and one year	11	7
Loans and advances to customers	383,318	432,932
Due on demand	36,602	21,776
Up to three months	67,618	134,649
Between three months and one year	135,282	127,567
Between one and five years	143,758	148,882
More than five years	58	58
Bonds and other fixed-income securities	24,239	27,895
Up to three months	3,037	128
Between three months and one year	6,894	10,510
Between one and five years	9,483	17,257
More than five years	4,825	0
Bank loans and overdrafts	75,423	124,107
Due on demand	75,091	121,144
Up to three months	24	24
Between three months and one year	71	71
Between one and five years	237	2,868
Amounts due to customers	1,115,422	1,145,212
Due on demand	728,926	845,829
Up to three months	26,615	31,152
Between three months and one year	120,437	106,372
Between one and five years	231,147	157,160
More than five years	8,297	4,699

Varengold

4.1.3 Securities

	31/12/2023 TEUR	31/12/2022 TEUR
Bonds and other fixed-income securities	24,239	27,895
Not eligible for stock market listing	0	0
Eligible for stock market listing	24,239	27,895
↳ of which: listed	21,816	27,895
Shares and other variable-yield securities	92,274	100,256
Not eligible for stock market listing	81,144	86,418
Eligible for stock market listing	11,130	13,838
↳ of which: listed	130	3,837
Shares in affiliated companies	750	500
Not eligible for stock market listing	750	500
Eligible for stock market listing	0	0
↳ of which listed	0	0
Participating interests	4,271	3,989
Not eligible for stock market listing	3,922	3,640
Eligible for stock market listing	349	349
↳ of which listed	0	0

Shares in affiliated companies include payment obligations from uncalled contributions of TEUR 250 (previous year TEUR 0).

4.1.4 Trust assets and trust 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 trust liabilities amounted to TEUR 34,987 as of 31 December 2023 (previous year TEUR 39,406).

4.2 Individual disclosures

4.2.1 Loans and advances to customers

Loans and advances to customers of TEUR 383,318 (previous year TEUR 432,932) largely consist of customer loans TEUR 302,583 (previous year TEUR 249,692) and public sector loans of TEUR 85,394 (previous year TEUR 191,291), in each case before deduction of impairment losses. This item also includes accrued interest and payment transaction accounts with overdrafts.

4.2.2 Debt securities and other fixed-income securities

Debt securities and other fixed-income securities amounting to TEUR 16,395 (previous year TEUR 25,808) are bonds and debt securities from public issuers. Other issuers account for TEUR 7,844 (previous year TEUR 2,087).

4.2.3 Shares and other variable-yield securities

This balance sheet item includes investment fund units and publicly traded bearer bonds amounting to TEUR 92,144 (previous year TEUR 99,907).

TEUR 91,047 (previous year TEUR 96,218) relates to investment assets in which the Bank holds more than 10% of shares and which are broken down as follows:

in TEUR	Investment objective	Book value	Market value	Undisclosed reserve/charge	Disbursal in the financial year
Dalma Corporate Bond Fund	Real Estate	17,313	18,306	993	0
Quintar STFF	Commodity trade financing	14,600	14,600	0	0
Varengold Spezial I	Pensions	49,135	49,546	411	0
nordiX European Consumer Credit Fund C	Consumer loans	10,000	10,118	118	400

There is an option to surrender within three months with the ‘Dalma Corporate Bond’ fund and within 90 days at the end of the month in the case of the ‘Quintar STFF’ fund. The ‘Varengold Spezial I’ fund is not subject to any restrictions in terms of the daily surrender option. The ‘nordix European Consumer Credit Fund’ has a return option deadline of three months to 30 June or 30 December one year prior for pools of funds of more than TEUR 100.

The valuation of the Varengold Spezial I fund already includes write-downs to take account of risks from the fund's commitments in Russia. These are to be maintained on the reporting date in the absence of a sustained recovery in value.

Fund units with a book value of TEUR 60,134 (previous year TEUR 62,749) are reported as assets at a fair value of TEUR 60,675 (previous year TEUR 60,816). Shares with a book value of TEUR 130 (previous year TEUR 349), the fair value of which is TEUR 564 (previous year TEUR 414) are also included as assets.

4.2.4 Participating interests and shares in affiliated companies

Varengold Bank AG has the following unlisted shareholdings, each with an ownership interest of more than 20% on the reporting date.

Company	Ownership interest Direct %	Equity capital 31/12/2023 TEUR	Result 2023 TEUR
VARP Finance GmbH, Hamburg	100.00	616	-97
Hanseatic Brokerhouse Securities AG, Hamburg	33.00	-3,165	-121

In accordance with Section 285 (11) HGB in conjunction with Section 271 HGB, participating interests below 20% are not disclosed.

4.2.5 Gross-Assets analysis

Fixed assets are shown in the schedule below. It only includes debt securities, other securities, shares and other variable-yield securities that are allocated to fixed assets.

	Acquisition costs				Cumulative depreciation				Residual book value	
	1/1/2023 TEUR	Additions 2023 TEUR	Disposals 2023 TEUR	31/12/2023 TEUR	1/1/2023 TEUR	Annual depreciation allowance 2023 TEUR	Disposals 2023 TEUR	31/12/2023 TEUR	31/12/2023 TEUR	31/12/2022 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	2,242	0	0	2,242	2,156	41	0	2,197	45	86
Fixed assets	727	51	0	778	547	46	0	593	185	180
Total	**3,357**	**51**	**0**	**3,408**	**3,091**	**87**	**0**	**3,178**	**230**	**266**
	Change*)									
Bonds and other fixed-income securities	0								0	0
Shares and other variable-yield securities	-2,834								60,264	63,098
Participating interests	282								4,271	3,989
Shares in affiliated companies	250								750	500

*) Use was made of the financial asset summary possible in accordance with Section 34 (3) RechKredV

Intangible assets consist primarily of acquired software and licences. Fixed assets include operating and office equipment (including leasehold improvements) which are used by the Bank.

4.2.6 Other assets

In the reporting year, this item was characterised by claims for repayment following the termination of fund units in the liquidity reserve in the nominal amount of TEUR 16,775 (previous year TEUR 16,566). An individual loss provision of TEUR 1,000 (previous year TEUR 1,000) was recognised for one of the claims. Otherwise, the item mainly includes receivables from tax over-payments of TEUR 1,727 (previous year TEUR 1,454), assigned claims of TEUR 244 (previous year TEUR 233) and receivables from security deposits paid of TEUR 141 (previous year TEUR 140). There are no longer any claims for return against third parties (previous year: EUR 728 thousand). Tax over-payments relate to VAT for the current financial year and previous years of TEUR 1,659 (previous year TEUR 1,320). There are also refund claims against tax authorities in Germany amounting to TEUR 0 (previous year TEUR 69) and abroad amounting to TEUR 68 (previous year TEUR 65).

4.2.7 Prepaid expenses and deferred charges/Deferred income

Prepaid expenses and deferred charges mainly include licences paid for in advance amounting to TEUR 95 (previous year TEUR 86) and outside services amounting to TEUR 79 (previous year TEUR 87). Deferred income consists of accruals from loan agreements of TEUR 350 (previous year TEUR 514) and forfaiting of TEUR 77 (previous year TEUR 173).

4.2.8 Bank loans and overdrafts

Bank loans and overdrafts include liabilities of TEUR 75,090 (previous year TEUR 121,144) due on demand to 16 financial institutions.

There are no longer any liabilities to the Bundesbank from open market transactions. These amounted to TEUR 2,590 in the previous year. There are liabilities due to KfW of TEUR 332 (previous year TEUR 380) arising from a loan that was transferred from the coronavirus instant loan scheme (trust loan) to the entrepreneur loan scheme.

4.2.9 Amounts due to customers

The Amounts due to customers item includes liabilities of TEUR 728,545 (previous year TEUR 845,386) due on demand as well as liabilities with an agreed term or notice period in the amount of TEUR 386,877 (previous year TEUR 299,825). Liabilities consist of current accounts of TEUR 604,476 (previous year TEUR 679,488), term deposits of TEUR 386,877 (previous year TEUR 299,826), overnight deposits of TEUR 84,479 (previous year TEUR 135,491), security deposits of TEUR 35,156 (previous year TEUR 25,973) and other items amounting to TEUR 4,435 (previous year TEUR 4,435).

4.2.10 Other liabilities

Other liabilities all have a remaining term of less than a year and mainly include trade payables in the amount of TEUR 1,657 (previous year TEUR 274) and an adjusting item on the liabilities side in accordance with IDW RS BFA 4 of TEUR 482 (previous year TEUR 447). The trade payables mainly result from broker commissions in connection with discontinued business. This item also includes liabilities arising from tax effects in the amount of TEUR 349 (previous year TEUR 325).

4.2.11 Provisions for pensions and similar obligations

Pension provisions are held for surviving dependants.

The difference between the measurement of pension provisions using the 10-year average interest rate (TEUR 1,601) and the 7-year average interest rate (TEUR 1,638) was TEUR 37 (previous year TEUR 137) and was subject to a dividend payout restriction in accordance with Section 253 (6) sentence 2 HGB. Interest expenses arising from interest accruing amounted to TEUR 10 in the reporting year (previous year TEUR 57).

4.2.12 Provisions for taxes

This item is broken down as follows:

		31/12/2023 TEUR	31/12/2022 TEUR
Germany			
	Corporation tax 2014	0	948
	Corporation tax 2019	0	15
	Corporation tax 2020	-258	0
	Corporation tax 2021	152	305
	Corporation tax 2022	1,747	2,046
	Corporation tax 2023	-305	0
	Trade tax 2014	0	68
	Trade tax 2019	0	6
	Trade tax 2020	-267	0
	Trade tax 2021	155	320
	Trade tax 2022	1,822	2,156
	Trade tax 2023	-310	0
	Total Germany	**2,736**	**5,864**
International			
	Income tax, London, previous years	14	7
	Income tax, Sofia, previous year	0	14
	Income tax, Sofia, 2023	20	0
	Total international	**34**	**21**
	Total Germany + international	**2,770**	**5,885**

4.2.13 Other provisions

This item is broken down as follows:

	31/12/2023 TEUR	31/12/2022 TEUR
Provisions for legal proceedings	4,286	4,093
Possible fines	4,064	4,000
Variable remuneration	3,960	3,260
Costs of Section 44 KWG special audit	3,474	7,000
Repayment claims, Tax authority, CGT 2016	3,100	3,100
Financial statement preparation and audit costs	2,703	1,879
Legal and consulting costs	2,304	622
General bad debt provision for irrevocable loan commitments	437	360
Holiday and overtime provisions	190	222
Contributions to the Chamber of Commerce	146	0
Entschädigungseinrichtung deutscher Banken [German statutory compensation scheme for depositors and investors]	126	126
Archiving costs	65	99
Commission and refunds	0	3,077
Severance payments	0	84
Other	1,042	865
Total	**25,897**	**28,787**

As in previous years, there are entitlements to variable remuneration based on the 2022 and 2023 results. As it has not yet been possible to settle the variable remuneration for 2022 due to the 2022 financial statements not being approved, there was an increase of TEUR 700 compared to the previous year.

The precautionary provision for legal risks due to a possible pro rata judgement against Varengold Bank AG in the Caceis legal dispute, as explained in the Management Report, is included in the item ‘Provisions for legal proceedings’ in the amount of TEUR 4,061 (previous year TEUR 3,868). The increase in this provision in the reporting year is due to interest rate effects.

Due to ongoing auditing activities as part of the Section 44 KWG special audit and the associated increase in costs, an addition was made to the Section 44 KWG provision in the financial year. The company could face fines as a result of the special audit findings. TEUR 4,000 was recognised for these based on legal estimates. A contractual penalty of TEUR 64 has also been taken into account for the late publication of the half-year financial statements and the annual financial statements in accordance with the Deutsche Börse General Terms and Conditions.

Legal services amounting to TEUR 1,855 in connection with the Section 44 KWG audit are included under legal and consulting fees. These relate to services arising from legal issues with customers as well as the processing of the special audit findings.

In a ruling dated 22 December 2021, the tax authorities substantiated a claim for repayment against Varengold AG due to the failure to deduct the required capital gains tax including solidarity surcharge in the amount of TEUR 3,100 by a fund in which the Bank held an interest. The fund was terminated in 2016. An appeal was filed against the tax authorities' ruling. A suspension of enforcement was granted.

In addition to amounts for annually recurring audits, provisions for financial statement preparation and audit costs in the reporting year included amounts for irregular audits by the tax authorities as well as the special representative of the Federal Financial Supervisory Authority (BaFin).

4.2.14 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds ('AT1 bonds') in the amount of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated bonds of Varengold Bank. The half-yearly interest payments for these bonds are measured 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 due 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. Such circumstances would be if Varengold Bank's Tier 1 core capital ratio fell below 5.125%. The value of the bonds may be appreciated under certain conditions if circumstances give rise this.

Deferred interest expenses for these bonds amounted to TEUR 8 as of 31 December 2023 (previous year TEUR 7).

Outstanding additional Tier 1 bonds on 31 December 2023 (not including interest here) were as follows:

Currency	Amount in EUR	Type	Issue date	Interest rate	Maturity
EUR	5,000,000	Variable interest, cumulative subordinated bonds	19 August 2014	Variable	Without maturity date

4.2.15 Fund for general banking risks

In the reporting year, the company increased the fund for general banking risks in accordance with Section 340g HGB by TEUR 5,400 from TEUR 5,000 to TEUR 10,400.

4.2.16 Equity capital

As of the reporting date, the fully paid up share capital EUR 10,043,015.00 (previous year EUR 10,043,015.00) is divided into 10,043,015 no-par value ordinary shares.

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
2019	3,105,211	1.50	4,657,816.50
2020	727,381	2.85	2,073,035.85
2021	0	0	0
2022	0	0	0
2023	0	0	0
Total			**6,730,852.35**

As of 31/12/2018	37,974,640.30
As of 31/12/2023	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' to EUR 1,446,225.00. A resolution was passed at the 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.

None of the subscription rights granted in 2012 were exercised and expired as of 14 January 2023.

No stock options were issued in 2023.

4.2.17 Contingent liabilities

As of 31 December 2023, there were liabilities from guarantees and warranty agreements, mainly in the form of guarantee lines, of TEUR 821 (previous year TEUR 50). The risk of utilisation is classified as low. The guarantees are collateralised in full by cash, liquid securities or a combination of both.

The risk of losses arising from the utilisation of contingent liabilities depends essentially on the principal's lending risk. 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 of 31 December 2023, there were other liabilities in the form of irrevocable loan commitments of TEUR 47,988 (previous year TEUR 46,027) to customers who are able to draw on these in full or in partial amounts. For these instances, the contractual prerequisites for distribution will be examined before each distribution. The Bank assesses the risk that a loss will result from the use of the irrevocable loan commitments before entering into its binding commitment as part of the credit check.

4.2.18 Transferred collateral

In accordance with the terms for open market transactions, the Bundesbank was provided with collateral in the form of securities (ECB eligible bonds) as well as loans against promissory notes totalling TEUR 2,886 (previous year TEUR 12,104).

5 Notes to the profit and loss account

5.1 Interest income

The allocation to region is based on the location of the customer's registered office	**2023 TEUR**	**2022 TEUR**
Interest income	50,284	12,630
↳ of which: Germany	37,395	4,532
↳ of which: Europe	12,509	7,427
↳ of which: Near and Middle East	35	192
↳ of which: Asia	0	0
↳ of which: Other third country	345	479
Interest expenses	7,397	-968
Interest income	**42,887**	**13,598**

Interest income consists mainly of loans granted and fixed-income securities. Up until the previous year, negative interest was incurred in particular at the Bundesbank for collateral deposits and overnight deposits; this was directly subtracted from interest income. The increase in interest income from TEUR 12,105 to TEUR 49,563 is mainly due to the positive development of the ECB's key interest rate, which rose to 4.5% for the main refinancing business in the reporting year. Firstly, income from deposits at the Bundesbank increased, and secondly, income from loans to customers in existing and new lending business increased compared with the previous year.

Interest expenses mainly include interest on customer deposits (instant access, fixed-rate and term deposits). In addition, the current interest rate situation resulted in interest expenses for the first time for the ‘Tier-1 bond’ issued in 2014. Negative interest received in respect of deposited customer securities and customer deposits was also openly deducted from interest expenses until the previous year. In the previous year, this negative interest was higher than interest expenses and consequently a gain has been reported under interest expenses. Interest expenses rose from TEUR -968 to TEUR 7,397.

5.2 Current income from shares and other variable-yield securities

The allocation to region is based on the location of the customer's registered office	2023 TEUR	2022 TEUR
Current income from shares and other variable-yield securities	422	302
↳ of which: Germany	422	151
↳ of which: Europe	0	151
↳ of which: Near and Middle East	0	0
↳ of which: Asia	0	0
↳ of which: Other third country	0	0
Current income from shares and other variable-yield securities	**422**	**302**

Income from shares and other variable-yield securities only includes disbursals from investment funds.

5.3 Commission result

The allocation to region is based on the location of the customer's registered office	2023 TEUR	2022 TEUR
Commission income	22,521	72,777
↳ of which: Germany	2,556	2,917
↳ of which: Europe	7,601	25,678
↳ of which: Near and Middle East	9,401	35,150
↳ of which: Asia	2,961	8,850
↳ of which: Other third country	2	182
Commission expenses	2,426	7,474
Commission result	**20,095**	**65,303**

The measures taken in connection with the findings of the Section 44 KWG audit had a significant negative impact on commission income. On 27 June 2023, BaFin prohibited transactions with payment agents and other third parties with a connection to Iran on the grounds of high money laundering risks and serious shortcomings in the prevention of money laundering. BaFin also appointed a special representative. The ban on these transactions is intended to prevent the Bank from being misused for money laundering. In September 2024, the Bank decided to discontinue its payment transaction business involving higher risk. Please see the supplementary report at the end of the notes.

Commission income essentially includes commission from payment transaction business of TEUR 17,850 (previous year TEUR 68,280), lending business of TEUR 2,117 (previous year TEUR 1,442), guarantee and documentary credit business of TEUR 1,030 (previous year TEUR 1,773) and revenue from fronting services in Marketplace Banking business of TEUR 1,472 (previous year TEUR 1,193). Commission expenses mainly involve fees for the brokering of transactions in the Transaction

Banking area. The decline in commission expenses is due to the restrictions and measures in connection with the findings of the Section 44 KWG audit.

5.4 Other operating income

The allocation to region is based on the location of the customer's registered office	**2023 TEUR**	**2022 TEUR**
Other operating income	3,278	5,124
↳ of which: Germany	2,837	4,793
↳ of which: Europe	423	311
↳ of which: Near and Middle East	0	0
↳ of which: Asia	0	20
↳ of which: Other third country	18	0
Other operating income	**3,278**	**5,124**

Other operating income essentially includes income from the on-debiting of consulting expenses of TEUR 723 (previous year TEUR 1,107) and from the reversal of provisions of TEUR 1,199 (previous year 3,174). Income relating to other periods of TEUR 7 (previous year TEUR 85) is included.

Other operating income also includes proceeds from tax refund claims of TEUR 574 (previous year 0). The proceeds are the result of an adjustment to the deductible input tax rate.

5.5 Personnel costs

	2023 TEUR	**2022 TEUR**
Wages and salaries	10,925	12,050
Social security contributions	1,285	1,093
Expenses for pensions and other employee benefits	739	1,446
Total	**12,949**	**14,590**

The decrease in personnel costs was due mainly to a reduction in performance-related payments of TEUR 1,519. Expenses for pensions were down TEUR 707 due to the fact that a one-off disproportionate addition to the pension provisions was required due to a change in the calculation base in the previous year.

5.6 Other administrative expenses

	2023 TEUR	2022 TEUR
Consulting fees, costs of preparing financial statements and audit costs	10,523	4,534
IT expenses	5,515	4,154
Audit costs, Section 44 KWG	3,185	7,000
Other services	1,802	1,829
Premiums and insurance	1,645	1,457
Expenses for premises	657	682
Communication	558	500
Advertising, entertainment, travel expenses	461	403
Office supplies, magazines, training	181	267
Vehicle costs including leasing (not including road tax)	66	44
Other administrative expenses	442	244
Total	**25,035**	**21,114**

Due to the ongoing audit activities of the special auditors in accordance with Section 44 KWG after the financial year, the provision for special audits had to be recognised again in the reporting year.

The increase in the costs of consulting and preparing and auditing the financial statements is mainly due to higher expenses as a result of the Section 44 KWG special audit. Particular mention should be made here of the costs involved in obtaining legal advice in connection with customers' funds, assessment and advisory opinion on audit findings and the auditor's fees. This is also partly responsible for the increase in IT expenses.

'Other services' include the purchase of services from third parties, which cannot necessarily be assigned to one of the other categories.

Other administrative expenses include expenses unrelated to the period of TEUR 139 (previous year TEUR 18).

5.7 Other operating expenses

Other operating expenses of TEUR 650 (previous year TEUR 9,996) mainly include foreign currency translation expenses of TEUR 344 (previous year TEUR 178), interest on additional tax payments of TEUR 44 (previous year TEUR 229), expected interest of TEUR 193 in the Caceis legal case and interest on additional tax payments of TEUR 44 (previous year TEUR 229). In the same period in the previous year, there were also expenses of TEUR 4,000 for possible fines following the Section 44 KWG special audit, the recognition of a provision in the Caceis legal case of TEUR 3,868 and the recognition of provisions for losses on individual accounts in the lending business of TEUR 1,000.

5.8 Transfer to fund for general banking risks

In the reporting year, the company increased the fund for general banking risks in accordance with Section 340g HGB by TEUR 5,400 from TEUR 5,000 to TEUR 10,400.

5.9 Taxes on income and earnings

The tax result is due to corporation tax in Germany and solidarity surcharge for the reporting year of TEUR 4,580 (previous year TEUR 7,401) and to trade tax for the reporting year of TEUR 4,769 (previous year TEUR 6,774). The tax result was also influenced by additional payments and refunds for previous years of German and foreign income taxes resulting in net income of TEUR 1,366 (previous year TEUR -2,212).

Tax expenses were down mainly due to the reduction in the Bank's income.

6 Other disclosures

6.1 Executive bodies

6.1.1 Supervisory Board

Dirk Auerbach
Chairman
Chairman of the Board of Managing Directors of Schalast Auerbach AG Wirtschaftsprüfungsgesellschaft
Member since: 13 August 2024
End of period of office (for a period up to the end of the General Meeting deciding on the discharge of liability in the cited financial year): 2028

Vasil Stefanov
Director, Euro-Finance AD; Head of M&A, Euroins Insurance Group AD
Member since: 21 March 2018
End of period of office (for a period up to the end of the General Meeting deciding on the discharge of liability in the cited financial year): 2028

Tobias Michael Weitzel
Senior Executive and Founder of CREDION AG
Member since: 20 February 2025
End of period of office: next GM

Dr Karl-Heinz Lemnitzer
Independent tax adviser and auditor
Member since: 14 September 2015
End of period of office: 21 January 2025

Francesco Filia
CEO Fasanara Capital Ltd.
End of period of office: 25 February 2023

Florin Isac
Head of Corporate Finance at Swiss Capital S.A., management consultant
Member since: 26 February 2023
End of period of office: 5 July 2023

Marcus Columbu
Lawyer, Partner at act AC Tischendorf Rechtsanwälte Partnerschaft mbB
Member since: 6 July 2023
End of period of office: 13 August 2024

Mr Isac was appointed to the Supervisory Board by court order with effect from 26 February 2023 but resigned his position for personal reasons with effect from 5 July 2023. At the request of the Board of Managing Directors, in a decision dated 3 July 2023, the Hamburg District Court appointed Marcus Columbu as a member of the Supervisory Board with effect from 6 July 2023 until the end of the company's next ordinary or extraordinary general meeting. His period of office expired at the General Meeting on 13 August 2024.

At the end of the General Meeting on 13 August 2024, Mr Auerbach was elected as the new Chairman of the Supervisory Board. Since the General Meeting on 13 August 2024, Mr Lemnitz is no longer Chairman of the Supervisory Board and Mr Stefanov is no longer Vice Chairman of the Supervisory Board; both are still members of the Supervisory Board following their re-election at the General Meeting on 13 August 2024.

In a letter dated 9 January 2025, Dr Karl-Heinz Lemnitzer informed the Supervisory Board that he was resigning from his position on the Supervisory Board with effect from 21 January 2025.

In a resolution passed by the Hamburg District Court on 17 February 2025, Tobias Michael Weitzel was appointed as a member of the Supervisory Board to replace Karl-Heinz Lemnitzer with effect from 20 February 2025.

6.1.2 Board of Managing Directors

Back Office Board member:
Dr Bernhard Fuhrmann

Market Board member:
Frank Otten

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

6.1.3 Mandates on statutory supervisory boards

All the following disclosures relate to the reporting date.

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

In addition to his activities 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), a member of the Board of Managing Directors of Euro-Finance AD (Sofia), Vice Chairman of the Supervisory Board of Electrohold Sales EAD (Sofia), member of the Board of Managing Directors of Quintar Capital Limited (Hong Kong), non-executive director of Hanson Asset Management Limited (London) and co-owner of Arkont-Invest Ltd (Plovdiv). Mr Stefanov is also a member of the management board of the 'Multi-Sport Student Club at St. George Private School' in Sofia.

Mr Filia is CEO of Fasanara Capital Ltd (London) as of the reporting date.

Mr Columbu is Chairman of the Supervisory Board of FiNet Asset Management AG (Marburg).

As of the reporting date, in addition to his position on the Board of Managing Directors of Varengold Bank AG, Dr Fuhrmann is also engaged in the role of liquidator at Varengold Verwaltungs AG (in liquidation), Hamburg. He is also Managing Director of JUCLA Invest GmbH, Hamburg. Dr Fuhrmann is also a member of the Supervisory Board of 'coinIX COINVEST Investmentaktiengesellschaft mit Teilgesellschaftsvermögen', Hamburg.

In addition to his activity as a member of the Board of Managing Directors of Varengold Bank AG, Mr Otten is also CEO of Arensburg Corporate Consulting GmbH, Molfsee and Chairman of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft (in liquidation), Hamburg. He is also a non-executive director of Hanson Asset Management Ltd., London.

Lukas Diehl and Dr Volkart Tresselt, authorised representatives of Varengold Bank AG, are also members of the Supervisory Board of Varengold Verwaltungs AG (in liquidation), Hamburg. Lukas Diehl is Managing Director of VARP Finance GmbH (still Elbe2021 Incubator GmbH on the reporting date), Hamburg. Dr Volkart Tresselt is a member of the Supervisory Board of coinIX GmbH & Co. KGaA, 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 402 (previous year TEUR 405) for their work in the reporting period. This includes remuneration for work of TEUR 400 (previous year TEUR 400) and TEUR 2 (previous year TEUR 6) in travel expenses.

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

6.2 Employees

The average number of employees in the reporting period was 118 (previous year 114); 47 of these employees were female (previous year 46). With the exception of 19 employees (previous year 20), all staff worked in Germany. There were 18 part-time employees (previous year 17). Seven executive employees were granted commercial power of representation. Kai Friedrichs was also granted commercial authority as an authorised signatory.

6.3 Other financial obligations arising from contracts, guarantees and other commitments

Other financial obligations of TEUR 4,063 (previous year TEUR 5,153) mainly include costs for software, hardware and services, primarily for ongoing IT operations of TEUR 2,860 (previous year TEUR 3,503), obligations arising from agreements on the rental of premises of TEUR 1,015 (previous year TEUR 1,479) and obligations arising from leasing agreements of TEUR 188 (previous year TEUR 171). The remaining terms for the largest individual amounts are between three and 36 months.

The company also has uncalled capital contribution obligations of TEUR 250 (previous year TEUR 0) arising from its participation in a capital increase of VARP Finance GmbH, Hamburg.

6.4 Auditor's fee

Total auditor's fee in accordance with Section 285 No. 17 HGB	**2023 TEUR**	**2022 TEUR**
Auditor's fee – PwC GmbH WPG	1,772	1,450
↳ Auditing services	1,677	1,263
↳-Other assurance services	69	127
Tax advisory services	7	60
↳ Other services	19	0
Fee for auditor's network companies	0	0
↳ Auditing services	0	0
↳Other assurance services	0	0
Tax advisory services	0	0
↳ Other services	0	0
Total	**1,772**	**1,450**

The fees for auditing services provided by PwC GmbH WPG in 2023 include TEUR 457 for the audit of the 2022 annual financial statements. Tax advisory services amounting to TEUR 7 relate entirely to the previous year and like the tax advisory services accrued in 2022, arise from the provision of information for previous years to the Bank's tax adviser and are therefore not unauthorised services.

6.5 Notifications in accordance with Section 20 AktG

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

6.6 German Corporate Governance Code

From 20 March 2007 to 28 February 2017, the Varengold Bank AG share (ISIN DE0005479307) was listed in the Entry Standard segment of the German Stock Exchange. Following the closure of the Entry Standard segment, Varengold shares have been listed in the Basic Board segment on the

Open Market since the 1 March 2017. Varengold Bank AG 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.

6.7 Supplementary statement

At the Supervisory Board meeting on 10 September 2024, the Board of Managing Directors and the Supervisory Board agreed on the main features of a new business model which, in addition to the established Marketplace Banking segment, also includes the expansion of ESG financing business. A decision was also made to immediately discontinue payment transaction business with a connection to Iran in the Commercial Banking division and to terminate existing business relationships appropriately.

Due to the reduced Iran-related payment transaction business in connection with the Section 44 KWG audit, commission income was down significantly in the financial year. The picture is the same for business development in 2024. Due to the discontinuation of payment transaction business with a connection to Iran, commission income will be at a significantly lower level than in the past.

Based on the strengthening of Marketplace Banking and ESG financing, interest income from this business area is expected to increase.

There were no other significant events after 31 December 2023.

7 Proposal for appropriation of profits

The Board of Managing Directors proposed to the General Meeting that the annual net profit of EUR 14,523,077.54 be allocated to existing profit carried forward and that current retained earnings of EUR 24,644,492.79 be carried forward to new account.

Hamburg, 3 March 2025
Varengold Bank AG

Dr Bernhard Fuhrmann | Frank Otten

Management Report

At the time of preparing this Management Report a special audit of the business operations of Varengold Bank AG is being carried out by the Federal Financial Supervisory Authority (BaFin) pursuant to Section 44 (1) sentence 2 of the German Banking Act (KWG). Of the three audit areas a) cum-ex transactions and similar structuring models, b) business purpose and other business relationships with natural persons and legal entities with their registered address in Bulgaria and c) measures to prevent money laundering, terrorism financing and other criminal activities, two audit areas b) and c) have been completed at the time of preparing this report.

This Management Report includes information on the status of the special audit and forward-looking statements based on current plans, objectives, forecasts and estimates of the Board of Managing Directors of Varengold Bank AG. These statements only take into account findings that were available up to and including the date of preparation of the 2023 annual financial statements and this Management Report.

A. Principles of Varengold Bank

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

The core business areas of Varengold Bank are Marketplace Banking and Commercial Banking. In addition, the deposit business offers private German customers no-cost instant access accounts (available daily) with monthly interest credit. The Bank also offers fixed-term deposit accounts with various maturities between one and ten years. In addition to customer deposits from the Marketplace Banking and Commercial Banking divisions, some of which are invested as Bundesbank deposits, Varengold Bank refinances itself primarily through its deposit business with overnight money and fixed-term deposits provided by the Bank's customers.

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

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

In 2023, Transaction Banking customers and customers in the international payments business as part of Commercial Banking were primarily producers and global wholesalers of food and medicines. In this context, the Bank supported exporters and importers with processing payments for humanitarian goods, including to importers in high-risk third countries. In the core business area of Commercial Banking, around three quarters of customers had a connection to Iran in 2023.

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

The prospective measures in the letters dated 1 June 2023 and 6 June 2023 were confirmed in two official orders dated 27 June 2023. BaFin prohibited Varengold Bank specifically from (i) conducting incoming and outgoing transactions with payment agents and (ii) conducting transactions with a connection to Iran as a high risk third country or involving natural persons and legal entities domiciled in Iran. According to the wording of the official order, the ban includes payment transactions involving payment agents/trustees and other third parties who are based in third countries and act as (intermediate) recipients for the actual clients. Such activity as an (intermediate) recipient, to which the ban according to (i) and (ii) above applies, includes the receipt of payments (including split payments) from the actual instructing party and forwarding to the actual final recipient in the EU or in third countries via accounts at Varengold Bank. According to the official order, individual transactions that fall into the cases above, but can be proven not to constitute a breach of sanctions or the law, may be conducted following a review by the Bank and approval by the appointed special representative (KPMG). A fine of EUR 250,000 will be imposed for each violation of the official order. In light of the above, Varengold Bank suspended the execution of payment orders from customers with a connection to Iran in accordance with the above requirements and has not executed any payment orders. In accordance with a resolution, individual transactions that fall under the above-mentioned cases and do not constitute a violation of sanctions or the law, and this can be demonstrated, could be conducted following a review by the Bank and approval by the designated special representative – any approval processes would then be established accordingly.

At the Supervisory Board meeting on 10 September 2024, a joint decision was finally made by the Supervisory Board and the Board of Managing Directors of Varengold Bank, in light of its strategic realignment, to immediately and without exception discontinue payment transaction business with a connection to Iran in the Commercial Banking division, and consequently this will no longer be part of Varengold Bank's product portfolio in future. This was specifically in response to the ensuing reputational risks and the higher costs under the current circumstances. Alongside this, the course was fundamentally reset and the decision made to recalibrate the previous business model. There will still be a focus on the established Marketplace Banking segment. The Bank will also press ahead with the expansion of its ESG financing with a special focus on energy transition.

B. Economic report

1. Macroeconomic and industry-related conditions

In 2023, the geopolitical situation continued to deteriorate compared with the previous year. The war between Russia and Ukraine persisted with no sign of an imminent end. A war between the militant Palestinian organisation Hamas and Israel has also been ongoing since October 2023. In addition to the far-reaching effects of these conflicts, persistent inflation and the broadening effects of key interest rate hikes by the central banks (European Central Bank (ECB) and US Federal Reserve (Fed)) caused the global economy to lose further momentum in 2023.

In spite of these challenges, global gross domestic product grew at a relatively moderate rate of 4.22% in 2023[1] compared with the previous year. In the EU, however, gross domestic product virtually stagnated in 2023 showing a slight increase of 0.4%[2] compared with the previous year. This was partly due to high energy prices that put pressure on private households and companies. After inflation peaked in 2022, the rise in consumer prices initially slowed only hesitantly in the first half of 2023. In the second half of the year, however, inflation dipped significantly closing with an year-on-year increase of around 2.9%[3] in the eurozone in December. Falling prices of food, energy and industrial goods as well as declining transport costs contributed to the easing of inflationary pressure. In Germany, the rate of inflation also flattened out steadily in 2023 after the record year in 2022 closing with an year-on-year increase of 3.7%[4] in December 2023. On average for 2023, consumer prices in Germany rose by 5.9%[5] compared with 2022.

The initially persistent inflationary pressure continued to have an impact on the actions of the central banks. The Federal Reserve and the European Central Bank (ECB) had already raised their key interest rates several times in 2022, but these were raised again in the course of 2023. The ECB finally raised its key interest rate to 4.5%[6] in September 2023. The departure from the long-term low interest rate environment in conjunction with a steeper yield curve had a positive impact on the German banking sector. However, there is still a risk that economic momentum will continue to slow down. Banks are also feeling the effects of rising inflation through cost of materials and personnel costs, not least in the context of required digitalisation projects.

The German economy contracted across the board and price-adjusted gross domestic product fell 0.3% in 2023[7] compared with the same quarter in the previous year. This was partly due

1 https://de.statista.com/statistik/daten/studie/159798/umfrage/entwicklung-des-bip-bruttoinlandsprodukt-weltweit/
2 https://de.statista.com/statistik/daten/studie/250161/umfrage/wachstum-des-bruttoinlandsprodukts-bip-in-den-eu-laendern/
3 https://de.statista.com/statistik/daten/studie/72328/umfrage/entwicklung-der-jaehrlichen-inflationsrate-in-der-eurozone/
4 https://de.statista.com/statistik/daten/studie/1045/umfrage/inflationsrate-in-deutschland-veraenderung-des-verbraucherpreisindexes-zum-vorjahresmonat/
5 https://www.destatis.de/DE/Presse/Pressemitteilungen/2024/01/PD24_020_611.html
6 https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungsgeschaeft-seit-1999/
7 https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/Tabellen/bip-bubbles.html

to persistently high prices at all levels of the economy. It was compounded by unfavourable financing conditions resulting from the rise in interest rates and the decline in both domestic and foreign demand.

The stock markets in both the US and the eurozone performed well overall in 2023, although the economic environment continued to deteriorate. The main drivers of the positive price trends were easing concerns about the European energy supply and falling inflation rates, which had a positive impact on investors' appetite for risk. Germany's benchmark index, the DAX, closed at around 16,752 points[8] at the end of December. The IT sector benefited in particular, but also the financial sector, including insurance companies and banks.

Looking specifically at the fintech sector, the general trend followed on from the situation in 2022. Global investment in fintech startups fell significantly in 2023 compared with the previous year, due to the stagnation in the macroeconomic environment and the declining attractiveness for investors.[9] Valuations fell as a result and access to financing and equity capital in particular became more difficult.

2023 was a challenging year for the banking sector as a whole due to the difficult economic conditions, particularly as regards the international crisis hotspots, high inflation rates and energy costs. However, the financial markets once again proved to be very robust and the European banks were spared any major defaults. Overall, the profitability of banks improved significantly due to the rise in interest rates in 2023. At the same time, there was no mistaking the increase in regulatory requirements for banks in 2023. In addition to the ECB's previous core topics of interest rate risks and IT and cyber security, ESG (environment, social, governance) factors are also moving further into focus. The issue of sustainability and net zero will be subject to greater regulatory control going forward and will become increasingly important in the financial sector. Given the regulatory requirements, German banks in particular once again incurred additional operating costs and the implementation of these requirements is now permanently tying up both financial and human resources. For years, advancing digitalisation has meant that the financial sector has had to adapt its business models due to the increasing momentum. This poses a major challenge because on the one hand, digitalisation is bringing the technologies of financial institutions up to date, which goes hand in hand with the development of contemporary structures and products. But on the other hand, legislators are developing ever more explicit regulations, alongside which the institutions have to adapt their internal processes, sometimes at considerable expense.

2. Business development

Varengold Bank made a robust start to the first quarter of 2023 and was initially able to further expand its two core business areas at the beginning of the reporting period. However, this momentum slowed considerably in June 2023, as an instruction from the Federal Financial Supervisory Authority (BaFin) issued in the context of the special audit ordered by BaFin, required short-term restructuring measures and the development of restructuring parameters for the Bank as a whole. This event marked a turning point in Varengold's history and led to a series of measures and consequences in order to secure the Bank's foundations.

As part of the special audit, payment transaction business (Transaction Banking) in the core business area of Commercial Banking was scrutinised closely and interim findings of the auditors involved led to restrictions in the payment transaction business due to possible compliance violations. The Bank then took initial steps to mitigate the perceived shortcomings. These included the longer-term process of reorganising the core business area of Commercial Banking. Meanwhile, KPMG AG Wirtschaftsprüfungsgesellschaft was appointed by BaFin as a special representative for the independent

8 https://de.statista.com/statistik/daten/studie/162176/umfrage/monatliche-entwicklung-des-dax/
9 https://financefwd.com/de/fintech-2023/

review and approval of individual transactions in the payment transaction business. The special representative was successfully integrated into the Bank's existing processes in August 2023.

This complex situation resulted in a considerable loss of commission income which in turn had a negative impact on the Bank’s performance. Net income from payment transactions fell by TEUR 45,740 (-74.5%) year-on-year. At TEUR 66,682, net income was down 20.9% year-on-year (same period in the previous year: TEUR 84,327). Income mainly comprised interest income of TEUR 42,887 (+215.4%) and the commission result of TEUR 20,095 (-69.2%).

In addition to restructuring measures in the Commercial Banking division, a cost-cutting programme was implemented with immediate effect in June 2023, which led to short-term savings in administrative expenses (regular cost of materials and personnel costs. However, administrative expenses of TEUR 37,984 were 6.4% higher year-on-year as a result of costs in connection with the Section 44 KWG audit in the reporting year.

Income from ordinary activities (equivalent to EBT) was down 11.5% year-on-year at TEUR 22,506 (same period in the previous year: TEUR 25,443). It includes a net allocation to risk provisions of TEUR 8,748 (same period in the previous year: TEUR 13,199), which in turn includes the allocation to the special item ‘Fund for general banking risks’ of TEUR 5,400 (same period in the previous year: TEUR 5,000) in accordance with Section 340g HGB.

In the Marketplace Banking division, Varengold Bank stepped up the demand-driven development of its product range in 2023 as originally planned in order to offer its customers the opportunity to expand their business throughout Europe. Since mid-2023, the core business area of Marketplace Banking, and the Lending division in particular, has received a laser focus enabling the acquisition of additional customers. Moreover, the development of the interest rate environment led to a positive contribution, as variable interest rates were agreed with numerous customers. Varengold Bank now has participating interests in six market partners; the acquisition cost of these interests was EUR 4.2 million. New investment of EUR 0.3 million was made in market partners during the financial year.

Digital transformation remains a key driver of success in order to provide meaningful support for the Bank's business areas and meet customer expectations of a modern institution today. Various projects were planned for 2023 in this respect, but were suspended until further notice as part of the cost-cutting programme in response to the special audit in June 2023, which in turn led to redundancies. In addition, personnel costs also had to be reduced in order to offset the lack of commission income. Hence, Varengold Bank had to lay off around 22% of its workforce in mid-2023 as part of a cost-cutting measure. As of 31 December 2023, the number of employees at all locations was 94 (reporting date 31 December 2022: 120).

In order to cope with the Bank's expected growth at the beginning of 2023 and be perceived as innovative and ‘state-of-the-art’ when recruiting specialists, the Bank wanted to continue its change of culture and present a stronger image to the outside world. Projects focusing on HR development and leadership were planned along with a Varengold brand refresh and the development of a new company website. Along with the digitalisation projects, these projects were put on hold until further notice as part of the cost-cutting programme in June 2023. Existing internal capacities were used instead to drive forward the topic of mental health and the promotion of employee autonomy and self-determination.

The topic of sustainability continued to be a high priority at Varengold Bank in 2023. Consistent advances were made in the development of the activities initiated in this area in 2018 as key elements of the business strategy. The Bank takes economic, social and environmental concerns into account in its actions. In addition to raising awareness, the focus remains on efficient use of resources, protection of the environment and social commitment. Details of the individual measures are presented in Varengold Bank's separate sustainability report which was published in December 2023. An Environmental, Social and Governance (ESG) questionnaire was also developed at the beginning of 2022 and is currently being completed by all new customers. The resulting data will serve as the basis for an impactful ESG scoring model, which will support the Bank in managing and aligning its customer portfolio in terms of ESG factors in all business areas. ESG aspects are already included in the internal rating of customers. In 2023, the Bank also acquired software that can be used to assess the Bank's customers in terms of their environmental impact and their susceptibility to climate risks. The gradual implementation of sustainability aspects in the business processes of customer acquisition, but also in the screening of existing customers, will continue.

In order to strengthen the equity base and thereby expand business activities, the shareholders of Varengold Bank decided at the General Meeting in August 2022 to plan a 10% cash capital increase excluding the subscription rights of existing shareholders. The aim here was to permanently raise compliance pursuant to Article 92 (1) d) CRR in terms of the leverage ratio to a level above the statutory threshold. This goal was achieved during the second half of 2022. However, no suitable strategic or institutional investors could be identified for the subscription of shares in spite of intense efforts on the part of the Board of Managing Directors. In addition, Varengold Bank made a first-time allocation to the special item 'Fund for general banking risks' of EUR 5.0 million in the 2022 financial year. This special item could additionally strengthen the Bank's equity capital once the 2022 annual financial statements have been approved. For these reasons and in order to avoid negative dilution effects for the other shareholders, the Board of Managing Directors decided in February 2023 not to carry out the capital increase.

At the beginning of 2023, the Board of Managing Directors and the Supervisory Board announced their intention to propose a dividend payout of around EUR 3.6 million (36 cents per share) to the General Meeting in August 2023 based on the retained earnings expected for the 2022 financial year. As it was not possible to hold an ordinary General Meeting in the 2023 financial year due to the considerable delay in the audit of the annual financial statements for the 2022 financial year, the Board of Managing Directors and the Supervisory Board ultimately decided, with the approval of the last General Meeting in August 2024, to carry forward the retained earnings for the 2022 financial year in full, and therefore not to pay out a dividend for the 2022 financial year as a precaution following the developments in the context of the special audit, and to strengthen the capital base.

3. Position

There may be rounding differences in the following figures.

3.1 Earnings performance

The company's interest income increased from TEUR 12,630 in the previous year to TEUR 50,284 in the financial year. Interest income in the previous year included negative interest primarily for Bundesbank balances of TEUR 3,183. There was no such negative interest in the financial year. The increase in interest income is mainly due to the interest earned on Bundesbank balances and the increased business volume in Marketplace Banking. In addition, the interest rate turnaround also had a positive effect on variable lending rates.

Interest income also includes income from fixed-income securities. This rose from TEUR 525 to TEUR 721.

The higher interest rate level on customer deposits means that returns will no longer be recognised in interest expenses. Interest expenses amounted to TEUR 7,398, whereas these were reported as a return of TEUR 968 under interest expenses in the previous year. Net interest income of TEUR 42,887 (same period in the previous year: TEUR 13,598) was generated as a result.

Current income from shares and other variable-yield securities rose from TEUR 302 in the previous year to TEUR 422 in the financial year.

Commission income could not be maintained as a consequence of the Section 44 KWG audit and the resulting measures, specifically in the payment transaction business. Commission income fell from TEUR 72,777 to TEUR 22,521. At the same time, commission expenses fell from TEUR 7,474 to TEUR 2,426, resulting in a commission surplus of TEUR 20,095 (same period in the previous year: TEUR 65,303).

Other operating income of TEUR 3,278 (same period in the previous year: TEUR 5,124) was significantly affected by the reversal of provisions of TEUR 1,274 (same period in the previous year: TEUR 3,175), on-debited costs in project business of TEUR 794 (same period in the previous year: TEUR 1,107), claims for reimbursement unrelated to the period arising from legal disputes with former customers of TEUR 583 (same period in the previous year: TEUR 85) and adjustments to input tax reimbursement claims from the calculation of VAT margins for previous years totalling TEUR 574 (same period in the previous year: TEUR 730).

Net income was down 20.9% from TEUR 84,327 to TEUR 66,682.

Personnel costs were down TEUR 1,641 (11.3%) from TEUR 14,590 to TEUR 12,949 due to the reduction in the number of employees. At TEUR 13,708, consulting expenses and costs in connection with the Section 44 KWG audit and the special representative were noticeably higher compared with TEUR 11,542 in the previous year. This effect is due to the ongoing auditing activities as part of the Section 44 KWG audit and the associated notifications of charges from the Federal Financial Supervisory Authority. Based on better knowledge, costs have been recognised in the financial statements until the first quarter of 2025. Expenses for maintenance and IT also increased significantly by TEUR 1,361 or 32.8%, from EUR 4,154 to TEUR 5,515.

Depreciation, amortisation and impairment of intangible assets and fixed assets fell from TEUR 116 in the previous year to TEUR 87 in the financial year.

Other operating expenses were down TEUR 9,346 from TEUR 9,996 in the previous year to TEUR 650 in the financial year. Additions to provisions for impending fines of TEUR 4,000 and TEUR 3,868 for potential legal risks arising from the Caceis case (see section C.1) were recognised in the previous year. Interest is payable on the Caceis legal risks, resulting in additional interest of TEUR 193 in the financial year. Impairment losses of TEUR 1,000 were also recognised on other assets in the previous year. The impairment allowances were maintained in the financial year.

Expenses for hedging foreign currency positions and net expenses from exchange rate effects increased by a net amount of TEUR 166 from TEUR 178 in the previous year to TEUR 344 in the financial year.

The item Depreciation and write-downs of receivables and certain securities as well as allocations to provisions in the lending business amounted to TEUR 380 (same period in the previous year: TEUR 6,829). The liquidity reserve result had positive added value of TEUR 1,065 (same period in the previous year: TEUR -676). In addition, income from the reversal of individual and general loss provisions for receivables from net lending business amounted to TEUR 1,760 compared with TEUR 6,361 in the previous year.

The special item ‘Fund for general banking risks in accordance with Section 340g HGB’, which was recognised for the first time in the previous year at TEUR 5,000, was increased by a further TEUR 5,400 to TEUR 10,400 in the financial year.

Depreciation, amortisation and impairment losses as well as reversals of impairment losses on participating interests, shares in affiliated companies and securities treated as fixed assets resulted in net income of TEUR 327 in the reporting year (same period in the previous year: TEUR -1,239).

Income from ordinary business activities amounted to TEUR 22,506 (same period in the previous year: TEUR 25,443) and is therefore above the earnings forecast from September 2023 (EUR 15-20 million before taxes) and below the adjusted forecast from October 2023 (EUR 25-30 million before taxes) despite all the extraordinary charges.

The tax burden fell from TEUR 16,386 in the previous year to TEUR 7,983 in absolute terms and relative to income from ordinary business activities. Compared with the previous year, significantly fewer expenses were treated as non-tax-deductible in the financial year.

Taking into account taxes on income and earnings and other taxes, the annual net profit was TEUR 14,523 (same period in the previous year: TEUR 9,057).

Return on capital employed in accordance with Section 26a KWG, calculated by dividing annual net profit by total assets was 1.0% compared with 0.6% in the previous year.

3.2 Net asset position

Following an increase in previous years, total assets fell slightly by 4.7% from EUR 1,421.4 million to EUR 1,353.9 million in the financial year.

The assets side is characterised by the cash reserve of EUR 789.6 million (previous year: EUR 788.5 million), loans and advances to customers of EUR 383.3 million (previous year: EUR 432.9 million) and shares and other variable-yield securities of EUR 92.3 million (previous year: EUR 100.3 million). Overall, these three items accounted for 93.4% (previous year: 93.0%) of total assets.

At EUR 1,115.4 million or 82.4%, (previous year: EUR 1,145.2 million or 80.6%) customer deposits continued to be the dominant item on the liabilities side. These deposits were made up of current account balances of EUR 608.9 million (previous year: (EUR 683.9 million), term deposits of EUR 386.9 million (previous year: EUR 299.9 million), overnight deposits of EUR 84.5 million (previous year: EUR 135.5 million) and security deposits of EUR 35.2 million (previous year: EUR 26.0 million).

The Tier 1 core capital ratio was 20.34% as of 31 December 2023 (previous year: 17.93 %).

Varengold Bank maintains a well-ordered asset and capital structure.

3.3 Financial position

At EUR 795.6 million or 58.8% (previous year: EUR 797.7 million or 56.1%) of total assets, regulatory cash and cash equivalents represented a large proportion of the assets side of the balance sheet.

At 253.5%, the regulatory liquidity ratio as of the reporting date was therefore well above the regulatory requirements, as was the case in the previous year. The Bank's liquidity position was not at risk at any time.

Irrevocable loan commitments change depending on new customer business or due to limit adjustments for existing customers. They amounted to EUR 48.0 million as of 31 December 2023, compared with EUR 46.0 million in the previous year.

3.4 Financial and non-financial performance indicators

The key performance indicator is earnings before taxes (EBT).

Despite the significant decline in commission income, earnings only fell from TEUR 84,327 in the previous year to TEUR 66,682 in the financial year. Other operating expenses were down TEUR 9,346 from TEUR 9,996 in the previous year to TEUR 650 in the financial year. Additions to provisions for impending fines of TEUR 4,000 and TEUR 3,868 for potential legal risks arising from the Caceis case (see section C.1) were recognised in the previous year. Cross-compensation resulted in around TEUR 6,448 less expense than in the previous year.

In addition, an allocation of TEUR 5,400 (previous year: TEUR 5,000) was made to the fund for general banking risks. EUR 10.4 million was allocated to the fund for general banking risks as of the reporting date.

Despite a sharp fall in revenue, earnings before taxes totalled TEUR 22,506 (same period in the previous year: TEUR 25,443). The earnings before taxes performance indicator was therefore down TEUR 2,937 or 11.5% year-on-year and between the forecast from September 2023 (EUR 15-20 million before taxes) and the forecast from October 2023 (EUR 25-30 million before taxes). The original forecast from 2022 for the 2023 financial year (EUR 40-50 million before taxes) was missed by a significant margin due to the effects of regulatory measures and the associated lower commission income.

Another financial performance indicator is the cost-income ratio, which fell from 52.7% in the previous year to 56.1% in the financial year, due in particular to the loss of commission income. The cost-income ratio was therefore in line with the forecast of around 55%. In 2024, the ratio was 69.4% based on the preliminary annual financial statements, which was slightly better than the forecast of approx. 73%. The deviation is mainly due to a lower allocation to risk provisions in the lending business. The cost-income ratio is calculated as the ratio of administrative expenses (personnel costs, material expenses and depreciation and amortisation) to income (net interest income less allocations to risk provisions for default risks in the lending business, commission surplus, trading result and balance of other operating income and expenses) in per cent.

Varengold Bank has always looked at non-financial performance indicators. These include the topics in the Bank's '6-pillar concept' (Culture, Work, Environment, Leadership, Digital Transformation, Empowerment and Corporate Social Responsibility - see also the explanations in the Management Report in C.2.).

At the beginning of 2025, the Board of Managing Directors announced the following non-financial performance indicators from these topic areas:

- Employee satisfaction
- Corporate social responsibility projects

Over the months and years ahead, targets and benchmarks will be defined for these non-financial performance indicators and development paths will be worked out. The Board of Managing Directors will include the selected non-financial performance indicators in its reporting to the Supervisory Board.

Non-financial performance indicators have not been used to manage the Bank, including in the financial year.

C. Risk, opportunity and forecast report

1. Risk report

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

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

The business strategy must present Varengold Bank's main objectives for each business activity as well as the measures that will be taken to achieve these objectives. The risk strategy must include, inter alia, the material risks arising from the business strategy, the risk management objectives of the main business activities and the measures to achieve these objectives. This also includes the handling of ESG risks and concentration risks as well as the definition of risk appetite.

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

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

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

The risk control and risk management system used by the Bank is based on the current 'Minimum Requirements for Risk Management' (MaRisk) imposed by the Federal Financial Supervisory Authority (BaFin).

Risk is the negative deviation of occurring events from expected events. The basis of the risk management system is the regular and ad hoc implementation of a risk inventory to assess the material risks for Varengold Bank. According to the risk inventory applicable as of 31 December 2023, these are credit risk, liquidity risk, market price risk, operational risk, sustainability risks and other risks, including reputational risks and strategic risks. Sustainability risks do not represent a separate type of risk, but have a risk-increasing effect on other types of risk.

The entire risk management and controlling process includes the following consecutive steps:

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

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

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

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

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

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

The supervisory capital requirements amounted to TEUR 71,794 as of 31 December 2023. The Bank has TEUR 73,199 in equity capital at its disposal to cover these requirements.
As of 31 December 2023, all capital requirements were met as of the reporting date. In the planning scenario, the overall capital ratio (including recommended equity resources) for the three-year planning horizon will not be achieved in 2024 until the net profit for 2023 is added to equity capital. The common equity Tier 1 ratio and the core capital ratio are maintained throughout the planning period. The same applies to the adverse scenario. In the stress scenario, without the recommended equity resources, there is also a shortfall in the total capital ratio from January to December 2026. The Tier 1 capital ratios are also maintained here throughout the planning period.

In the economic perspective, the Bank uses a present value calculation to determine risk-bearing capacity. The risk-coverage potential of EUR 97.5 million is made up of regulatory capital, contingency reserves in accordance with Sections 340f and g HGB, the profit for the current financial year, the profit for the previous year and undisclosed reserves. As a rule, the maximum tolerated utilisation rate is limited to 100%. Capacities over 90% of the total limit and capacities over 100% within an individual type of risk require an immediate response from the Board of Managing Directors.

Utilisation of the risk-coverage potential was 53.1% as of 31 December 2023, 44.6% of which was attributable to credit risk, 31.2% to market price risk, 17.9% to operational risk, 1.9% to liquidity risk and 4.4% to strategic and reputational risks.

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

In addition to the classic credit risk (lending risk), default risk also includes issuer, counterparty and investment risk. Country risks are not underpinned by risk coverage potential in the risk-bearing capacity calculation. These risks are taken into account in both the external and internal rating classification and are thus included in the rating score and therefore in the level of probability of default and the amount at risk. Collateral risk is not explicitly taken into account in the risk-bearing capacity calculation. If the

LTV agreed with the customer is not achieved, the LGD (loss given default) of the commitment is scaled up accordingly, thereby leading to a higher amount at risk.

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

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

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

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

The probabilities of default (PDs) derived from external (if available) or internal ratings and the transaction-specific loss given default (LGD) are used here. In addition to the probabilities of default and loss given defaults, correlations between the counterparties with the systematic risk factor are also taken into consideration. Only the unexpected loss of the portfolio is included in risk-bearing capacity. Expected loss is already included in the general bad debt provision. In the event that the expected loss of the total risk exposure exceeds the general bad debt provision, which has only been formed for loans and advances to banks and customers, the difference is also included in the calculation of risk-bearing capacity.

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

The market price risk is determined by adding the amounts at risk in terms of price risk (including foreign currency risks), credit spread risk and interest rate risk. No correlations between the risk types are taken into account.

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

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

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

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

The Bank quantified liquidity risk for the first time as of 31 December 2023 and took this into account in risk-bearing capacity. To determine the risk value, a bank-run scenario is assumed in which all deposits are withdrawn by customers and banks on their contractual maturity date. This represents a possible (but highly unlikely) risk event. The AMM report (Additional Monitoring Metrics for Liquidity Reporting), specifically sheet C 66.01 (liquidity maturity report), forms the basis for calculating the level of risk. The difference from the liquidity maturity report produced daily by the Treasury department (see below) is that no assumptions are made here regarding the extension of deposits.

Moreover, the cumulative refinancing gap and cumulative liquidity coverage potential are analysed. The refinancing gap is supplemented by revocable and irrevocable loan commitments (as outflow in 'due on demand').
Based on these data, the contractual cumulative refinancing gap is determined for each maturity band, 'due on demand' to 'longer than five years'.

These refinancing gaps must be refinanced by borrowing money. The following steps are carried out to determine the interest rate to be paid for this:

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

The forwards calculated in this way are used to determine the interest expense for refinancing the contractual gaps for each maturity band.
As the economic perspective of risk-bearing capacity is based on a time horizon of one year, the risk is calculated by adding the interest expenses expected in the event of risk for the maturity bands from 'due on demand' to 'up to 12 months'. The Bank uses this procedure to calculate the refinancing and call risk. Both subtypes of liquidity risk were identified as material in the risk inventory.

To monitor liquidity risk, a liquidity maturity report is produced by the Treasury department on a daily basis. It is managed based on the 'distance to illiquidity' (at least three months), a daily 'minimum liquidity' in t+1 (EUR 20 million) and the liquidity coverage requirement. Monitoring is carried out by the Risk Controlling department.
In addition, the liquidity management concept also defines a contingency plan, which is preceded by an early warning system.
Operational risks are quantified on a quarterly basis by the Risk Controlling department, in collaboration with the department heads and the Board of Managing Directors using a scenario analysis for all identified operational risks. The scenarios represent possible 'bad case' scenarios for the risk type and are assessed in

respect of potential losses per annum and their probability of occurrence.

These two parameters for the identified partial risks are incorporated into a Monte Carlo simulation. From the 200,000 simulations carried out, the risk is stated as a 99.9% quantile value. This calculation is performed three times and the worst result represents the loss amount for operational risks.

As part of the risk inventory, the Bank has identified the following sub-risks of operational risk as being material:

- legal risk,
- service risk,
- failure of critical IT,
- external events,
- money laundering/terrorism financing,
- accounting/financial reporting,
- external fraud,
- insider trading

ESG risks are included via the 'external events' sub-risk.

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

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

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

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

Varengold Bank, together with 19 other private individuals and legal entities, is a defendant in civil proceedings (Caceis case). The dispute centres around a possible claim for reimbursement, which relates to a tax claim in relation to transactions of an independent sub-fund of the former Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, today Varengold Verwaltungs AG (in liquidation), in 2010. The investment corporation at the time is the primary defendant in the above proceedings. Varengold Bank was a minority shareholder of this investment stock corporation in 2010. The action is based on the joint and several reimbursement of refunded capital gains tax, including solidarity surcharge, totalling around EUR 92 million (plus any interest and other damages incurred by the plaintiff), which was paid into the sub-fund (Caerus II) in 2010 and which the Munich tax office had reclaimed from the plaintiff's legal predecessor. The Caerus II equity fund (referred to previously and below as 'Caerus II') is an investment fund in the form of a sub-fund launched under the umbrella of Varengold Investmentaktiengesellschaft (now Varengold Verwaltungs AG (in liquidation)) on 31 March 2010. Varengold Bank has filed an appeal with the competent court to dismiss the action. The Board of Managing Directors and the external experts involved have to date assessed the probability of the risk arising from these proceedings as not overwhelmingly likely. The criminal proceedings against the Bank's former Managing Director, Yasin Qureshi, regarding Caerus II have so far not led to any other outcome. However, a different assessment is conceivable, which could help the action to succeed. For this reason, Varengold Bank AG has formed a provision for this legal risk as a precautionary measure, whereby the assumption has been made that the Bank will be required to pay a pro rata settlement. Payments to Varengold Verwaltungs AG (in liquidation) will also be taken into account in this context, along with the relevant interest. The total amount of this provision is EUR 4.1 million and was calculated using estimates. Estimates from external consultants were used and findings from comparable circumstances in the banking and other business environments were evaluated.

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

As already known since its initial publication in an ad hoc announcement on 2 June 2023, the special audit of business operations by the Federal Financial Supervisory Authority (BaFin) in accordance with Section 44 (1) sentence 2 KWG, currently underway at Varengold Bank AG, has led to initial interim findings and consequently to supervisory measures such as the restriction of the payment transaction business. It appears possible that fines will be imposed in addition to the supervisory measures required by BaFin. The Bank has formed an appropriate provision based on information made available to it by experts. It cannot be ruled out that the fines will be higher than the provisions that have been recognised. In addition, fines could also be imposed if the BaFin decision of 27 June 2023 regarding the prohibition of individual transactions is violated. BaFin imposed a penalty payment of TEUR 500 on 26 February 2025. The decision is not yet legally binding.

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

In order to limit concentration risks, the Board of Managing Directors has set further limits or early warning thresholds, which are monitored on an ongoing basis.

- **Largest position in the loan portfolio:** Maximum share of 10% of the total portfolio of positions exposed to risk of default.
- **Position with the highest risk:** Ratio to liable equity <10%,
- **Largest position in the loan portfolio:** Increase in the Herfindahl-Hirschman Index by a maximum of 50 base points,
- **Largest collateral position:** Maximum share of 10% of the total portfolio for positions exposed to risk of counterparty default.

All risk mitigation measures are essentially taken in an economically reasonable fashion that accounts for the size of the Bank, capital resources and the special business model in an appropriate manner.
Based on experience since 2022, neither Russia's invasion of Ukraine nor the war between the militant Palestinian organisation Hamas and Israel, which has been ongoing since October 2023, are expected to have any significant impact on Varengold Bank's future business development.

2. Opportunities report

At the time of preparing this report, the focus is increasingly on recalibrating the business model and implementing key activities in the areas of digitalisation and sustainability, as well as stabilising and focusing in view of the developments since the middle of the 2023 financial year.

The banking sector has been undergoing constant change for several years. Topics such as digital transformation and innovation dominate the agenda, flanked by the requirements of ESG criteria. Whilst good risk management is considered an essential core competence and a crucial competitive advantage, Varengold Bank pursues a clear mission to provide uncomplicated access to capital and financial services. The Bank addresses niche markets in particular with its offerings, in which it can create high added value for its customers and help realise innovative business ideas.

In 2024, the European Central Bank responded to the stabilisation of core inflation in the eurozone by cutting interest rates again. This led to corresponding adjustments in deposit interest rates by market participants. In light of this, Varengold Bank will have to continue adjusting its offering in the overnight and fixed-term deposit business in order to achieve the targeted quotas for new contracts and extensions. Deposit business is an integral part of the Bank's refinancing strategy. The aim of this strategy is to keep the volume of fixed-term and overnight deposits stable, to further diversify maturity structures and to manage deposits in close coordination with opportunities arising in the Marketplace Banking and Commercial Banking business areas.

The Marketplace Banking and Commercial Banking divisions rely on a network of partners and customers. The Bank operates on the basis of its regulatory expertise here and draws on many years of experience, particularly in the lending business, which serves as the central anchor product of its offering.

The demand for products and services in Marketplace Banking remains high. Varengold Bank is working on expanding its loan portfolio and integrating new customers. The aim is to set itself apart from the competition by delivering projects quickly and efficiently - both in Germany and in the EU. The sought-after growth of platform customers in Marketplace Banking will require additional equity capital as well as outside capital. Varengold Bank has the opportunity to invest in directly selected customer projects (Equity Capital Markets, ECM) through its subsidiary VARP Finance GmbH. This allows the Bank to tap into additional venture capital potential, an area that needs to be stepped up.

In the Commercial Banking segment, the complete withdrawal from payment transactions with a connection to Iran marks a significant strategic reorientation. The initial basis for this decision was BaFin's ban on carrying out incoming and outgoing transactions with payment agents as well as transactions with a connection to Iran as a high-risk third country or involving natural and legal persons based in Iran. The recent decline in volume, the risks and regulatory and operating expenses in this business area proved to be disproportionate over time under the general conditions, although the Bank still considers humanitarian transactions to be necessary. In future, the Bank will focus on interest rate business in the Commercial Banking segment with a focus on ESG financing. In addition to existing access within the network that is already available, the Bank sees potential in sectors such as energy and healthcare, for example in BESS (Battery Energy Storage System) projects, electricity infrastructure, factoring of invoices in intensive care and property projects in the care/assisted living sector.

To ensure its long-term competitiveness, Varengold Bank relies on a consistently customer-orientated business model, a well-motivated and qualified team and measures to reduce its environmental footprint. Clear framework conditions should ensure that the Bank's ESG strategy and the associated categorisation of the customer portfolio with regard to ESG criteria are in line with both its own vision of sustainable development and external expectations.

Digital transformation also remains a key factor in providing meaningful support to the Bank's business areas and ultimately ensuring the Bank's success. Following the interruption of numerous projects as a result of the cost-cutting programme in June 2023, the first initiatives, including a brand refresh and the redesign of the website, were resumed in 2024. Alongside this, the Bank is currently delivering on regulatory projects such as DORA and CRR III, which require a higher degree of system and data integration.

The use of artificial intelligence (AI) is also playing an increasingly important role for the Bank. AI technologies offer a wide range of opportunities to organise internal processes more efficiently and improve the customer experience.

There will be more market integration in this area in the months and years ahead. Varengold will keep track of developments and put them to the test. If trials are successful, they will be implemented as and where appropriate in order to ensure competitiveness and increase efficiency.

However, the aforementioned strategic initiatives - from digital and cultural transformation to growth projects - are still being held back in some areas by the effects of the ongoing special audit. In June 2023, several projects were discontinued in order to reduce costs and focus resources on process optimisation in Commercial Banking and the expansion of internal control systems. In addition, unforeseeable political and economic developments at a global level could have a negative impact on the Bank's performance in the years ahead. Varengold Bank will continue to develop all promising business areas in equal measure, taking market conditions into account, and drive its strategic realignment forward in a targeted manner.

3. Forecast report

Economic conditions after the reporting date

The geopolitical situation remained tense in 2024 and early 2025. The war between Russia and Ukraine persisted with no sign of an imminent end. The war between the militant Palestinian organisation Hamas and Israel continued to be characterised by ongoing military clashes in the Gaza Strip over the course of 2024, until a ceasefire came into force for the first time on 19 January 2025, enabling the first exchange of hostages and prisoners between Israel and Hamas. The ceasefire agreed between Israel and Hezbollah in November 2024 also led to a calming of the situation in Lebanon. In December 2024, Islamist group Hai' at Tahrir ash-Sham (HTS) overthrew the government of Syria and assumed power, leading to an unstable situation in which the country's future remains uncertain. Added to this were the US presidential elections, which, among other things, led to uncertainty upon Trump's re-election.

The German economy stagnated in the first half of 2024, with price-adjusted gross domestic product falling by 0.8% in the first quarter of 2024 compared with the same quarter in the previous year. In the second and third quarters, however, price-adjusted gross domestic product rose by 0.1% year-on-year.[10] In the eurozone, real gross domestic product rose by 0.4% year-on-year in the first quarter of 2024. This trend continued in the second quarter of 2024 (0.5% compared to the same quarter in the previous year) and even recorded an increase of 0.9% in the third quarter of 2024 compared with the same quarter in the previous year.[11]

Inflation rates in the eurozone and in Germany fell steadily over the course of 2024 and finally fell below the European Central Bank's (ECB) target of 2%[12] for the first time in the third quarter. In December 2024, the inflation rate in Germany was 2.6%, meaning that consumer prices rose more sharply year-on-year than in the previous months.[13]

This development is partly due to the measures taken by the ECB, which lowered its key interest rates for the first time in almost five years in June 2024. The interest rate for main refinancing operations was last lowered to 2.9%[14] in February 2025.

The deposit rate for banks was finally lowered to 2.75%[15] in February 2025.

10 https://www.destatis.de/DE/Presse/Pressemitteilungen/2024/11/PD24_438_811.html
11 https://de.statista.com/statistik/daten/studie/158133/umfrage/entwicklung-des-bip-in-der-eurozone-und-der-eu-gegenueber-dem-vorjahresquartal/
12 https://de.statista.com/statistik/daten/studie/72328/umfrage/entwicklung-der-jaehrlichen-inflationsrate-in-der-eurozone/
13 https://de.statista.com/statistik/daten/studie/1045/umfrage/inflationsrate-in-deutschland-veraenderung-des-verbraucherpreisindexes-zum-vorjahresmonat/
14 https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungs-geschaeft-seit-1999/
15 https://de.statista.com/statistik/daten/studie/201162/umfrage/entwicklung-des-ezb-zinssatzes-fuer-die-einlagefazilitaet-seit-1999/

The stock markets continued to perform positively in 2024. In September 2024, the DAX topped 19,000 points for the first time in its history and ended October 2024 at 19,077.54 points.[16] Donald Trump's election victory as the new US president on 6 November 2024 initially caused the DAX to fall and resulted in more losers than winners on the German capital market, whilst the major US indices Dow Jones, Nasdaq and S&P all posted gains.[17] The appointment of the new US Treasury Secretary Scott Bessent at the end of November 2024 led to a renewed upswing in the US indices, which this time also benefited the DAX.[18] In December 2024, the DAX finally closed at 19,909.14 points.[19]

A closer look at the fintech sector reveals that global fintech financing has stagnated at a low level to date in 2024.[20] Although there was a positive trend in Europe in the first quarter of 2024 with an increase in slightly larger financing rounds,[21] overall fintech financing remained almost unchanged compared with quarters in previous years.[22]

Forecast

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

The global economy is likely to continue to be characterised by moderate expansion and falling inflation rates in 2025. At the same time, however, geopolitical uncertainties remain.

According to the latest winter forecast from the ifo Institute[23], the German economy will remain weak. The German economy has been stagnating for almost five years now, giving rise to the question as to whether temporary, and therefore cyclical, fluctuations are involved or a permanent realignment of production capacities and therefore a structural adjustment. For these reasons, the ifo Institute analyses two different scenarios in its winter forecast:

The baseline scenario assumes that the economic weakness in recent years has been caused primarily by structural challenges and that the ongoing structural change has already had a noticeable impact on production potential. More and more industrial companies are relocating their production and investment abroad, which is also slowing momentum. In this scenario, economic recovery will remain muted over the next two years, with an increase in price-adjusted gross domestic product of just 0.4% in 2025 and 0.8% in 2026.

The alternative scenario paints a more optimistic picture: Here it is assumed that structural change will not only displace existing production technologies, it will also create new ones. However, this presupposes that economic policy creates reliable general conditions and that locational factors are rapidly improved. Under these conditions, price-adjusted gross domestic product could grow by 1.1% and 1.6% in the next two years and therefore be significantly more fast-paced than in the baseline scenario.

16 https://de.statista.com/statistik/daten/studie/162176/umfrage/monatliche-entwicklung-des-dax/
17 https://www.tagesschau.de/wirtschaft/finanzen/aktien-dax-konzerne-trump-100.html
18 https://www.tagesschau.de/wirtschaft/finanzen/marktberichte/marktbericht-dax-boerse-trump-ukraine-charttechnik-gold-oel-bitcoin-100.html
19 https://de.statista.com/statistik/daten/studie/162176/umfrage/monatliche-entwicklung-des-dax/
20 https://www.der-bank-blog.de/fintech-aktivitaeten-starten-verhalten-ins-jahr-2024/studien/37710259/
21 https://financefwd.com/de/das-comeback-der-grossen-fundingrunden/
22 https://financefwd.com/de/fintech-funding-q2-2024/
23 https://www.ifo.de/publikationen/2024/aufsatz-zeitschrift/ifo-konjunkturprognose-winter-2024

Private consumption should continue to recover in both scenarios. In the baseline scenario, however, the development of propensity to save remains an element of uncertainty. Although real disposable income and therefore purchasing power would continue to increase, propensity to save would remain high in the light of continuing high uncertainty. In the alternative scenario on the other hand, private consumption is likely to gain momentum as propensity to save declines.

Despite the different economic forces in the two scenarios, from an economic perspective, a recovery is expected in both scenarios in the coming year. In the course of this development, the underutilisation of macroeconomic capacity is expected to be reduced at a comparable rate by the end of the forecast period.

With regard to trends in inflation, the ifo Institute expects inflationary pressure to ease in both scenarios. However, the inflation rate in 2025 is likely to remain roughly at the previous year's level at 2.3% (2024: 2.2%) and to fall further to 2.0% in 2026. The stagnation in 2025 is due to a number of one-off effects such as the increase in the price of the Deutschlandticket, postage and private health insurance.

In view of the improved inflation outlook and the persistently weak economic development, the ifo Institute expects the ECB to lower its key interest rates further. However, it is likely to proceed cautiously due to the continuing high inflation in the services sector. Following an interest rate cut of 0.25 percentage points in December 2024, there could be four further cuts of the same amount in the first half of 2025, meaning that the deposit rate is likely to fall to 2.0% by summer 2025. The main refinancing rate would be lowered accordingly to 2.15% and the marginal lending rate to 2.40%.

In the banking sector, the assessment of short and medium-term trends as well as structural development trends remains fundamentally unchanged. Standing one's ground in a persistently complex and challenging environment and actively managing the loan portfolio remain crucial. Banks need to pay greater attention to their cost structure in the process and continue adapting it to the demanding market and regulatory environment. In addition, structural changes such as the ongoing digitalisation of business processes must not neglected. Overall, however, the banking sector is in a stable position and is well prepared for possible economic downturns or rising loan defaults.

ESG issues will continue to gain in relevance for banks, particularly with regard to reporting. The most important aspects here are:

1. **Corporate Sustainability Reporting Directive (CSRD):** From 2025, the CSRD will extend the disclosure obligations to smaller banks requiring them to include qualitative and quantitative sustainability KPIs, such as carbon footprint, environmental targets and social aspects. Banks will be required to report in accordance with the European Sustainability Reporting Standard (ESRS). Although the transposition of the CSRD into German law has been delayed and is not expected until after the new elections in February 2025, preparations must be made in order to adequately meet the future requirements.
2. **EU taxonomy:** The taxonomy sets out strict criteria for sustainable economic activities, which banks must include in their reports. They are required to disclose how and to what extent their financing and investments meet the defined environmental goals. These reports are intended to create transparency and show how sustainable a bank's business actually is.
3. **Integration of ESG into risk management:** Since 2024, banks have been required to integrate ESG risks, particularly climate and environmental risks, into their risk management systems. This involves, for example, the consideration of such risks in the Internal Capital Adequacy Assessment Process (ICAAP) and in stress tests.

Another main focus area in future will be the Digital Operational Resilience Act (DORA), which came into force on 17 January 2023, and which Varengold Bank will be required to implement by 17 January 2025. Topics such as IT security, cyber risks, outsourcing and business continuity management will be focal points here. In view of the increase in cyber attacks on critical infrastructures during international conflicts, DORA and the Network and Information Security Directive (NIS2) set uniform EU standards that will have a significant impact on information security and will give direction to the banking sector in particular.

The new Capital Requirements Regulation (CRR III) and Basel IV (postponed due to COVID-19) also came into force in January 2025. In addition to these regulatory changes, the industry is expecting new requirements from BaFin regarding the governance and monitoring of banking products. A consultation process on these requirements is currently underway. The aim is to extend the control and monitoring activities of the compliance function to other banking products and the associated processes and instructions. In addition, the regulation on real-time transfers (instant payments) is being driven forward as a key step towards the digitalisation of the financial system. This requires a reorganisation and expansion of the Bank's payment transaction structure, which Varengold Bank welcomes as a positive and forward-looking step.

In view of the as yet unforeseeable end to the war in Europe and the sanctions imposed in this context, as well as the conflict in the Middle East, Varengold Bank is not expecting its business activities to be significantly affected directly. The higher trade tariffs that are expected following the election of the new US president, which will increase existing trade diversions, are unlikely to come into force immediately after the new US president takes office, but rather in the course of the year ahead. However, ongoing indirect effects harbour potential risks. In light of this, Varengold Bank believes that its existing loan portfolio is well positioned due to the general diversification across sectors, countries and size classes as well as appropriate collateralisation. The new focus on ESG financing, which diversifies the portfolio even further, also contributes to this.

In the European market for alternative financing in particular (e.g. online marketplaces, revenue-based financing, online lenders and peer-to-peer lending), stagnation was observed in the first half of 2024.[24] However, by the end of the year there was an increasing number of larger financing rounds again. The growth market is also likely to look more optimistic again in 2025. Companies are currently focussing less on growth at any price and more on profitability. As a result, fewer but larger funding rounds are expected. Experts even assume that the European fintech market will be strongly characterised by upcoming IPOs in the years ahead.[25]

Despite the recent interest rate cuts by the ECB, interest rate business will continue to offer a solid income component going forward. Varengold Bank has already taken the lower interest margins into account in its strategic planning. The Bank's primary goal in the months ahead is to reorganise the Commercial Banking division following the withdrawal from payment transaction business with a connection to Iran, and to expand its new focus in the area of ESG financing. In addition, business activities in the Marketplace Banking segment are due to be stepped up. The Bank anticipates additional charges in connection with this restructuring and reorganisation.

In 2024, Varengold Bank's net income totalled EUR 47.3 million according to the preliminary annual financial statements (same period in the previous year: EUR 66.7 million). Administrative expenses were down EUR 7.6 million to EUR 30.4 million in the same period, resulting in earnings before taxes (EBT) of EUR 11.3 million with a cost-income ratio of 69.4%. The earnings include an allocation to the contingency reserve in accordance with Section 340g HGB of EUR 4.3 million.

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

In 2025, the Bank expects earnings before taxes of between EUR 3 million and EUR 5 million and a cost-income ratio of around 87%.

Hamburg, 3 March 2025
Varengold Bank AG

Dr Bernhard Fuhrmann

Frank Otten

Opinion of the independent auditor

To Varengold Bank AG, Hamburg

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinion

We have audited the annual financial statements of Varengold Bank AG, Hamburg, which comprise the balance sheet as of 31 December 2023 and the profit and loss account for the financial year from 1 January to 31 December 2023 and the notes to the financial statements, including the presentation of the accounting policies. We have also audited the Management Report of Varengold Bank AG for the financial year from 1 January to 31 December 2023.

In our opinion, based on the findings of our audit

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the company as of 31 December 2023 and of its financial performance for the financial year from 1 January to 31 December 2023 in compliance with generally accepted accounting principles in Germany, and
- the accompanying Management Report as a whole provides an accurate picture of the company's position. In all material respects, this Management Report is consistent with the annual financial statements, complies with German legal requirements and presents the opportunities and risks of future development appropriately.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections regarding the regularity of the annual financial statements and the Management Report.

Basis for audit opinion

We conducted our audit of the annual financial statements and the Management Report in accordance with Section 317 HGB and EU Audit Regulation (No. 537/2014; hereinafter referred to as 'EU Audit Regulation') and in compliance with generally accepted principles for the audit of financial statements in Germany promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report' section of our auditor's report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the Management Report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, based on our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and when forming our opinion on them; we do not provide a separate opinion on these matters.

In our opinion, the following matters were most significant in our audit:

❶ Risk provisioning in the customer lending business
❷ Mapping of commission income from payment transactions
❸ Mapping of a legal dispute due to possible repayment of refunded capital gains tax
❹ Provision for the risk of impending fines

We have structured our presentation of these key audit matters as follows:

① Facts and circumstances, and presentation of problem
② Audit approach and findings
③ Reference to further information

The key audit matters are presented below:

❶ Risk provisioning in the customer lending business

① In the company's annual financial statements, customer loans totalling EUR 383.3 million (28% of total assets) are reported under the balance sheet item 'Loans and advances to customers'. As of 31 December 2023, risk provisions consisting of individual and general bad debt provisions were recognised for this loan portfolio. The measurement of risk provisioning in the customer lending business is determined in particular by the structure and quality of the loan portfolio as well as macroeconomic factors and estimates by the legal representatives with regard to future loan defaults. The amount of the individual loss provisions for receivables from customers corresponds to the difference between the outstanding loan amount and the lower value to be attributed to it on the reporting date. Existing collateral is taken into account. General bad debt provisions are calculated on the basis of expected losses. Impairment losses in the customer lending business are highly significant in terms of their amount for the company's net assets and earnings performance and also involve considerable discretionary judgement on the part of the legal representatives. In addition, the measurement parameters applied, which are subject to considerable uncertainty, have a significant influence on the recognition and amount of any necessary impairment allowances. In light of this, this matter was of particular significance in the context of our audit.

② As part of our audit, we first assessed the design of the company's relevant internal control system and, based on this, tested the effectiveness of the controls. In doing so, we considered business organisation, IT systems and the relevant valuation models. We also assessed the measurement of receivables from customers, including the appropriateness of estimated values, based on random credit exposure examples. Here, we assessed, among other things, the company's available documentation regarding the financial circumstances and the recoverability of the corresponding collateral. In the case of collateral for property, for which the company provided us with valuation reports, we obtained an understanding of the underlying initial data, the valuation parameters applied and the assumptions made, critically assessed these and evaluated whether they were within a reasonable range. We also assessed the measurement methods used by the company and the underlying assumptions and parameters in order to evaluate the provisions for losses on individual accounts and general bad debt provisions that were recognised. Based on the audit procedures carried out, we were able to satisfy ourselves overall of the reasonableness of the assumptions made by the legal representatives when testing the recoverability of the loan portfolio, and the appropriateness and effectiveness of the controls implemented by the company.

③ The company's disclosures on the recognition and measurement of risk provisions in the customer lending business are included in section 2 'Accounting policies' of the notes.

❷ Mapping of commission income from payment transactions

① Commission income of EUR 22.5 million is recognised in the company's annual financial statements, of which EUR 17.8 million is attributable to commission income from payment transaction services (79% of commission income). Various payment transaction services provided by the company are taken into account when recognising and deferring these significant amounts of income. Due to the heterogeneity of these services, the different remuneration scales and the large number of transactions to be processed, this matter was of particular significance in the context of our audit.

② As part of our audit, we first obtained an understanding of the processes and controls in place at the company to recognise commission income. Based on this, we assessed, among other things, the appropriateness and effectiveness of the relevant controls of the internal control system for the recognition and realisation of commission income, including the IT systems used. In addition, we examined, among other things, the calculation and accounting treatment of the various income components on a random basis using the documents provided to us. In this context, we also compared the commission rates charged with the contractually agreed fee rates and verified the arithmetical accuracy of the commission statements on a random basis. We also assessed the consistency of the procedures used for the accrual of commission income. We were able to satisfy ourselves that the systems, processes and controls in place are appropriate overall and that the estimates and assumptions made by the legal representatives for the appropriate recognition and deferral of commission income are sufficiently documented and substantiated.

③ The company's disclosures on commission income are included in the notes to the profit and loss account (section 5.3 Commission result).

❸ Mapping of a legal dispute due to possible repayment of refunded capital gains tax

① In the company's annual financial statements, the item 'Other provisions' includes a provision for legal risks due to the possible repayment of refunded capital gains tax in the amount of TER 4,061. Varengold Bank AG, together with 19 other natural and legal entities, is a defendant in civil proceedings. The subject of the dispute is a possible claim for reimbursement relating to a tax claim in relation to transactions of an independent sub-fund of Varengold Verwaltungs AG (in liquidation) in the form of a public investment asset from 2010. The action is based on the joint and several reimbursement of refunded capital gains tax, including solidarity surcharge, totalling around EUR 92 million (plus any interest), which was paid to Varengold Verwaltungs AG (in liquidation) in 2010, as the plaintiff assumed that, as a tax-exempt investment asset, the fund was entitled to a tax refund of this amount. The action is pending at the District Court and Varengold Bank AG has filed a statement of defence with the competent court.

Provisions must be recognised for uncertain liabilities in accordance with Section 249 (1) sentence 1 HGB. There must be an external obligation for this that has arisen legally or been prompted for financial reasons, and there must be serious expectation that the provisions will be utilised. If the required criteria for recognition are met, a provision for legal risks needs to be recognised. The legal representatives of Varengold Bank AG consider it conceivable that the claim could be successful and have recognised a provision for legal risks. The risk assessment to be carried out on the progress of the legal dispute and the assessment of whether the recognition of a provision to cover the risk is necessary in view of this legal dispute is characterised to a large extent by the estimates and assumptions of the legal representatives. In light of this and due to the amount of the claims asserted, we consider this matter to be of particular significance for our audit.

② As part of our audit, we analysed the existing legal dispute in terms of its content with the involvement of internal lawyers and assessed whether and to what extent a provision should be recognised. Our assessment took into account the information obtained in the course of our regular discussions with the Bank's legal representatives as well as the assessment of the legal representatives provided to us in writing. We analysed the reasons for recognising the provision and determining the amount of the provision. We also evaluated the assessment of an external legal adviser obtained by Varengold Bank AG and other documents provided by Varengold Bank AG. Based on our audit procedures, we were able to satisfy ourselves that the estimates made by the legal representatives for the recognition and measurement of a provision for legal risks are adequately documented and substantiated.

③ The company's disclosures on the provision for legal risks are contained in sections 4.2.13 and 5.7 of the notes and in the risk report as part of the Management Report.

❹ Provision for the risk of impending fines

① In the company's annual financial statements, the item 'Other provisions' includes a provision for impending fines of EUR 4.0 million. In 2023, in the context of a mandated, but not completed special audit in accordance with Section 44 (1) sentence 2 KWG, the Federal Financial Supervisory Authority (BaFin) asserted possible compliance violations in relation to the observance and implementation of money laundering requirements, particularly in connection with the Bank's business with Iran.

As a result of these findings, the company is at risk of being fined in accordance with Section 30 of the German Administrative Offences Act in conjunction with the relevant provisions of the

German Money Laundering Act and the German Banking Act. The provision is measured at the amount expected to become payable in accordance with reasonable commercial judgement. The assessment of whether, and if so, to what extent, a provision is required to cover the risk of violations of money laundering regulations is characterised by a high degree of uncertainty and requires considerable discretion on the part of the legal representatives. In light of this, we consider this matter to be of particular significance for our audit.

② As part of our audit, we looked at the impending fines in terms of their content and assessed whether and in what amount a provision should be recognised. Our assessment took into account the information obtained in the course of our regular discussions with the company's legal representatives as well as the estimate made by the legal representatives provided to us in writing. We analysed the reasons for recognising the provision and determining the amount of the provision. In order to estimate the amount of potential fines, we also obtained confirmation from an external lawyer as of the reporting date, which supports the risk assessment made by the company. Based on our audit procedures, we were able to satisfy ourselves that the estimates made by the legal representatives for the recognition and measurement of a provision for the risk of potential fines were sufficiently documented and substantiated.

③ The company's disclosures on the provision for the risk of impending fines are included in section '4.2.13 Other provisions' of the notes and in the risk report as part of the Management Report.

Other information

The legal representatives are responsible for the other information.

Other information comprises the annual report - excluding cross-references to external information - with the exception of the audited annual financial statements, the audited management report and our auditor's report.

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

Our responsibility in the context of our audit is to read the other information referred to above and, in doing so, consider whether the other information

- is materially inconsistent with the annual financial statements, with the disclosures in the audited Management Report or with knowledge we have obtained during the audit, or
- otherwise appears to be materially misstated.

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

The legal representatives are responsible for preparing annual financial statements that comply, in all material respects, with German commercial law, and ensuring that the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings performance of the company in accordance with generally accepted accounting principles in Germany. In addition, the legal representatives are responsible for such internal control as they have deemed necessary in accordance with generally accepted accounting principles in Germany in order to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e. tampering with accounts or misappropriating assets) or error.

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. Furthermore, they are responsible for disclosing matters relating to the continuation of the company's activities, where relevant. They are also responsible for preparing the accounts based on the going concern principle unless there are actual or legal circumstances to the contrary.

Moreover, the legal representatives are responsible for preparing the Management Report which, as a whole, provides an appropriate view of the company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and presents the opportunities and risks of future development appropriately. The legal representatives are also responsible for such arrangements and measures (systems) that they have considered necessary in order to enable the preparation of a management report that fulfils the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the statements made in the Management Report.

The Supervisory Board is responsible for overseeing the financing reporting process used by the company to prepare the annual financial statements and the Management Report.

Responsibility of the Auditor for the Audit of the Annual Financial Statements and the Management Report

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error and whether the Management Report as a whole provides an appropriate view of the company's position and is, in all material respects, consistent with the annual financial statements and the knowledge obtained during our audit, complies with German legal requirements and presents the opportunities and risks of future development appropriately, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation, and in compliance with generally accepted accounting principles in Germany promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the financial decisions of users taken on the basis of these annual financial statements and Management Report.

During the audit, we exercise due discretion and maintain professional scepticism. In addition,

- we identify and assess the risks of material misstatement in the annual financial statements and the Management Report, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate in order to provide a basis for our opinions. The risk of not detecting material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- we gain an understanding of internal control relevant to our audit of the annual financial statements and of arrangements and measures (systems) relevant to our audit of the Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these company systems.
- we evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.
- we reach a conclusion on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence we have obtained, whether there is material uncertainty related to events or circumstances that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in the auditor's report to the relevant disclosures in the annual financial statements and in the Management Report or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence we have obtained up to the date of our auditor's report. However, future events or circumstances may result in the company no longer being able to continue its business activities.
- we evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events such that the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings performance of the company in accordance with generally accepted accounting principles in Germany.
- we evaluate the consistency of the Management Report with the annual financial statements, its compliance with German law, and the view of the company's position it provides.
- we perform audit procedures on the forward-looking statements made by the legal representatives in the Management Report. Based on sufficient appropriate audit evidence, we simulate the significant assumptions used by the legal representatives as a basis for the forward-looking statements, and assess the proper derivation of the forward-looking statements from these assumptions. We do not express a separate opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

We discuss the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit with those charged with supervisory responsibility.

We provide those charged with supervisory responsibility with a statement that we have complied with the relevant requirements in terms of independence, and discuss with them all relationships and other matters that may reasonably be thought to affect our independence, and where applicable, the relevant safeguards applied to mitigate risks to independence.

From the matters communicated with those charged with supervisory responsibility, we determine the matters that were of most significance in our audit of the annual financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or other legal provisions prevents their public disclosure.

OTHER STATUTORY AND OTHER LEGAL REQUIREMENTS

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the General Meeting on 13 August 2024. We were engaged by the Supervisory Board on 6 June 2024. We have been the auditor of Varengold Bank AG, Hamburg, without interruption since the 2015 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (audit report).

AUDITOR IN CHARGE

The auditor in charge of the audit is Lutz Meyer.

Hamburg, 4 March 2025
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lutz Meyer	**pp. Maximilian Hockenberger**
Auditor	Auditor

Corporate information

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Board of Managing Directors

Dr Bernhard Fuhrmann
Frank Otten

Supervisory Board

Dirk Auerbach (Chairman)
Vasil Stefanov
Tobias Weitzel

Companies Register

HRB 73684 Hamburg District Court

VAT ID No.

Financial Authority, Hamburg, DE247069729

Corporate Governance

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

Deposit insurance

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

Permissions/Approvals of Varengold Bank AG

- Acquisition brokerage (section 1 (1a) sentence 2 no. 2 KWG [German Banking Act])
- Investment advisory services (section 1 (1a) sentence 2 no. 1a KWG)
- Investment brokerage (section 1 (1a) sentence 2 no. 1 KWG)
- Asset management (section 1 (1a) sentence 2 no. 11 KWG)
- Deposit business (section 1 (1) sentence 2 no. 5 KWG)
- Proprietary business (section 32 1a) KWG)
- Proprietary trading (section 1 (1a) sentence 2 no. 4 KWG)
- Deposit business (section 1 (1) sentence 2 no. 1 KWG)
- Factoring (section 1 (1a) sentence 2 no. 9 KWG)
- Financial leasing (section 1 (1a) sentence 2 no. 10 KWG)
- Financial commission business (section 1 (1) sentence 2 no. 4 KWG)
- Financial portfolio management (section 1 (1a) sentence 2 no. 3 KWG)
- Guarantee business (section 1 (1) sentence 2 no. 8 KWG)
- Credit business (section 1 (1) sentence 2 no. 2 KWG)

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Notes on the content

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Forward-looking statements

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

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