



Varengold

BANK

Annual Report
2019

Key Figures of Varengold Bank AG

Key figures per share	31.12.2019 in EUR	31.12.2018 in EUR
Earnings per share	0.17	0.08
Market capitalization	34,467,846	23,723,816

Profit and loss statement	01.01.2019 to 31.12.2019 in TEUR	01.01.2018 to 31.12.2018 in TEUR
Interest income	6,559	6,369
Current income from shares and other non-fixed income securities	1,634	682
Commission income	13,815	14,299
Net income from trading portfolio	155	80
Other operating income	-495	-506
Administrative expenses	-16,639	-14,774
Depreciation and value adjustments	-1,435	-3,867
Income from normal business operations	3,594	2,283
Income/loss for the year	1,616	515

Balance sheet	31.12.2019 in TEUR	31.12.2018 in TEUR
Total assets	707,329	530,935
Net assets	34,151	24,772

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01

Letter to the Shareholders



Dear Shareholders,

The Varengold Bank AG is looking back today at the most successful business year of its history.

That the financial year 2019 would be special became clearly evident at the end of the first half of the year: at EUR 1.78 million the pretax earnings exceeded expectations and gave cause for optimism that we would achieve our prognosis of EUR 2.8 – 3.2 million for the year as a whole. Based on a now confirmed pretax earnings of EUR 3.6 million, it is clear that our bank surpassed even the high end of our projections by close to 12.5%.

The reasons for this are varied. While large houses try to be everything for everyone, our consistent focus on two core business areas – Marketplace Banking and Transaction Banking (Commercial Banking) – allows us to thoroughly understand our customers and their needs. Despite the speed with which we made business decisions we always took the necessary time. Only so could the individual and innovative solutions that we developed for our customers in 2019 achieve the desired results which then built the necessary foundation for a long-term sustainable business model.

With all of our innovations we have nevertheless for good reason continued to insist upon high quality risk analysis, the adherence to solid traditional lending regulations and appropriate cost structures.

With its regulatory products and its liquidity our bank's core business area Marketplace Banking generated value for FinTechs in general and the credit marketplace in particular with its regulatory products and its liquidity. The liquid assets were much more frequently used for the early stages of credit granting than in business year 2018. Moreover, the customer needs were even more comprehensively satisfied through an extension of the product palette – especially through modular fronting services.

Through its activities in Marketplace Banking, the Varengold Bank helped initially to optimally implement and later to scale innovative business ideas which as a rule included receivables finance, real estate finance, trade finance, consumer finance or SME finance. We thereby demonstrated through the extent of the financing volumes provided, that we are also fully capable to accompany our customers on extremely ambitious growth paths. To accomplish this, we engage the support of an extensive and reliable investor network as necessary.

The sharp increase in new customer acquisition in the area Marketplace Banking – which proved to be a decisive driver of the positive business results of 2019 – showed that our efforts were acknowledged not only by our established customer base, but also by newcomers.

The second core business area of Transaction Banking was also able to greet numerous new customers in business year 2019, who were convinced by the strong performance of the Varengold Bank in the areas of international payment transactions, trade and export finance, Lombard credits and structured finance. Among others, six of the top ten global food/commodity traders extended our customer base, as our bank had already consequently implemented its positioning as global partner for transactions and trade activities across international borders.

The success in both business areas was supported through numerous far-reaching operational measures.

In order to master the increasing demands on efficiency and speed, digital solutions which improved the process and project management, as well as external and internal communication were introduced in business year 2019. Moreover, the management system “OKR” (Objectives and Key Results) continued to assist in frequent and various applications.

After the corporate identity was optimized in 2018, the establishment of the “Communications” department ensured, among other activities, that social media channels were more strongly used, online advertising programs initiated and participation in trade shows and conferences in the second half of 2019 activated – which led to the expected positive effects for the publicity and awareness of the Varengold Bank brand.

With the knowledge that our demands on the quality of our services are only deliverable with a sufficiently large and highly qualified team, the average number of employees was increased by 13.3 % over the previous business year. Thanks to a strengthened employer brand and more attractive benefits for employees, this was possible despite the ongoing shortage of skilled specialists.

Based on the positive development we see our business strategy and in particular our positioning as “Bank for the Marketplace Lending industry” validated. The shareholders who participated in an additional capital increase in the amount of EUR 7.8 million at the start of 2019 were also convinced of this. Combined with the funds from an announced in November 2019 cash capital increase for 2020 which led to cash inflows of a further EUR 2.8 million, our bank is very well-positioned for its continuous growth.

Before the outbreak of the Covid-19 pandemic we had already planned to focus on the growth of the Marketplace Banking core business area in the year 2020. With credit know-how, regulatory expertise and our network in the European banking scene we strove to continue to primarily help credit marketplaces to establish and expand a sustainable business. Fundamentally, we will continue to pursue this goal also in the Covid-19 altered environment. We will react appropriately to currently unforeseeable developments.

Moreover, we will continue to allocate considerable resources to the progressive digitalization of the Varengold Bank. Based on the necessity of keeping up with the speed of our FinTech customers in the future, but also with an eye on the Corona crisis, we see no

alternative to a continual replacement of manual or analog processes.

We warmly thank everyone who made year 2019 the most successful business year in the history of the organization through their trust and commitment to the organization. We extend our particular gratitude to our employees who time and again went the “extra mile” and who successfully oriented themselves to the many changes in our business operations – without ever losing track of the interest of the customers.

In our Half-year report 2019 we identified holes that other offerors had left for us in the market as they ignored entire groups of customers who had needs for capital and banking services. Today these holes are not yet completely filled and still mask considerable potential for he who reveals them. Moreover, The Covid-19 pandemic will not only have negative implications but will also create opportunities for new business possibilities. We are ready to tackle the necessary challenges and are looking ahead to an eventful business year 2020 with confidence and zeal for action.



Hamburg, June 2020

The Board of Directors of Varengold Bank AG

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

Dr. Bernhard Fuhrmann

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

Frank Otten

02 Success Story



The 24-year company history of the Varengold Bank AG is characterized by continuous growth. With regulatory competence and enthusiasm to innovate the bank successfully claimed its position in the technology-driven evolution of the finance industry.

Founded in the year 1995 as Asset Management boutique, the GmbH was converted into an incorporated company in 1999. In the first years the focus was on the development of individual specialized hedge fund strategies from the managed futures area. The investment strategy, based on derivative financial instruments, concentrated on the systematic trade of commodities and stock indices. For diversification, the individual trading approach was expanded to include complementary strategies on the fund of funds level for customized portfolios.

According to a reduced risk/return profile, the Varengold Bank later launched the first German approved for open trading managed futures fund of hedge funds, the HI Varengold CTA Hedge, which won the award of best German fund of hedge funds several times. Within the scope of these trading activities it became clear that transparency of the managed futures strategies was needed at the level of each individual transaction to ensure a successful monitoring and management with respect to the trade strategies.

For an optimized management structure managed account platform was developed which enabled the real-time brokerage and online reporting. Within record time around 9,000 customers worldwide, with an annual transaction volume of over EUR 20 billion, used the Varengold access to the international financial markets for both stock exchange transactions, as well as non-share available products such as Forex und CFDs (Contracts for Differences) on a single trading platform.

An even more significant milestone in the history of the company was the expansion of licensing from a securities trading bank to a deposit-taking institution (in the sense of § 1 para. 3d sentence 3 KWG) in year

2013. Parallel to receiving the full banking license, the business area Transaction Banking/Commercial Banking was established.

In March 2016, the Varengold Bank decided to discontinue the Capital Markets Brokerage business area to limit risks and earnings volatility and to place the main focus in future business areas with better risk/return ratios. The many accumulated years of expertise in capital markets continued to be utilized. In particular, companies that wished to secure payment streams from currency fluctuations profited.

Since 2015 the strategic focus of the bank has concentrated on the support of marketplaces that offer companies and consumers digital financing solutions. These are a form of financing technology companies, referred to as “FinTech(s)”. The Varengold Bank makes debt and equity capital markets products, international payment transaction services, as well as fronting services of bank license-required products available to their customers. With credit know-how, regulatory expertise, and an excellent network in the European banking industry, it helps credit marketplaces to establish and develop a successful and sustainable business. Much attention is paid to building cooperative partnerships with FinTechs as opposed to duplicating their services.

The strategic focus of credit marketplaces is completely compatible with the explicit mission of the Varengold Bank: to grant as many individuals and companies as possible rapid and uncomplicated access to capital and banking services.

Next to the company mission, the core value “customer orientation” is the connecting element between the individual business areas and business decisions. In order to create relevant additional value for its demanding customers in and outside of the country, the Varengold Bank offers existing products in new ways or develops innovative customized solutions. From the customer needs perspective, for whom as a rule there is no off-the-shelf solution, this approach

has proven itself not only to be necessary, but also very successful.

In combination with the adherence to traditional credit regulations, high-quality risk analysis and appropriate cost structures, an attractive mixture of solidity and agility presents an excellent basis for a successful positioning in the core business areas of the Varengold Bank.

03 Products and Services

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



Marketplace Banking

As a reaction to the financial crisis of 2008, online credit marketplaces across the globe emerged to focus on the financing of companies and consumers. As a rule, they offer their customers considerably faster, easier and therefore also more agreeable credit processing than established banks. In addition, due to their more efficient processes, they are also able to offer access to capital to those customers who usually fall outside of the typical bank target groups.

To provide these services the marketplaces need financial resources. Within its core business area Marketplace Banking, the Varengold Bank covers this specific need. In so doing, it helps its customers who are usually working in receivables finance, real estate finance, trade finance, consumer finance or SME finance, to initially establish their business models and then later to scale them.

An anchor product of the Varengold Bank is structured financing (lending). The refinancing of marketplace credit portfolios, whose structure is closely oriented to the needs of the customer, is therefore often just the beginning of a long-term working relationship. In addition, the Varengold Bank supports its customers in the areas of DCM (Debt Capital Management) and ECM (Equity Capital Management); when necessary its capital requirements are covered with the help of its worldwide network of investors.

Another anchor product in the core business area of Marketplace Banking are fronting services. The Varengold Bank makes its banking license available throughout Europe to those marketplaces offering products and services requiring bank licenses, but which do not have the required license. Typically, “fronted” services include credit products and account services. The sound process expertise, as well as expert technology competence of the Varengold Bank helps customers to enter markets quickly and efficiently. This is particularly useful for opening access to marketplaces with highly regulated markets such as Germany.

Essentially, Varengold Bank accompanies its customers in Marketplace Banking in an early phase of their business activities which often transitions to a growth phase. A benefit for the customers is that Varengold Bank has no conflict of interest with their customer relationship and the marketplace because the bank itself is practicing no credit business which would be in competition with the business of the marketplaces.

Value proposition:

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

Income components:

- › Interest income
- › Commission income

Transaction Banking / Commercial Banking

In the core business area Transaction Banking / Commercial Banking (terms are used synonymously), Varengold Bank presents itself as a global partner for demanding private and business customers and investors both in and outside of the country. With the help of individualized products and solutions it offers the possibility to develop transaction and trading activities securely efficiently and transparently across national boundaries. The trading concentration is on the Eastern European region and the Middle East. A solid customer base for trade finance transactions has been developed since the inception of the core business area in the year 2013 and is continues to expand.

The core business area of Transaction Banking is comprised of the deposit business, as well as the areas of international payment transaction, trade and export finance, Lombard credit and structured finance.

In the trade and export finance area the Varengold Bank bundles selected solutions for financing and bank guarantees and letter of credit businesses for international trading activities. The guarantee business also includes, in addition to classical payment guarantees, performance-related guarantees and delivery and service guarantees.

In the business area of deposit business private customers are offered complimentary daily deposit and term deposit accounts which combine daily available deposits at an attractive interest rate and in this way constitute a reliable basis for every investment portfolio. In addition to guaranteed interest, as well as monthly interest calculation, the customers further benefit from the statutory deposit protection in the amount of up to 100,000 EUR.

Value proposition:

- › Expertise in emerging markets with strong local networks
- › Dynamic adaptations to market changes
- › Status of a German regulated bank
- › Deposit protection of up to maximum EUR 100,000 per customer

Income components:

- › Interest income
- › Commission income

04 Shares

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

Aktuelle Eckdaten

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock symbol	VG8
Market segment	Open Market / OTC (over the counter)
Transparency level	Basic Board
First listing	20 March 2007
Share (type)	No par-value shares
Number of shares	10,043,015 shares (31.12.2019: 9,315,634 shares)
Total capital	EUR 10,043,015.00 (31.12.2019: EUR 9,315,634)
Designated sponsor	Oddo Seydler Bank AG
Paying agent	Bankhaus Gebrüder Martin AG
Specialist	Baader Bank AG

Conditions and development in year 2019

Based on the positive development over the entire year 2018, the stock market was viewed with high expectations by investors already at the beginning of the reporting period. Against the background of a rather weak global economic environment and increasing risks in export trading, the US Central Bank made a considerable change of course and shifted away from the normalization of their money policy and lowered the US prime interest rate again – which particularly supported the stock market. In Europe, the European Central Bank (ECB) remained loyal to its expansive course and announced increased bond purchases as of November 2019. The international stock markets were also influenced by a series of economic and geopolitical events over the course of reporting year 2019. These included the trade conflict between the USA and China, economic policy sanctions against Iran, Brexit and the uncertainties regarding the implications of the ongoing conflicts and political unrest in the Near East. Despite these events, the international stock markets on the whole displayed a very positive development. While DAX and EuroStoxx 50 were each able to achieve approximately a +26 % considerable gain, the weaker EUR exchange rate environment, the European bank index, hindered by among other issues sinking interest expectations, limped behind the development of the wider stock market.

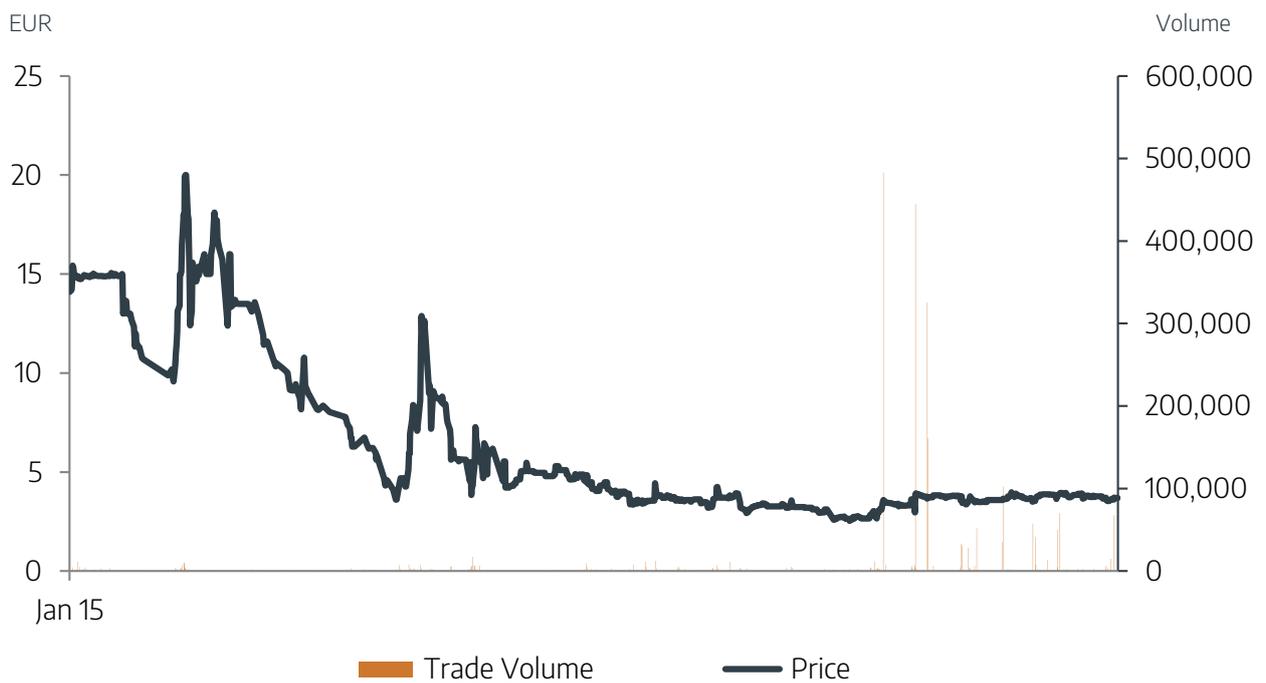
The stock of the Varengold Bank AG also registered in year 2019 generally lateral movement without noticeable fluctuations. In the middle of the first quarter the stock reached its lowest point of the year of EUR 3.36 and the shares recorded their peak value of EUR 3.98 in the beginning of May.

The average share price rose from EUR 3.22 in year 2018 to EUR 3.71 in the reporting year. The average number of daily shares traded fell by 3,575 shares as compared to 17,653 shares in the previous year. The 2018 results can be traced back to very high trading volumes on comparatively few trading days.

The earnings per share increased in year 2019 by EUR 0.17 (2018: EUR 0.08). Market capitalization rose considerably by reporting date 31.12.2019 to EUR 34,467,846 (reporting date 31.12.2018: EUR 23,723,816).

Price history of Varengold shares

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



Source: Bloomberg

Time period: 01/2015 – 12/2019

05

Supervisory Board Report



Dear Shareholders,

The Supervisory Board would first like to thank the members of the Board of Directors and the employees for the excellent cooperation and personal engagement in the year 2019. The entire Varengold team consistently developed the business activities of the bank in the past year, drove additional growth and initiated further measures for a sustainable and very positive development of the bank within the scope of the newly adjusted strategic orientation. Within the context of the Corona pandemic prevalent since early 2020, digitalization also forcibly experienced immense relevance, for which the Varengold Bank had already taken essential steps in past years.

Cooperation between the Supervisory Board and the Board of Directors

In business year 2019 the Supervisor Board performed all statutory and company obligations, regularly monitored the Board of Directors and concentrated on the business and strategic development of the company. The Supervisory Board was convinced of the suitability and reliability of the Board of Directors by the ongoing discussions with individual members of the Board over the course of the year, as well as their answers to targeted questions. The Board always clearly answered and explained questions to the satisfaction of the Supervisory Board. To broaden their informational base and to expand their impressions of the development of the company, the Supervisory Board also made inquiries among sources outside of the Board of Directors including bank management and external consultants. The committee was therefore always informed about the current business activities and received written monthly status reports on the current financial standing of the company and quarterly reports on the risk situation of the bank.

The monitoring goals are oriented on the statutory guidelines and were adjusted to align with the internal and external developments of the organization.

The information presented to the Supervisory Board was discussed in the supervisory board meetings, in ongoing discussions, as well as individually with board of director members. The Supervisory Board and the Board of Directors were also in close contact outside of the meetings to scrutinize and discuss strategic options and current questions regarding business policies. Moreover, all internal audit reports and detailed documents from individual functional areas were reviewed by the Supervisory Board. The written and oral reports provided by the Board of Directors were always complete and complied with the requirements under § 90 of the AktG (German Stock Corporation Act).

Supervisory Board meetings in 2019

In total, the four ordinary meetings of the Supervisory Board took place over the course of the business year on 13 March 2019, 18 June 2019, 28 August 2019 and 26 November 2019. All members of the Supervisory Board were present at all meetings, as were both members of the Board of Directors.

Principally, at each meeting the Board of Directors reported to the Supervisory Board on the financial and economic relationships of the preceding months and also gave a status update on the risk control and compliance situation of the bank.

In the meeting on 13 March 2019 first the development of the business areas and the company's key financial figures with a review of the previous year 2018 was discussed. Furthermore, the business strategy 2019, the business plan 2019, the long-term planning and the current risk strategy were discussed and approved by the Supervisory Board. In addition, the participants discussed among other topics, the compliance report 2018, the existing compensation system and its application, the adherence to the requirements of § 25d KWG and planning for the digitalization of the Bank.

The main topics on the agenda of the meeting on 18 June 2019 were, in addition to a review of business development the first half year 2019 and the annual report 2018 (in direct discussion with the responsible auditor PricewaterhouseCoopers GmbH), the monitoring of the non-audit services of the auditing firm PricewaterhouseCoopers GmbH.

At the opening meeting on 28 August 2019 the primary focus was on the election of the Chairman of the Supervisory Board, his deputy Chair and an update on the performance of the internal revision points of the agenda.

At the last meeting of the year, on 26 November 2019, the development of results over the course of the year 2019 was reviewed and the current business model was discussed considering the terms and conditions at that time. Moreover, the shareholding structure of the Varengold Group and the end results of the audit in accordance with the § 44 KWG were central topics of the meeting.

In addition to these four meetings of the Board of Directors and the Supervisory Board, the Supervisory Board occasionally held telephone conferences to clarify the topics decided upon at the regular meetings and to prepare topics relevant to upcoming regular meetings. Moreover, additional decisions were made via circular procedure in accordance with § 12, para. 2 of the Charter of the Varengold Bank AG. The additional efforts were required to address further increasing regulatory requirements for credit institutes in particular.

Over the course of the year 2019, the Board of Supervisors also carefully monitored the financial reporting process of the bank, the effectiveness of the existing monitoring system, the work of internal controlling and risk management. The Supervisory Board was always informed about the planning and activities related to the structural and technological transformation of the bank.

Chairman of the Supervisory Board Dr. Lemnitzer possesses the necessary expertise in the area of financial reporting and auditing in accordance with § 100 para. (5) AktG. The members of the Supervisory Board are fully conversant with the sector in which the bank operates.

The Supervisory Board itself conducts an efficiency review of its own work on a regular basis. This reporting year, just as in past business years, the Supervisory Board has declined to form committees based on the size of the company and the fact that the Supervisory Board consists of only three members.

Granting the auditing contract to PricewaterhouseCoopers GmbH

The auditing firm PricewaterhouseCoopers GmbH, Hamburg, was elected at the ordinary shareholders meeting on 28 August 2019 to be the auditors for financial year 2019. Subsequently, the Supervisory Board awarded the auditing contract to PricewaterhouseCoopers GmbH. The contract itself contains, among other agreements, clear definitions of the scope of the audit, the implementation of the audit, as well as the goals of the cooperation. Prior to the recommendation of the Supervisory Board regarding the election proposal at the general shareholders meeting, the auditor declared that no business, financial, personal or any other type of relationship exists that could justify reason to doubt their independence.

Annual audit 2019

The auditing firm PricewaterhouseCoopers GmbH, Hamburg has reviewed the annual financial reporting of business year 2019 and the management report according to HGB regulations and has granted an unqualified auditor's certificate for the annual report presented on 31 December 2019.

In preparation for the committee meeting on 5 June 2020, the Supervisory Board received a draft of the

auditor's report of the annual financial statements 2019 and the management report for review and audit. All open questions were able to be resolved with the Board of Directors and the auditors representing PricewaterhouseCoopers GmbH. Prior to this meeting the Chairman of the Supervisory Board took part in preliminary discussions about the annual financial audit of business year 2019 between the Board of Directors and the auditing firm on 27 May 2020.

By unanimous decision of the Supervisory Board on 5 June 2020, the audited and granted with an unqualified opinion of the auditor, auditor's report of the annual financial statements of Varengold Bank AG from 31 December 2019 which was not materially revised since the drafts in accordance with statute § 12 in conjunction with § 22 of the Varengold Bank AG Bylaws, after a final review of the Supervisory Board was approved. The annual report of Varengold Bank AG for financial year 2019 is thereby complete.

Institutional bodies

The Supervisory Board of the Varengold Bank AG decided ahead of schedule by resolution on 2 May 2019 to grant Frank Otten a further appointment as member of the Board of Directors until 30 April 2025 and based upon this decision agreed to extend his contract for the same time period.

Last year's active Supervisory Board member Mr. Michael Stephen Murphy left the commission at the end of his regular term of responsibilities with the ending of the annual general meeting 2019. The present Supervisory Board wishes to express its gratitude to former Board member Mr. Murphy for his valuable contribution and trustful cooperation.

At the annual general meeting 2019 on 28 August 2019 Dr. Karl-Heinz Lemnitzer, Mr. Vasil Stefanov and Mr. Francesco Filia were elected to four-year terms of office to the Supervisory Board of the Varengold Bank AG. Mr. Filia joined as a new member of the commission.

For the Supervisory Board
Hamburg, 8 June 2020



Dr. Karl-Heinz Lemnitzer
Chairman of the Supervisory Board

06 Annual Report

in accordance with the German Commercial Tax Code (HGB)

**for financial year from 1 January 2019
to 31 December 2019**

Varengold Bank AG
Große Elbstraße 14
22767 Hamburg



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Balance Sheet as of 31 December 2019

Assets	Euro	Financial year Euro	Previous year TEuro
1. Cash reserve			
a) Cash balance	4,951.24		2.8
b) Credit with Central Banks	261,366,957.55		134,495.2
- of which:		261,371,908.79	134,498.0
With the German Central Bank: Euro 261,366,957.55			(134,495.2)
2. Loans and advances to credit institutions			
a) Due on demand	23,307,897.10		5,878.5
b) Other receivables	3,509,786.53		7,318.2
		26,817,683.63	13,196.7
3. Customer receivables		267,215,309.10	267,363.1
- of which:			
Secured by mortgages: Euro 40,865.36			(39.4)
Municipal loans: Euro 53,670,057.99			(43,700.0)
4. Bonds and other fixed-income securities			
a) Bonds and debt			
aa) From public issuers	18,828,663.40		4,078.2
- of which:			
Acceptable as collateral at the German Central Bank: Euro 18,737,798.60			(4,021.7)
ab) From other issuers	2,372,803.03		4,915.1
		21,201,466.43	8,993.3
5. Shares and other variable-yield securities		126,274,250.76	101,150.4
6. Trading portfolio		1,827,465.71	1,678.5
7. Shares in affiliated companies		900,001.00	1,299.4
- of which:			
In financial services institutions: Euro 855,313.25			(855.3)
8. Intangible assets			
a) Acquired concessions	177,069.00		154.5
		177,069.00	154.5
9. Fixed assets		135,579.50	156.2
10. Other assets		1,324,198.22	1,557.2
11. Accruals and deferred income		84,537.47	191.3
12. Deferred tax assets		0.00	695.9
Total assets		707,329,469.61	530,934.5

Liabilities	Euro	Financial year Euro	Previous year TEuro
1. Liabilities to banks			
a) Due on demand	28,258,613.03		5,947.0
b) With agreed maturity dates or periods of notice	0.00		12,840.4
		28,258,613.03	18,787.5
2. Amounts owed to customers			
a) Other liabilities			
aa) Due on demand	355,287,613.78		250,777.7
ab) With agreed maturity dates or periods of notice	276,634,339.39		217,564.2
		631,921,953.17	468,342.0
3. Other liabilities		1,798,080.58	9,572.9
4. Accruals and deferred income		79,589.91	237.1
5. Provisions			
a) Reserves for pensions and similar obligations	98,599.00		83.7
b) Provisions for taxes	476,868.71		692.9
c) Other provisions	3,744,476.07		3,446.4
		4,319,943.78	4,223.0
6. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
7. Contributions made to carry out authorized capital increase		1,800,414.00	0.0
8. Share equity			
a) Subscribed capital		9,315,634.00	6,210.4
b) Capital reserves		42,632,456.80	37,974.6
c) Retained earnings			
ca) Legal reserves	1,700.00		1.7
cb) Other retained earnings	16,700.00		16.7
		18,400.00	18.4
d) Net loss		-17,815,615.66	-19,431.4
Total Liabilities		707,329,469.61	530,934.5
1. Contingent liabilities			
a) Liabilities from guarantees and indemnity agreements		8,502,022.00	677.9
2. Other liabilities			
a) Irrevocable loan commitments		12,488,006.42	25,629.9

Profit and Loss Statement

For the period 1 January 2019 to 31 December 2019

	Euro	Euro	Financial year Euro	Previous year TEuro
1. Interest income from				
a) Credit and money market transactions	8,935,810.19			8,262.7
less negative interest from bank balances	-706,201.87			-986.8
	8,229,608.32			7,275.9
b) Fixed-income securities and debt register claims	324,847.24	8,554,455.56		774.8
2. Interest expense	-2,608,886.12			-2,598.3
less received negative interest from the banking business	613,132.38			916.7
		-1,995,753.74		-1,681.6
			6,558,701.82	6,369.1
3. Current income from				
a) Shares and other variable-yield securities		1,634,137.34		682.1
			1,634,137.34	682.1
4. Commission income		14,455,923.33		16,214.2
5. Commission expense		-641,333.14		-1,915.6
			13,814,590.19	14,298.6
6. Net income from trading portfolio			155,347.87	79.9
7. Other operating income			1,085,291.93	355.9
8. General and administrative expense				
a) Personnel expense				
aa) Wages and salaries	-7,521,255.98			-6,386.3
ab) Social security contributions and expense for pensions and other employee benefits				
- of which: for pensions: 254,892.72 Euro (previous year: 228.4 TEuro)	-1,021,160.81			-874.2
		-8,542,416.79		-7,260.5
b) Other administrative expense		-8,096,524.57		-7,513.1
			-16,638,941.36	-14,773.6
9. Depreciation and amortization of intangible assets and property			-114,062.81	-135.8
10. Other operating expense			-1,580,060.09	-862.0
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business			-925,190.77	-2,836.4

	Euro	Euro	Financial year Euro	Previous year TEuro
12. Income from write-ups to claims and certain securities, and from the release of provisions for possible loan losses			-395,775.76	-894.3
13. Income from ordinary business activities			3,594,038.36	2,283.4
14. Taxes on income and earnings		-1,977,831.35		-1,767.6
15. Other taxes, as long as not posted under position 10		-413.00		-0.4
			-1,978,244.35	-1,768.0
16. Annual net profit			1,615,794.01	515.4
17. Loss from previous year			-19,431,409.67	-19,946.8
18. Net loss			-17,815,615.66	-19,431.4

Varengold Bank AG, Hamburg
District Court Hamburg, HRB 73684

Notes

**For financial year 1 January 2019
to 31 December 2019**

1 General information

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

Entries which apply to multiple posts to improve precision and clarity continue to be displayed in general posts, in variance with § 284 para. 1 sentence 1 HGB.

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

2 Accounting and valuation methods

The accounting and valuation methods remained unchanged compared to the previous year, with one exception. The calculation for the formation of general value adjustments occurred until the previous year according to the bulletin of 10 January 1994 of the Federal Ministry of Finance and as of this financial year according to the IDW Comments on Accounting for loss provisions for foreseeable, not yet individually substantiated counterparty risk in the credit business of credit institutes ("Flat-rate valuation adjustments") (IDW RS BFA 7) (from: 13.12.2019). This methodological change led, according to § 284 para. 2 No. 2, to an additional expense in the amount of TEUR 188 in the reporting year.

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

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

The cash balance and credit to Central Banks are stated at nominal values.

Claims to banks and customers are generally recorded at nominal value. As necessary, possible credit default risks are carried by the forming of an individual value adjustment account. The amount of risk provisioning for each case of default risk is measured by the difference between the book value of the claim and the probable recoverable amount. Bad debts are written off. The latent credit risks are carried through the creation of value adjustments. In preparation of the S BFA 7, their determination was converted and appears based on an estimate of the expected loss from a non-contractual fulfillment of capital and interest obligations in the originally agreed upon amount or to the originally agreed payment date over the remaining term. Revenues from the valuation of credit securities are taken into consideration in the determination.

Bonds and other fixed income securities, when assigned to fixed assets, are balanced according to the moderate lowest value principle. When allocated to liquidity reserve they are balanced using the strict lowest value principle. The fixed assets are assigned to securities with a book value in the amount of TEUR 2,373.

Shares and other variable-yield securities which are assigned to fixed assets are balanced according to the moderate lowest value principle. When allocated to liquidity reserve they are balanced using the strict lowest value principle. The fixed assets are recorded as a holding in the amount of TEUR 45,500 (book value).

The investments and shares in affiliated companies are measured in accordance with the rules for acquisition costs at the lower of cost or market at the reporting date.

Purchased software is reported under intangible assets, and as with tangible assets, are valued at amortized costs with consideration of scheduled depreciation. The bank determines expected useful life by using fiscal depreciation rates according to AfA guidelines for asset depreciation.

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

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

The other assets are recorded at nominal value.

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

Deferred tax liabilities are stated in accordance with § 274 HGB of the temporary differences between the commercial and the tax valuations of the assets, obligations and accruals of deferred income, which lead to a future tax burden or relief, as well as tax loss carry-forwards. The use of an overall difference approach calculates an excess of deferred taxes which, as a cautionary measure, is not reported.

Current liabilities are recorded at their repayment or settlement value.

Deferred income (due mainly to advanced tax payments and commissions for payment transactions) are formed in accordance with § 250 para. 2 HGB and dissolved over the term of the underlying business.

Pension provisions, which depend upon provisions for dependents, are calculated according to actuarial principles using the guideline tables of 2018G from Klaus Heubeck in accordance with the provisions of § 253 para. 2 HGB. For the valuation process, the modified part-value method is used. It was based on an actuarial interest rate of 2.71 %, a salary and career trend of von 2.0 % and a fluctuation rate of 10 %.

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

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

The interest-related transactions in the bank book are examined annually in their entirety for excess liability. For this a present value-based approach to the expected incidental risk and administrative expenses is utilized. The valuation demonstrates that no excess liability related to the interest-related business of the banking book (interest book) exists, and therefore there is no need to for a provision for contingent losses.

The contingent liabilities and other obligations, as well as all other balance sheet items are stated at nominal value.

Income and expenses are recognized on an accrual basis.

Negative interest from the lending business and positive interest from liabilities are recorded as a reduction of the interest income or, respectively, interest expense and is shown separately in the profit and loss statement.

The bank exercises its right to vote on the cross-offsetting option in accordance with § 304f para. 3 HGB in conjunction with § 32 RechKredV and § 340c para. 2 HGB in conjunction with § 33 RechKredV of the Regulations on Accounting for Banks (RechKredV).

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

3 Currency translation

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

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

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

As of 31 December 2019, the following balance sheet items contain foreign currency amounts:

	31.12.2019	31.12.2018
	TEUR	TEUR
Loans and advances to credit institutions	15,642	7,379
Customer receivables	7,692	18,639
Bonds and other fixed-income securities	2,373	1,125
Shares and other variable-yield securities	52,030	50,411
Shares in affiliated companies	900	900
Other assets	51	241
Accruals and deferred income	22	74
Liabilities to banks	31,769	28,678
Other liabilities	260	81

4 Notes to the Balance Sheet

4.1 Overall disclosures

4.1.1 Relationships to affiliated companies

	31.12.2019	31.12.2018
	TEUR	TEUR
Customer receivables	267,215	267,363
Of which from affiliated companies	4,780	4,657

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

	31.12.2019	31.12.2018
	TEUR	TEUR
Amounts owed to customers	631,922	468,342
Of which from affiliated companies	294	565

The “of which” position are receivables against the Varengold Verwaltungs AG i.L., Hamburg, the Varengold Capital Holdings Limited, British Virgin Islands and the Varengold Capital Asset Management Limited, Hongkong.

4.1.2 Breakdown of residual terms

	31.12.2019	31.12.2018
	TEUR	TEUR
Loans and advances to credit institutions	26,818	13,197
Due on demand	23,308	5,878
Up to three months	39	340
Over three months to one year	3,471	6,979
Customer receivables	267,215	267,363
Due on demand	3,766	2,770
Up to three months	39,900	26,709
More than three months to a year	170,452	156,467
More than one year to five years	53,097	81,378
More than five years	0	39
Bonds and other fixed-income securities	21,201	8,993
Up to three months	1,189	3,049
More than three months to a year	1,688	1,647
More than one year to five years	18,324	4,298
Loans and advances to credit institutions	28,259	18,787
Due on demand	28,259	5,947
More than three months	0	340
More than three months to a year	0	12,500
Customer receivables	631,922	468,342
Due on demand	355,288	250,778
Up to three months	43,462	53,128
More than three months to a year	102,967	63,495
More than one year to five years	130,205	100,941

4.1.3 Securities

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

	31.12.2019 TEUR	31.12.2018 TEUR
Bonds and other fixed-income securities	21,201	8,993
Unlisted	0	0
Listed	21,201	8,993
- Of which: publicly listed	21,201	8,993
Shares and other variable-yield securities	126,274	101,150
Unlisted	97,530	80,410
Listed	28,744	20,740
- Of which: publicly listed	0	0
Shares in affiliated companies	900	1,299
Unlisted	900	1,299
Investments	1,827	1,679
Unlisted	1,000	1,100
Listed	827	579
- Of which: publicly listed	0	0

4.2 Individual post disclosures

4.2.1 Customer receivables

The customer receivables (TEUR 267,215) mainly consists of customer loans and municipal loans.

4.2.2 Bonds and other fixed-income securities

The position bonds and other fixed-income securities amounts to TEUR 18,829 (previous year TEUR 4,078) from bonds and debt securities issued by public issuers and in the amount of TEUR 2,373 (previous year TEUR 4,915) in bonds and debt securities from other issuers. In addition to eight European government bonds, two corporate debt securities are included in this position.

4.2.3 Shares and other variable-yield securities

This position contains shares in investment funds in the amount of TEUR 126,274. The amount of TEUR 101,042 is comprised of investment funds of which the bank holds more than 10 % and include the following:

in TEUR	Investment objective	Book value	Market value	Hidden reserves/ Charges	Distribution in 2019
Dalma Corporate Bond Fund	Real estate	17,682	17,693	11	0
Varengold Fixed Income Fund SP	Trade finance	29,897	30,001	104	0
Varengold Spezial I	Pensions	45,500	45,935	435	501
Fasanara SA SICAV-RAIF – Varengold Real Estate Finance Fonds	Real estate	5,000	5,058	58	0
Fasanara SA SICAV-RAIF – Varengold Receivables Finance Fonds	Receivables	2,963	2,963	0	0

The return option for “Dalma Corporate Bond” funds is possible within three months and the “Varengold Fixed Income Funds”, “Fasanara SA SICAV-RAIF – Varengold Real Estate Finance Fonds” and “Fasanara SA SICAV-RAIF – Varengold Receivables Finance Fonds” within 90 days to the end of a month. The “Varengold Spezial I” funds have no restriction regarding the daily return option.

4.2.4 Shares and holding in affiliated companies

The Varengold Bank AG has the following unlisted holdings:

Company	Participation rate		Equity capital	Results
	direct %	indirect %	31.12.2019 TEUR	2019 TEUR
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		0 ¹⁾	-1,073 ¹⁾
Lava Trading Ltd., Valetta, Malta	49.79		-6 ²⁾	-6 ²⁾
Varengold Capital Holdings Limited, British Virgin Islands	100.00		-337 ³⁾	27 ³⁾
Varengold Capital Securities Limited, Hong Kong	100.00		433 ³⁾	-256 ³⁾
Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg	100.00		400 ⁴⁾	-1 ⁴⁾
Klear Lending AD, Sofia	20.00		576 ⁵⁾	-173 ⁵⁾
Varengold Capital Asset Management, Limited, Hongkong		100.00	988 ³⁾	366 ³⁾
Varengold Capital International Company Limited, British Virgin Islands		100.00	-661 ³⁾	-2 ³⁾
Varengold Investment Funds SPC, Cayman Islands		100.00	-650 ³⁾	0 ³⁾
Varengold Capital Investment Company Limited, British Virgin Islands		100.00	-37 ³⁾	354 ³⁾
Varengold Capital Management Limited, British Virgin Island		100.00	-757 ³⁾	-429 ³⁾
Naga Brokerhouse GmbH, Hamburg		33.00	52 ⁶⁾	0 ⁶⁾

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

- 1) Annual Report of 31 December 2017
- 2) Annual Report of 31 March 2015 (different financial year); in year 2016 business operations were adjusted
- 3) Entries in EUR were adjusted on the reporting date 31.12.2019; price HKD: 8.7473
- 4) Interim Annual Report of 30 November 2019 (different financial year)
- 5) Annual Report of 31.12.2018; entries in EUR were adjusted on the reporting date 31.12.2019; price BGN: 1.9558
- 6) Annual Report of 31 December 2018

4.2.5 Gross assets analysis

	Purchase costs				Depreciation				Residual book value	
	01.01.19	Accruals 2019	Uses 2019	31.12.19	Cumulative 01.01.19	Annual accruals 2019	Uses 2019	Cumulative 31.12.19	31.12.19	31.12.18
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Intangible assets										
Self-created industrial and similar rights and assets	388	0	0	388	388	0	0	388	0	0
Acquired concessions, intellectual property rights and similar rights and assets, as well as licenses to such rights and assets	2,246	81	0	2,327	2,091	59	0	2,150	177	154
Fixed-assets	786	34	0	821	630	55	0	685	136	156
Total	3,420	115	0	3,536	3,109	114	0	3,223	313	310
	Change^{*)}									
Bonds and other fixed-income securities					1,248				2,373	1,125
Shares and other variable-yield securities					15,500				45,500	30,000
Investments					149				1,827	1,679
Shares in affiliated companies					-399				900	1,299

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

The intangible assets are primarily comprised of acquired software and licenses. The fixed assets include operating and office equipment (including leasehold improvements).

4.2.6 Other assets

Under other assets are mainly receivables for tax overpayments in the amount of TEUR 1,116 (previous year TEUR 1,181) and receivables from paid security deposits amounting to TEUR 171 (previous year TEUR 168.)

4.2.7 Deferred income

Prepaid expenses and deferred charges primarily include prepaid licenses (TEUR 61).

4.2.8 Loans and advances to credit institutions

Loans and advances to credit institutions of TEUR 28,259 (previous year TEUR 18,787) contain exclusively due on demand liabilities with four credit institutions.

4.2.9 Obligations to customers

The position obligations to customers contains liabilities due on demand in the amount of TEUR 355,288 (previous year TEUR 250,778) and liabilities with agreed upon terms or periods of notice in the amount of TEUR 276,634 (previous year TEUR 217,564). The obligations are comprised of term deposits (TEUR 268,341), accounts for payment transactions (TEUR 174,717), due on demand accounts (TEUR 106,129), security deposits (TEUR 11,100) and other accounts (TEUR 71,635).

4.2.10 Other liabilities

The other liabilities have a residual maturity of up to one year and are mainly obligations from deliveries and performance in the amount of TEUR 1,174. In addition, this post includes obligations from the obligations for tax matters amounting to TEUR 423.

4.2.11 Reserves for pensions and similar obligations

Pension reserves are held for dependents. The difference between the valuation of the pension reserves with the 10-year average (TEUR 99) and that of the 7-year average (TEUR 107) is TEUR 8 and is subject to a distribution ban (§ 253 para. 6 sentence 2 HGB). The interest rate is 2.71 % (average market interest rate of the past 10 business years). The interest expense from compounding is TEUR 3 (previous year TEUR 3).

4.2.12 Provisions for taxes

The provisions for taxes position includes corporate tax provisions (tax rate 15 % plus 0.825 % solidarity tax) in the amount of TEUR 224 (previous year TEUR 328) and commercial tax provisions (tax rate 16.45 %) in the amount of TEUR 233 (previous year TEUR 343).

The remainder is comprised of tax provisions for pro rata profit in the London branch office for the year 2019 in the amount of TEUR 19 (previous year TEUR 22). An income tax rate of 20 % is used as a basis.

4.2.13 Other provisions

This position includes the following:

	31.12.2019	31.12.2018
	TEUR	TEUR
Variable remuneration	2,075	1,365
Audit and annual report costs	606	615
Legal and consulting costs	363	421
Provisions for litigation and claims	375	318
Vacation accrual	91	110
Archiving costs	79	87
German Bank Compensation Scheme	76	70
Miscellaneous	79	460
Total	3,744	3,446

4.2.14 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds (AT1 bonds) in the amount of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated bonds of Varengold Bank AG. The semi-annual interest payments for these debts are measured at their nominal values and the development of the EURIBOR. Varengold Bank AG is both obligated and has the comprehensive right to make a sole decision on its own at any time whether to cancel interest payments. Interest payments are not cumulative and will not be increased in the following year to compensate for possible cancelled interest payments. The bonds have no date of maturity. They may be called by Varengold Bank AG first after five years after their date of issue and after each interest payment due date. Moreover, under certain conditions, they may be prematurely called. The bond regulations include, among others, that Varengold Bank AG must call the bonds in their entirety, not in portions, when there are specific supervisory review process or tax reasons to do so. Each premature calling of the bonds requires the previous approval of the controlling authorities. The repayment and the nominal value of the bonds may be reduced by demonstrating extenuating circumstances. Such an instance of factual circumstances would be if the Tier-1 core capital ratio fell below 5.125 %. The bonds may be attributed by providing documentation of the factual circumstances under certain conditions.

The limited interest expense for these bonds was EUR 0.00 on 31 December 2019. On 31 December 2019 outstanding Tier-1 bonds were the following:

Currency	Amount in EUR	Type	Date of issue	Interest	Maturity
EUR	5,000,000	variable interest, cumulative subordinate	19. August 2014	variable	no expiration date

4.2.15 Share equity

Fully paid-up share capital (TEUR 9,316) is divided on the reporting date into 9,315,634.00 no-par value registered shares. The capital reserve in the amount of TEUR 42,632 results, among others, from the capital increase that occurred in the first half of 2012 when 133,100 new shares were issued at a premium of EUR 40.35 per share (TEUR 5,371), from the capital increase in the second half of 2013 when 146,397 new shares were issued at a premium of EUR 22.90 per share (TEUR 3,352), from the first half of 2014 when 159,571 new shares were issued at a premium of EUR 19.00 per share (TEUR 3,032), the capital increase in April 2015 when 176,963 new shares were issued at

a premium of EUR 19,00 per share (TEUR 3,362), the capital increase in February 2016 with the issuance of 974,184 new shares issued at a premium of EUR 12,00 per share (Premium TEUR 11,690), from the capital increase in July 2017 when 1,217,730 new shares were issued at a premium of EUR 2,99 per share (Premium TEUR 3,641) and the capital increase in the capital increase in February 2018 through the issuance of 2,070,141 new shares at a premium of EUR 1.80 (Premium TEUR 3,726).

Moreover, the Board of Directors, with approval of the Supervisory Board was authorized in a resolution passed by the Annual General Meeting on 21 August 2018 to increase the company's share capital in the first half year by issuing an additional 3,105,211 new shares at a premium of EUR 1.50 (Premium TEUR 4,658). The commercial registration of this capital increase took place on 29 January 2019.

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

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

Based on the existing authorization, the Board of Directors made a stock option offer of a total of 85,500 shares to management personnel of the company by the end of the reporting period. In total 45,000 share options were distributed to particular high performers. An additional 40,500 options were distributed to members of the Board of Directors; whereby 31,000 of these could not be exercised due to the departure of the respective Board members. In 2019, no distributions of stock options occurred by the reporting date.

4.2.16 Contingent liabilities

On 31 December 2019, liabilities from guarantees and indemnity agreements exist mainly in the form of guarantee credits in the amount of TEUR 8,502 (previous year TEUR 678). The risk of utilization is classified as low. The guarantees are entirely collateralized through cash, liquid securities or a combination of both.

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

As of 31 December 2019, other liabilities exist in the form of irrevocable credit commitments against customers in the amount of TEUR 12,488 (previous year TEUR 25,630) which may be called in installments if necessary. For these instances, the contractual prerequisites for distribution will be examined before each distribution. The bank estimates the risk that a loss will occur based upon irrevocable credit commitments before entering into a contractual obligation during its credit review.

4.2.17 Transferred collateral

On the reporting day, loans and advances to credit institutions in the amount of TEUR 2,658 served as guarantees for business on futures exchanges.

5 Notes to the Profit and Loss Statement

All results occurred within Germany.

5.1 Interest income

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

Interest expenses mainly include interest on customer deposits (on-demand, fixed-rate and term deposits). Negative interest on deposits as security and customer deposits are also deducted from interest income.

5.2 Current income from shares and other variable-yield securities

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

5.3 Provision income

Provision income contains mainly income from the Transaction Banking business area for provision payment transactions, guarantee and credit business in the amount of TEUR 12,519 (previous year TEUR 15,412).

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

	31.12.2019	31.12.2018
	TEUR	TEUR
Provision income	14,456	16,214
Provision expense	641	1,915
Provision surplus	13,815	14,299

5.4 Net results of the trading portfolio

The results derive from customer securities business. The business is concluded daily and therefore results in no corresponding portfolio position.

5.5 Other operating income

The other operating income increased from TEUR 356 in year 2018 to TEUR 1,085 in year 2019. Included in other operating income are primarily earnings from reversal of accruals (TEUR 600) and cost reimbursements.

5.6 Personnel expenses

	31.12.2019 TEUR	31.12.2018 TEUR
Wages and salaries	7,521	6,386
Social benefits	766	646
Expenses for pensions and support	255	228
Total	8,542	7,260

The increase in personnel expenses resulted mainly from the increase in the variable remuneration.

5.7 Other administrative expenses

	31.12.2019 TEUR	31.12.2018 TEUR
Consulting, accounting and auditing costs	2,982	2,794
IT expenses	2,564	1,778
Premiums and insurance	667	642
Occupancy costs	561	533
Communication expenses	341	347
Advertising, entertainment and travel costs	270	275
Office supplies, magazines and training	91	134
Vehicle costs including leasing (excluding road tax)	25	26
Other administrative expenses	596	984
Total	8,097	7,513

5.8 Other business expenses

Other business expenses increased from TEUR 862 in the previous year to TEUR 1,580 in year 2019. This position contains mainly results from foreign currency translation of TEUR 1,300 (previous year TEUR 772).

5.9 Taxes from income and earnings

The assessment basis for the taxes from income and earnings is primarily related to non-deductible amortization on shares in affiliated companies. The income tax rate of Varengold Bank is 32.28 %.

The tax results result mainly from the reversal of deferred taxes in amount of TEUR 696 (previous year TEUR 1,157), from corporate taxes amounting to TEUR 568 and trade taxes of TEUR 629.

6 Other information

6.1 Institutions

6.1.1 Supervisory Board

Dr. Karl-Heinz Lemnitzer

Independent tax advisor and auditor

Chairman

Mr. Vasil Stefanov

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

Deputy Chairman

Mr. Francesco Filia (as of 28 August 2019)

Chairman, Fasanara Capital Ltd.

Mr. Michael Stephen Murphy (until 28 August 2019)

Independent investment banker

6.1.2 Management Board

Dr. Bernhard Fuhrmann

Back Office

Mr. Frank Otten

Market

Dr. Bernhard Fuhrmann and Mr. Otten are each entitled to represent the company with another board member or with an authorised representative.

6.1.3 Mandates in Supervisory Boards

Dr. Lemnitzer has no other appointments to statutory supervisory boards or comparable control bodies as defined by § 125 para. 1 sentence 5 AktG.

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

Mr. Filia is Chairman of Fasanara Capital Ltd. (London) in addition to his post as Supervisory Board member of Varengold Bank AG.

Dr. Fuhrmann is engaged in the role of liquidator at Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg in addition to his post on the Supervisory Board of Varengold Bank AG on the reporting day. Moreover, he is the Chief Executive Officer (CEO) of JUCLA Invest GmbH, Hamburg.

In addition to his post on the Supervisory Board of Varengold Bank AG, Mr. Otten is also CEO of the consulting firm Arensburg Consult GmbH, Molfsee, member of the Advisory Board of the KERNenergie GmbH, Großwallstadt, CEO of the KERNenergie Hamburg Store GmbH, Hamburg and Chairman of the Supervisory Board of the Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg.

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

6.1.4 Board member remuneration and loans

With regard to the disclosure of the total remuneration of the Board, according to § 285 No. 9a HGB, as well as that of surviving dependents in accordance with § 285 No. 9b HGB, the protection clause per § 286 para. 4 HGB applies.

The members of the Supervisory Board received for their contribution in the time period 1 January 2019 to 31 December 2019 total remuneration in the amount TEUR 353 (Previous year TEUR 354). This includes net compensation in the amount of TEUR 343 (previous year TEUR 301) and TEUR 10 from incurred travel costs.

On the balance sheet date there are no loan receivables from the members of the Supervisory Board or the Board of Directors.

6.2 Employees

The total average number of employees in financial year 2019 was 68 (previous year 60), of which 28 were female employees (previous year 24). With the exception of nine employees, all staff work in Germany.

6.3 Other financial obligations

The other financial obligations are mainly liabilities from leasing contracts in the amount of TEUR 645 with residual terms of between 1.5 and to 2.5 years.

6.4 Forward transactions

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

	Nominal TEUR	Positive market TEUR	Negative market value TEUR
Foreign currency	43,000	435	0

6.5 Auditor fees

The total fees for the auditing firm for the business year was TEUR 496 in accordance with § 285 No. 17 HGB. This total comprises TEUR 322 for auditing services, TEUR 71 for other confirmation services (mainly verification according to § 89 WpHG), TEUR 101 for tax advising services and TEUR 2 for other services (advanced training).

6.6 Recommendation for the use of the results

The General Meeting of Shareholders was recommended to offset the annual net profit with the loss carry-forward (accumulated loss).

6.7 Notifications according to § 20 AktG

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

6.8 German Corporate Governance Code

From 20 March 2007 until 28 February 2017 the stock of Varengold Bank AG (ISIN DE0005479307) was listed in the Entry Standard of the German Stock Exchange. After the closing of the Entry Standards, Varengold stock has been listed in Basic Board on the open market since 1 March 2017. The Varengold Bank AG is not obliged to publish a statement of compliance with the German Corporate Governance Code (§ 161 AktG), as the company is not listed according to § 3 para. 2 AktG.

6.9 Supplementary statement

In the first quarter of 2020, the Varengold Bank AG executed a capital increase by way of a public offering and subsequent private placement by implementing a partial utilization of authorized capital 2018 and 2019. The share capital of the company was increased from EUR 9,315,634.00 against cash contributions of EUR 727,381.00 to EUR 10,043,015.00 through the issuance of 727,381 new shares. All shares were offered at an issue price of EUR 3.85 per share. The registration of the capital increase was entered into the commercial register on 17 February 2020.

The global spreading of the new Corona virus (COVID 19 pandemic) in year 2020 and the fighting of its consequences to healthcare have led to a significant reduction of economic activities. The developments to date indicate that considerable adverse effects for the global economy are possible in year 2020. Currently significant uncertainty exists as to the duration and the intensity of the Corona crisis and the economic impacts of the crisis on the one hand, and the possible mitigation of the negative impacts due to the already implemented or addressed assistance programs on the other hand.

The economic effects of the Corona crisis could negatively influence the achievement of the financial goals of the Varengold Bank AG, whereby due to the existing uncertainties concrete prognoses of the effects are not yet possible. In general, negative effects could materialize for the Varengold Bank AG related to the amount of income and could lead to a necessity for additional credit risk provisions.

Hamburg, 20 March 2020

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

Management's Discussion and Analysis

A. Principles of Varengold Bank

The Varengold Bank is a publicly listed German credit institute with a full banking license with headquarters in Hamburg and branch offices in London and Sofia. The Varengold shares (ISIN: DE0005479307) have been listed on Open Market of the Frankfurt Stock Exchange since 2007.

The core business areas of the Varengold Bank are Marketplace Banking and Transaction Banking (Commercial Banking).

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

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

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

B. Economic Report

1. Macro-economic and industry-related conditions

The year 2019 was, from an economic perspective, again characterized by a high level of geopolitical uncertainty and change. This included in particular economic risks based on the trade conflict between the USA and China and tensions specifically in the Middle East and the drawn-out Brexit process. With the EU withdrawal statute of 20 December 2019 Great Britain officially left the EU at the end of January 2020. Until the end of the year this transition period can be used to define a trade agreement in order to avoid a "hard" Brexit.

Both within the Euro-Zone, as well as in Germany, strong contributions to growth were made by primarily private consumption and public expenditures, while net exports gave variable impulses. Through its dominant export sector Germany is strongly affected by the weak external environment dynamic and the minimal trade growth. On the other hand, a high demand in the real estate sector (especially in construction investment) sent positive impulses for the domestic economic performance.

In year 2019 the gross domestic product (GDP) grew in the EU around 1.5 % as compared to the previous year; in the Euro-Zone it increased about 1.2 % and was thereby less dynamic as in the previous year. This was caused by a weaker industrial sector in particular. The German economy increased 0.6 % in year 2019.

In the USA the real economic growth cooled and also the Asian-Pacific region reported slower growth than previously experienced.

The European Central Bank (ECB) announced over the course of the year the introduction of new long-term refinancing businesses and the intention to leave the prime interest rate at the same level until at least the middle of 2020. The most important European and international stock markets ended the year 2019 with high profits, hitting sometimes over 20 %. The German Stock Market earned 25 % and closed at 13,249 points. Over the course of the year the Euro displayed inconsistent development and noticeable fluctuations in the exchange rate with the US dollar were evident. The British pound closed against the euro with a comparably higher value.

The labor market was strong in nearly all regions in the reporting period. In the Euro-Zone the unemployment rate fell from 8.2 % in year 2018 to 7.6 % and Germany reported an unemployment rate of 5 % in year 2019 (previous year: 5.2 %).

The central concerns of the European financial market in year 2019 were, in addition to the consequences of Brexit, in particular the ongoing low interest rate environment and the continuing instability of the Italian banks. Thereby, high pressure on margins with a view to risk adequate pricing of credit financing became a problem. In addition, especially German banks continued to experience ongoing administrative efforts related to the various regulatory intensifications and legal requirements, whose implementation further bound both financial and personnel resources. These included, among others, the revision of supervisory regulations (CRR II, C RD V, BRRD II, SRMR) and the European Banking Authority (EBA) regulations: estimates of probability of default (PD) and loss given default (LGD), downturn LGD), as well as various new requirements of national and European regulatory bodies related to information security, data protection, prevention of money laundering and/or the funding of terrorism. Furthermore, a heightened need for sustainability was recognized within the society and so a desire to be anchored in the accompanying regulatory requirements in the economy.

Since the beginning of the year 2020, the economic consequences of the new Corona virus SARS-CoV-2 increased, as the lung illness COVID-19 was activated. The situation of this worldwide Corona pandemic quickly intensified and has already made numerous countermeasures necessary, which are having an effect upon the daily banking business.

2. Business development

In the reporting period the Varengold Bank resolutely continued to implement its strategic orientation as bank for the marketplace lending industry and further developed the activities in the business areas Marketplace Banking and Transaction Banking.

A significant increase in profits was already evident after the end of the first half year 2019 with an EBT of EUR 1.78 million and led to an increase of 47.1 % compared to the previous year (30 June 2018: EUR 1.21 million). This made the goal of possibly surpassing the pre-tax results prognosis for 2019 announced at the beginning of 2020 appear very achievable.

A deciding factor proved to be the increased new customer acquisition in both core business areas Marketplace Banking and Transaction Banking. This success was supported by the corporate identity refresh in 2018 introducing the new corporate design and improved branding, as well as the introduction of the “Communications” department which ensures, among other responsibilities, that the bank’s social media channels are more strongly utilized, online promotional programs are initiated and active participation in trade shows and conferences in the second half year of 2019.

The needs of the customers in Marketplace Banking were fulfilled through an expansion of the product palette – in particular by modular fronting services. The bank frequently serves as an early creditor. In the Transaction Banking area was driven forward by the internationalization of services with special focus on agricultural and medical commodities. In this space 6 of the top 10 worldwide food/commodity traders could be won over as new customers of the Varengold Bank.

To expand the business volume in the area of refinancing of credit platforms and to increase the equity capital a capital increase in the form of a public offering and a subsequent private placement was conducted at the beginning of the year. The capital of the company was increased from EUR 6,210,423.00 against cash contributions to EUR 9,315,634.00. All 3,105,211 shares were offered at an issue price of 2.50 EUR per share. In addition to existing investors, further institutional investors were acquired, coming primarily from the finance and insurance sector.

To further intensify the growth of the bank, a new capital increase with subscription rights against cash contributions took place in the fourth quarter 2019. The share capital was placed at EUR 10,043,015.00 through the issuance of 727,381 new shares at an issue price of 3.85 EUR and the entry into the trade registry took place in February 2020.

A significant contributor to the positive business development was the consistent expansion of our team of qualified employees. In particular, the number of employees the branch in Sofia (Bulgaria) more than doubled. Parallel to this, due to the uncertain effects of Brexit, the staff in the London (GB) branch was reduced.

With regard to the digital transformation of the Varengold Bank, further advancements were achieved in year 2019. In addition to the introduction of productivity enhancing IT solutions, improved mobility for hardware equipment was provided among other accomplishments. A platform for internal communication and for inter-departmental project management was initiated and customer relationship management (CRM) software was implemented. These tools served to archive communication with customers and business partners in a central databank and to make the data available for many uses. Moreover, an efficiency program was engineered for the adoption and implementation of a process digitalization tool utilizing the management system OKR (objectives and key results). At the end of 2019, the bank started a sustainability project which addresses not only the aspects which adhere to the corresponding BaFin bulletin, but also current sustainability topics of the bank, such as for example, the use of clean energy, trash reduction, use of ecological foods and office supplies and CO2 neutrality. Furthermore, several internal measures for the improvement of the bank’s own CO2 balance and other sustainability programs have already been implemented within the framework of the new environmental partnership with the city of Hamburg.

In the middle of the second quarter the Supervisory Board of the Varengold Bank decided mid-term to extend the appointment of Frank Otten as member of the Board of Directors until 30 April 2025, in order to ensure the long-term continuity at the head of the company.

At the annual shareholder meeting in August 2019 Dr. Karl-Heinz Lemnitzer, Mr. Vasil Stefanov and Mr. Francesco Filia were elected to four-year terms on the Supervisory Board of the Varengold Bank AG. Mr. Filia entered as a new member of the commission. The Supervisory Board then elected from the current membership Dr. Lemnitzer as Chairman and Mr. Vasil Stefanov as his Deputy Chairman at the subsequent Supervisory Board meeting.

3. Position

3.1 Financial position

The interest income of the company increased from TEUR 8,051 in year 2018 to TEUR 8,554 in year 2019. The additional TEUR 504 is due mainly from an increase in interest income from the credit business. The recorded interest income includes negative interest for Federal Bank credit balance in the amount of TEUR 706. Interest income from fixed income securities and debt register claims decreased from TEUR 775 to TEUR 325. In contrast, interest expenses, mainly due to the increase in term-deposits grew 18.7 % from TEUR 1,682 to TEUR 1,996. Within interest expenses are interest incomes from charging on negative interest to customers in the amount of TEUR 613. An interest surplus of TEUR 6,559 (previous year TEUR 6,369) was recorded.

The current earnings from shares and other variable-yield securities increased from TEUR 682 to TEUR 1,634 and result from the distributions of investment funds.

The provisions earnings declined mainly as a result of a decrease in provision income from the payment transaction business from TEUR 16,214 to TEUR 14,456. At the same time, the provision expenses as of 31 December 2019 declined to a value of TEUR 641 (previous year 1,916), such that a provision surplus of TEUR 13,815 (previous year TEUR 14,299) was achieved.

The other operating income grew from TEUR 356 in year 2018 to TEUR 1,085 in year 2019. The other operating income are derived from income from the reversal of provisions and from refunds.

The general administrative expenses of the company increased by TEUR 1,865 (from TEUR 14,774 in year 2018 to TEUR 16,639 in 2019). The main causes for this are attributable to, in addition to increasing personnel expenses (TEUR +1,282), an increase in variable remuneration and the hiring of new employees and an increase in IT expenses (TEUR +786).

The depreciation and adjustments on intangible assets and fixed assets dipped slightly from TEUR 136 in the previous year to TEUR 114 in year 2019.

The other operating expenses grew from TEUR 862 in year 2018 to TEUR 1,580 in year 2019. These mainly include expenses from forward transactions to secure the foreign currency positions.

The position depreciation and value adjustments on receivables and certain securities and allocations to provisions for the credit business were recorded at TEUR 925 (previous year TEUR 2,836). These mainly reflect individual value adjustments.

The depreciation and value adjustments on investments, shares in affiliated companies and fixed assets treated as securities declined from TEUR 894 to TEUR 396. The expense resulted primarily from depreciation undertaken on an affiliated company and for an investment.

In total, the income from normal business activities of the Varengold Bank AG amounted to TEUR 3,594 (previous year TEUR 2,283).

After consideration of income taxes and earnings, as well as other taxes, the annual net profit recorded is TEUR 1,616 (previous year TEUR 515). The comparably high tax income resulted mainly from value corrections not recognized for tax purposes in the credit and investment portfolio.

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

3.2 Financial situation

In business year 2019 the balance sheet total increased by 33.2 % from EUR 530.9 million to EUR 707.3 million. The asset side is shaped, in addition to customer receivables (EUR 267.2 million), particularly by the amount of cash reserves (EUR 261.4 million) and the shares and other variable securities (EUR 126.3 million). In total these three positions comprise a 92.6 % portion of the balance sheet. The customer deposits at EUR 631.9 million or 89.3 % continue to represent a considerable position on the liability side.

The core capital ratio (TIER 1) as of 31 December 2019 was recorded at 16.15 %.

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

3.3 Liquidity position

At EUR 280.2 million or 39.6 % of the balance sheet total, cash and cash equivalents constitute a relatively large position on the asset side of the balance sheet. The supervisory requirements liquidity ratio at 293.96 % considerably exceeds the regulatory requirements as it did in the previous year. The liquidity position of the bank was at no point at risk.

3.4 Financial performance indicators

The key performance indicator is earnings before tax. For 2019 earnings before tax was planned at between EUR 2.8 million and EUR 3.2 million. Net income from all business areas exceeded plan, so that with EUR 3.6 million, a 20 % over planned financial performance indicator result could be attained.

C. Outlook, Risk and Opportunity Report

1. Risk report

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

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

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

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

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

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

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

The risk controlling and risk management system corresponds to the provisions of Minimum Requirements of the Risk Management (MaRisk) of the Federal Financial Supervisory Authority (BaFin).

Risk is understood to be the negative deviation of occurring events from the expected events. The foundation of the risk management system includes the categorization of significant risks of the bank into counterparty

risk, liquidity risk, market risk, operational risk and other risks which, among other things, include the risk to reputation, strategic risks, model risks, as well as the risk concentrations associated with these types of risk.

To manage these risks, a continuous monitoring and assessment of the identified risks is carried out as part of the risk management system. The comprehensive process includes the following steps which are built upon each other:

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

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

For the monitoring of adherence to Varengold Bank AG's risk strategy, risk controlling is the responsible department. The results from risk controlling are transparently reported to the management team in order to enable adequate management.

On 24.05.2018 the German Financial Supervisory Authority (BaFin) and the German Central Bank published the new guidelines "Prudential assessment of internal bank risk-carrying concepts" and their procedural integration in the overall bank management ("ICAAP") – new orientation. It contains policies, principles and criteria which are essential to the supervision of the assessment of internal bank risk-carrying concepts which as "less significant institutions" (LSI) are directly subject to German bank supervision. The risk-carrying concept as a central component of the ICAAP according to § 25a para. 1 sentence 3 No. 2 KWG in conjunction with AT 4.1 subsection 1 (and subsection 2) MaRisk is comprised of two perspectives: a normative perspective and an economic perspective. Both serve the long-term sustainability of the institution based on its own current substance and earning power. To this end the normative perspective pursues the explicit goal of supporting the continuation of the institute der a die and the economic perspective has the goal of protecting the creditor from loss from the economic viewpoint.

For the normative perspective, the risk covering potential (RDP) and the risks concept compliance for the current, as well as the future planning periods are determined. The capital planning encompasses the time period from inception through at least three years and includes the supervisory required plan and an adverse scenario. In addition, the bank utilizes the possibility contained in subsection 35 of the new RTF guidelines in conjunction with AT 4.3.3 subsection 3 MaRisk developed comprehensive risk type stress test "serious economic downturn" as an additional adverse scenario. In the capital planning scenarios risks from the economic perspective are considered which have an influence on the available capital.

The risk-carrying potential in the normative perspective is comprised of the regulatory equity capital and the contingency reserves according to § 340 f HGB. The processes utilized to quantify risk in the normative perspective address provision risks, market risks and operational risks from the legal requirements of the CRR, for

which risk-weighted position entries are calculated. In the plan scenario the entire equity requirement is held which can be utilized in an adverse scenario shortfall of the combined capital buffer requirement according to § 10i KWG.

As of 31.12.2019 all capital requirements in plan and in adverse scenario on both the reporting day, as well as for the three-year planning horizon were secured. Only in the serious economic downturn scenario” did the combined capital buffer requirement fall short according to § 10i KWG as of the fourth quarter 2021.

In the economic perspective the bank uses a present value modelling of risk carrying capacity. The risk carrying potential in the amount of EUR 43.5 million is comprised of the regulatory equity capital, the contingency reserves according to § 340f HGB, as well as hidden charges and reserves.

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

The capacity of the risk carrying potential as of 31 December 2019 constituted 65 %, of which 61 % was provision risk, 19 % market risk, 8 % operational risk, 3 % strategic and reputation risks and 9 % modelling risks.

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

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

The quantification of the contingency risk in the strict sense takes place with the key risk figures “expected loss” (EL) and “unexpected loss” (UEL). The EL is determined on the basis of the probability of default considering the LGDs (Loss Given Default). The UEL is quantified using a credit risk model for a confidence level of 99.9 % and a time horizon of one year. The calculation is based on the Gordy model, which is applied by the Basel Committee on Banking Supervision to model bank capital adequacy on the terms of Basel II and the further provisions set out by Basel III. The credit risk model determines the contributions of the individual borrowers and shareholdings to the unexpected loss at portfolio level, which are then additively aggregated to an unexpected loss for the total portfolio. In this process, any available external or internal probabilities of default (PDs) and the transaction-specific loss ratio (LGD) are applied. The determination of the other model parameters is performed by applying the standard specifications of Basel III. In addition to the probabilities of default and loss defaults, also the correlation between the counterparties with the systematic risk factor, as well as the granularity of the portfolio and the residual terms are taken into consideration. In addition, the migration risk of the portfolio is determined for a time horizon of one year. For this external migration matrices are utilized. With the thus so calculated higher failure rates a new calculation of the default risk is conducted using the Gordy model; the difference between the so calculated EL and the EL AAR in the strict sense determines the final migrations risk figure.

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

The price risk (general price risk) is quantified with the help of value at risk model. The market price risk is quantified with the help of the value at risk model. For both the trading book and the banking book, this is measured with a confidence level of 99 %, an observation period of five days and a lookback of 520 days via historical simulation of changes in the term and adequate currency swap or EURIBOR rates.

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

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

The bank defines credit spread risk as the negative market changes of bonds as a result of a deterioration of the credit standing of an issuer which has not yet become evident by a rating downgrade, (particular price risk). The credit spread risk is quantified with the help of the value at risk model. For both the trading book and the banking book, this is measured with a confidence level of 99 %, an observation period of 250 days and a lookback of 520 days via historical simulation of changes in asset swap spreads of the bonds.

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

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

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

With respect to share transactions on each reporting day of business years 2010-2013, investigations are currently taking place against current and former employees of the bank for suspicion of tax evasion by the district attorney’s office, Cologne. The outcome could theoretically lead to a significant expense for the company. However, the Varengold Bank and the engaged external experts estimate the probability of this risk as improbable, and therefore not necessitating the formulation of a provision. In addition, the office of the district of attorney is investigating a separate case against the subsidiary Varengold Verwaltungs AG i.L. (formerly Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen AG). Based on the opinion of legal counsel, the Board of Directors estimates the claim risk for the subsidiary as conceivable; the risk of a liability of the Varengold Bank for the subsidiary as very low.

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

For the model risk a risk-bearing capacity assessment with a risk amount of 10 % of the total risk including provision risk, market risk and operational risk of at least TEUR 400 is established.

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

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

The impacts of the COVID-19 pandemic on the business activities and results of the bank are not currently estimable.

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

2. Opportunity report

The Varengold Bank achieved market relevance in both of its focused core business areas and established a brand with its products and services in each market and also sharpened its profile. In Marketplace Banking, as well as in Transaction Banking, the possibility to develop value-creating partnerships continues to be explored and the bank thereby concentrates more strongly on the core competency of a regulated institution, which is of fundamental importance to existing and potential customers. The provision of credit is hereby a central anchor point in customer acquisition.

In Marketplace Banking the bank will support its customers more intensively through fronting services. Since the customer community is very networked, the Varengold Bank is convinced that it can only become THE bank for the marketplace lending industry when the customers are satisfied with the existing products and services and then also further recommend these products and services. The bank's strategic goal is to differentiate itself from the competition through rapid and efficient implementation of funding and/or fronting projects with customers.

Parallel to this, the bank will continue to support export-oriented customers in niche markets with the basis products of Transaction Banking and trade finance products to position itself as a strong transaction bank and to further develop the internationalization of these products. The further expansion of the branch office in Sofia is expected to drive the focus in the southern European region in particular.

The year 2020 will primarily be a year of investment, in which in particular digitalization will be invested. Not least in order to keep pace in competition for customers, who expect easy-to-use and seamlessly integrated product solutions. The experience of the already successfully implemented digitization measures shows that

an automation of processes requires a deep understanding of the process and its respective level of maturity. Before the automation of an existing process, it is frequently modified or optimized. The bank therefore understands digitalization as more than simply process automation and the corresponding investment measures are supported through active cost management.

Employee satisfaction and the performance of the bank are positively influenced through an optimal work environment. Therefore, for example, work “Deal Teams”, concentrated independent work or opportunities for social exchange are supported by appropriate room structures and IT components. The qualification of the employees for the ever-growing demands of the industry are an important priority. With the help of the roughly 80 member international team the Varengold Bank will continue to help shape the modernization of the finance sector and thereby further develop the corporate culture focusing on the three company values (“Customer Centric”, “No Silos”, “Go the extra Mile”).

As central success factor the Varengold Bank identified their ability to create value for customers based on quick business decisions and innovative solutions which normally are not in the focus of the competition. Thereby simultaneously attention is paid to a high-quality credit analysis and the adherence to solid traditional credit rules. Fundamentally, the bank concentrates on opportunities in which it is especially competitive and in which it can strengthen its position in the long term. The bank will use such market chances to improve the long-term profitability and viability. Existing opportunities will be rigorously examined with economic discipline.

The Board of Directors is convinced that Varengold Bank with its business model has a solid foundation and has taken the right steps to address the coming requirements and needs of the actors on the financial market and to intensify the business growth. Nevertheless, numerous risk factors which are not quantifiable could negatively affect the results of 2020. These include, among others, the very uncertain geopolitical situation with significant regional conflicts, environmental risks, the effects of the Corona pandemic, as well as further tightening of regulatory guidelines and the accompanying increase in capital requirements. To increase the growth potential, the bank strives to further strengthen its equity capital through capital measures and to extend the diversification of the investor base.

3. Outlook report

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

The economic forecast is affected by meaningful uncertainties. Geopolitical dangers and a protectionist economic policy are thereby the main factors. A lack of forecasting ability for concrete economic developments can be traced back to the current weekly deteriorating conditions related to the illness connected with the COVID-19 virus. The effects to date of the dramatic spread of the Corona pandemic indicate that the global economic growth in year 2020 will be negatively influenced by the spread of the illness and the resulting interruption of

the economic activities. Though it is too early to forecast the effects of the pandemic, the business activities of banks could be negatively affected to a great degree by an ongoing downturn of the global economic conditions. This could also negatively impact the revenue possibilities of Varengold Bank and the expected growth, as well as the ability to achieve the financial goals.

Another meaningful danger is the political weakening of European cohesion. This is evident through the resignation of Great Britain from the EU and the regional calls for independence. The future relationships between Great Britain and the EU must still be negotiated and should be completed by the end of the transition deadline of the end of 2020. A comprehensive free-trade agreement is expected whereby at least nothing significant should change with respect to trade in goods. The resulting partial trade agreement between the USA and China signals a cautious convergence of the two parties in this smoldering conflict.

The political and economic tensions also increase the dangers for the finance and capital markets. Should these materialize into significant issues, they could create turbulence on the capital markets and result in a considerably higher level of volatility than in the previous year. Abrupt or too large interest rate changes could lead to new valuations and changes in customer behaviour and thereby lead to falling asset prices. The expansive money policy of some national economies will also affect the overall picture of the 2020 financial markets.

The unexpected economic downturn could very likely lead to considerable losses due to default and seriously affect the banking sector. The banking environment remains under increasingly high pressure due to comprehensive regulatory procedures and growing supervisory requirements which require additional costs and resources. The new requirements of CRR II, CRD V and BRRD II were finalized and the EBA guidelines for credit granting and credit monitoring lead to comprehensive credit processes. This will be expanded through an additional amendment to MaRisk planned for 2020. Moreover, the current year for banks was marked by numerous regulatory initiatives related to information security and data protection.

The currently in effect second EU Payment Services Directive (PSD 2) should further spur on the European markets. These new guidelines make it easier for marketplaces to obtain customer data in order to enter it into their scoring systems. Regarding the BaFin bulletin on the handling of sustainability risks, the Supervisory Board already announced in 2019 that the topic of sustainability would come more into focus. In order to implement a process in a timely fashion, the processing of the relevant topics on the part of Varengold Bank has already been initiated in individual projects.

The German banking and financial services sector are characterized by intense competition. Moreover, for several years the banking sector has experienced a digitization upheaval which is creating new demands on the banks. Tech-savvy companies such as FinTechs have alternative offerings and business models which are reforming traditional bank processes in many areas. This is exactly the area in which Varengold positions itself as an effective bank partner of these firms in order to establish competitive business models together.

The bank went into business planning at the beginning of the year with planned revenue before taxes of EUR 3.8 million for the year 2020. Based on the geopolitical risks in the macroeconomic environment and in particular the highly probable negative effects of the Corona pandemic, the bank cannot determine any central financial performance indicators for 2020. The bank currently assumes that the originally planned results will not be achieved.

Hamburg, 20 March 2020

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

Auditor's Report

On the Varengold Bank AG, Hamburg

NOTE ON APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinion

We have audited the financial statements of Varengold Bank AG, Hamburg - comprised of the balance sheet of 31 December 2019 and the profit and loss account for the business year from 1 January to 31 December 2019, as well as the notes including the presentation of the balancing and accounting methods. Moreover, we have audited the management report of Varengold Bank AG for the business year from 1 January to 31 December 2019.

In our opinion, based on the audit the findings

- › the attached Annual Report conforms in all essential aspects with the German commercial law regulations and conveys in accordance with the German generally accepted accounting principles an actual depiction of the state of the assets and the financial situation of the company on 31 December 2019, as well as its earnings situation for business year 2019 from 1 January to 31 December and
- › that the attached management report portrays an accurate image of the state of the company. In all essential aspects this management report is consistent with the financial statements according to German legal requirements and accurately portrays the opportunities and risks of future development.

According to § 322 para. 3 sentence 1 HGB, we declare that our audit has led to no objections to the correctness of the financial statements and the management report.

Basis for the audit opinion

We have conducted our audit of the financial statements and management report in accordance with § 317 HGB and the EU annual auditor regulation (No. 537/2014; subsequently EU-APrVO) in compliance with the German Institute of Auditors' (IDW) determined German principles for proper auditing. Our responsibility according to these provisions and regulations, is further described in paragraph "Responsibility of the auditor for the audit of annual financial statements and the management report" of our auditor's report. We are independent from the company, in compliance with European, as well as German commercial and occupational legal principles and have fulfilled our other German professional responsibilities in compliance with those requirements. Moreover, we declare in compliance with Article 10 para. 2f EU-APrVO, that we have not performed any forbidden non-audit services according to Article 5 para. 1 EU-APrVO. We are of the opinion that the requested audit evidence is sufficient and appropriate to serve as a basis for our audit opinion of the annual financial statements and the management report.

Particularly important audit issues in the auditing of the financial statements

Particularly important audit issues are issues that after our obligatory consideration are most meaningful in our assessment of the financial statements for business year 1 January to 31 December 2019. These issues were viewed as a whole for our audit of the financial statements and were taken into consideration for our audit opinion; we submit no separate audit opinion on these issues.

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

- 1) Risk provisions in customer credit business
- 2) Depiction of provision income from payment transaction business

We have structured our depiction of these particularly important audit issues as follows:

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

Subsequently, we present the following particularly important audit issues:

- 1) Risk provisions in customer credit business
 1. In the financial statements of the company under the balance sheet item “Customer receivables”, a credit business in the amount of T€ 267,363 (38 % of total assets) is declared. A financial risk provision for this credit portfolio on 31 December 2019 consists of individual and general value adjustments. The evaluation of the risk provisions in customer credit business were particularly driven by the estimates of the legal representatives concerning future credit defaults, the structure and quality of the credit portfolio, as well as overall economic influence factors. The amount of the individual value adjustments for customer receivables are the difference between the outstanding credit and the lower value which is disclosed on the reporting day. Existing guarantees were taken into consideration. In business year 2019 the general value adjustment was determined for the first time based on expected losses. The change in evaluation methodology led to an increase of T€ 188. The value adjustments in customer credit business are very meaningful for the financial position of the company and are also associated with considerable measurement latitude of the legal representatives. In addition, the application of substantially uncertain value parameters has a meaningful influence on the formation or the amount of the possibly necessary adjustments. In light of this information, this issue was of particular meaning in the scope of our audit.
 2. In the scope of our audit we first evaluated the appropriateness of the controls in the relevant internal control system of the company and tested the functional capability of the controls. For this we took the company organization, the IT systems, as well as the relevant assessment models into consideration. Moreover, we assessed the valuation of customer receivables, including the appropriateness of the estimated values, based on samples of credit commitments. Thereby, we evaluated, among others, the documents of the company in light of the economic relationships, as well as the corresponding recoverability of the securities. For asset collateral for which the company submitted valuation reports, we developed an understanding of the underlying initial data, the underlying assumptions and the applied parameter. Based on the auditing procedures conducted we were

convinced of the adequate recoverability of the credit portfolio based on the legal representatives' assumptions, as well as the appropriateness and effectiveness of the implemented processes of the company.

3. The company statements for balancing and valuation of risk provisions in customer credit business are in presented in paragraph 2 of the notes.
- 2) Portrayal of provisions income from payment transaction business
1. In the company financial statement provisions income is listed in the amount of € 14.5 million, of which the amount of € 12.5 million are accountable to provision income from payment transaction services (87 % of the total amount). During the compilation and distinction of these meaningful earnings, the different payment transaction services of the company were taken into consideration. Based on the heterogeneity of these services, the different compensation levels and high number of transactions to process, the company implemented systems and processes for the compilation of the provision earnings. Based on this information, this issue was of particular importance in the scope of our audit.
 2. Over the course of our audit we first developed an understanding of the processes and controls for the compilation of the provision earnings implemented by the company. We then evaluated, among other items, the appropriateness and effectiveness of the relevant controls of the internal system for the compilation and realization of the provision earnings, including the IT systems utilized. Moreover, we examined, among other data, the determination and financial portrayal of the different earnings components using samples made available to us. As a consequence, we compared the invoiced provision rates with the contractually stipulated fee rates and examined the accounting accuracy of the provision charges using samples. Furthermore, we reviewed the continuity and consistency of the applied procedures for accrual accounting of provision income. We are convinced that the utilized systems and processes, as well as the implemented controls are on the whole appropriate and that the estimates and the assumptions of the legal representatives are sufficiently documented and substantiated to warrant the proper compilation and accounting of the provision earnings.
 3. The company statements for the provision income are contained in the Notes to the Profit and Loss Statement (para. 5.3 Provision income).

Other Information

The legal representatives are responsible for other information. The Annual Report 2019 will presumably be available to us after the date of the Auditor's Report.

Our auditor's opinion of the annual financial statements and the management report do not extend to other information and therefore we hereby do not submit an audit opinion or any other form of audit results.

In conjunction with our audit we have the responsibility to read the other information and to evaluate whether the other information

- › displays substantial discrepancies with the financial statements, the management report or with the information we became aware of in the course of our audit or
- › otherwise appears to be falsely presented.

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

The legal representatives are responsible for the preparation of the annual financial report which is, in all material aspects, in accordance with the German commercial law regulations and for the annual financial report, in accordance with German generally accepted accounting principles, depicts a true and fair view of the assets, financial and earnings position of the company. Moreover, the legal representatives are responsible for the internal controls they deemed necessary and developed in accordance with the German generally accepted accounting principles, to enable the preparation of an annual report that is free of substantial – intentional or unintentional – false statements.

In the preparation of the annual financial statements the legal representatives are responsible to assess the ability of the company to continue business activities. Moreover, they have the responsibility to report issues connected to the future prospects of the company where relevant. Furthermore, they are responsible, on the basis of the accounting principles, to account for the continuing business activities such that they do not violate actual or legal circumstances.

In addition, the legal representatives are responsible for the preparation of the management report, which portrays an overall accurate image of the state of the company and which in all main aspects corresponds to the annual financial statements, the German legal regulations and accurately portrays the opportunities and risks of the future development. Moreover, the legal representatives are responsible for the processes and measures (systems) which they consider necessary for the preparation of a management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the management report.

The Supervisory Board is responsible for the monitoring of the financial reporting process of the company and for the preparation of the annual financial statements and the management report.

Responsibility of the auditor for the audit of annual financial statements and the management report

Our objective is to obtain adequate certainty that the annual report is in general free from substantial – intentional or unintentional – false statements, whether the management report presents a generally accurate image of the condition of the company and is aligned with the information acquired during the audit, conforms to the German legal regulations, presents the opportunities and risks for future development accurately and to submit an auditor's report which includes the results of our examination of the annual financial statements and the management report.

Adequate certainty is a high level of security, but is no guarantee that a compliant with § 317 HGB and the EU-APrVO in observance of the German Institute of Auditors' (IDW) accounting German accounting generally accepted accounting principles conducted audit cannot expose a substantial false statement. False portrayals can result from infractions or inaccuracies and are considered substantial when it could be reasonably expected that individually or generally, the recipients' economic decisions are influenced by these annual financial statements and management report.

During the audit we conduct our obligatory evaluations and maintain a critical attitude.

Furthermore,

- › we identify and evaluate the main risks – intentional or unintentional – of false depictions in the annual financial statements and management report, plan and conduct audit procedures in response to these risks through the acquisition of audit evidence which is sufficient and suitable to serve as a basis for our audit opinion. The risk that substantial false statements are not revealed is higher for infractions than for inaccuracies, because infractions reflect fraud, counterfeit, intentional incompleteness, misleading portrayals or invalidations could exist within internal controls.
- › we develop an understanding of the internal control system relevant to the audit of the annual financial statements and the relevant procedures and measures relevant to the audit of the management report, in order to plan audit procedures which are appropriate for the given situation, however not with the objective to submit an audit opinion on the effectiveness of these systems of the company.
- › we evaluate the appropriateness of the accounting methods applied by the legal representatives, as well as the tenability of the estimated values and the associated notes presented by the legal representatives.
- › we draw conclusions as to the appropriateness of the legal representatives' accounting procedures regarding the continuation of business activities and also assess, based on the evidence obtained during the audit, whether a substantial uncertainty in connection with results or circumstances exists which could lead to meaningful doubts regarding the company's ability to continue business activities. Should we conclude that a considerable uncertainty exists, we are obligated to draw attention to the relevant entries in the annual financial statements and the management report in the audit opinion, or, if the notes are inadequate, to modify our audit report. We draw our conclusions based on the auditing evidence provided to us up until the date of our auditor's report. Future events or circumstances could lead to a situation where the company cannot continue to operate.

- › we assess the overall portrayal, the structure and the content of the annual financial statements including the notes, as well as whether the annual report portrays underlying transactions, events and conditions such that the annual accounts convey a generally accurate image of the assets, financial and earnings situation of the company according to German generally accepted accounting principles.
- › evaluate the conformity of the management report with the annual financial statements, its adherence to regulations and the image of the company it portrays.
- › we conduct audit procedures on the future-oriented statements presented by the legal representatives in the management report. Based on sufficient suitable audit evidence, we examine in particular the meaningful underlying assumptions made by the legal representatives for the future oriented statements and evaluate the appropriateness of the deduction of future-oriented statements based on these assumptions. We do not submit an independent audit opinion on the future-oriented statements or their underlying assumptions. There is a significant unavoidable risk that future events will substantially deviate from the future-oriented statements.

We discuss with those responsible for the monitoring, among other points, the planned scope and schedule of the audit, as well as the meaningful findings of the audit, including any deficiencies in the internal control system that we detect during our audit.

We submit an explanation to those responsible for the monitoring that we observed the relevant independence requirements and discuss with them all relationships and other issues which can reasonably be undertaken that affect our independence, the as well as the corresponding precautionary measures.

We determine from the issues discussed with those responsible for the monitoring, the most meaningful issues in the audit of the annual financial statements in the current reporting period which are therefore particularly important to the audit. We describe these issues in the auditor's report unless law or other legal provisions exclude public disclosure of the issue.

OTHER STATUTORY AND OTHER SEPARATE LEGAL REQUIREMENTS

Remaining information according to Article 10 EU-APrVO

We were elected to be the auditor at the general shareholder's meeting on 28 August 2019. We were commissioned by the Supervisory Board on 29 August 2019. We have been the auditor of the Varengold Bank AG, Hamburg uninterrupted since business year 2015.

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

RESPONSIBLE AUDITORS

The responsible auditor for the audit is Lothar Schreiber.

Hamburg, 29 May 2020

PricewaterhouseCoopers GmbH
Audit and Assurance Consulting



Lothar Schreiber
Auditor



ppa. Uwe Gollum
Auditor

Corporate Information

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Board of Directors

Dr. Bernhard Fuhrmann
Frank Otten

Supervisory Board

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

Corporate Register

District Court of Hamburg, HRB 73684

USt-IdNr. (value added tax identification number)

Financial Authority Hamburg, DE247069729

Corporate Governance

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

Permissions/Approvals of the Varengold Bank AG

- › Acquisition brokerage (§ 1 para. 1a sentence 2 no. 2 KWG)
- › Investment advisory services (§ 1 para. 1a sentence 2 no. 1a KWG)
- › Investment mediating services (§ 1 para. 1a sentence 2 no. 1 KWG)
- › Investment management services (§ 1 para. 1a sentence 2 no. 11 KWG)
- › Deposit business (§ 1 para. 1 sentence 2 no. 5 KWG)
- › Proprietary business (§ 32 para. 1a KWG)
- › Proprietary trading (§ 1 para. 1a sentence 2 no. 4 KWG)
- › Deposit-taking business (§ 1 para. 1 sentence 2 no. 1 KWG)
- › Factoring (§ 1 para. 1a sentence 2 no. 9 KWG)
- › Financial leasing (§ 1 para. 1a sentence 2 no. 10 KWG)
- › Financial commissions business (§ 1 para. 1 sentence 2 no. 4 KWG)
- › Financial portfolio management (§ 1 para. 1a sentence 2 no. 3 KWG)
- › Guarantee business (§ 1 para. 1 sentence 2 no. 8 KWG)
- › Credit business (§ 1 para. 1 sentence 2 no. 2 KWG)

Deposit insurance

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

DISCLAIMER

Notes on the content

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

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

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

Forward-looking statements

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

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