



Varengold

BANK

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Annual Report  
**2018**

# Key Figures of Varengold Bank AG

Key figures per share	31.12.2018 in EUR	31.12.2017 in EUR
Earnings per share	0.06	0.01
Market capitalization	23,723,816	17,575,497

Profit and loss statement	01.01.2018 to 31.12.2018 in TEUR	01.01.2017 to 31.12.2017 in TEUR
Interest income	6,369	3,841
Current income from shares and other non-fixed income securities	682	571
Commission income	14,299	10,122
Net income from trading portfolio	80	149
Other operating income	-506	-810
Administrative expenses	-14,774	-13,421
Depreciation and value adjustments	-3,867	-514
Income from normal business operations	2,283	556
Income/loss for the year	515	24

Balance sheet	31.12.2018 in TEUR	31.12.2017 in TEUR
Total assets	530,934	445,211
Net assets	24,772	18,460

Disclaimer:

This English version of the annual report 2018 is for informational purposes only.  
Legally binding is solely the German version of the Annual Report 2018.



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# 01 Letter to the Shareholders

## Dear Shareholders

In financial year 2018 Varengold Bank AG consistently applied its mission and implemented its strategic plan. Of central importance was and is that we create customer value through our bank products and services. This takes place in a variety of ways: for example, we support customers who are normally not the focus of our competitors. Varengold Bank can profitably offer this, due to lower cost structures and higher quality in credit analysis. In addition, our clients benefit from our swift business decisions – we do not have five or more hierarchy levels involved in the process. To generate value for the customer we also think into the future and structure transactions in innovative ways to achieve optimal solutions for both parties at the same time.

We apply these activities in both of our strategic business areas, Marketplace Banking and Transaction Banking / Commercial Banking. For all innovative solutions that we develop for Fintechs in Marketplace Banking for example, we do not forget to adhere to the “credit rules”: for us a condition sine qua non is to satisfy common interests of customer and bank. We do not accept marketplaces which act as pure credit intermediaries accepting no risk themselves. We are not concerned that this possibly represents an uncommon perspective in the community.

To remain attractive to our clients we permanently improved our internal processes and structures in 2018. At the start of the year we defined the following three values:

- > **Customer centric**
- > **No silos**
- > **Go the extra mile**

Particularly meaningful for us is the value “Customer centric.” Hereby the customer is always in the focal point of all operations in the bank. And by customer, we always mean the external customer: the traditio-

nal view; we don’t count the client in the back office or the client in the front office. Of course, we adhere to all supervisory regulations.

With the second value “No silos,” we are emphasizing our commitment to teamwork and it is naturally clear that excellent products and services can only be provided to our customers through the application of “extra mile” engagement.

We achieved further improvements of the internal processes by conducting the 2018 Management System Objectives and Key Results (OKR) for targeted support of teamwork between overlapping departments and locations. Through this process, the Board of Director’s objectives for the organization were formulated and corresponding key results defined from which clearly identified milestones were transparently operationalized individually for each organizational department. The customer is always the central focus of these goals. Through this intensive system, impulses from the employees were integrated, swift visible changes were undertaken, an increased transfer of “know-how” was enabled, and value-oriented action was promoted. Not only qualified employees, but those who are also motivated by and aligned with the overarching corporate objectives make critical contributions to the financial performance of the bank and are therefore a success factor over competitors. The OKR also resulted in the thematization of the importance of integrating health management, continuous education (for example through events for internal knowledge sharing and English instruction), as well as social engagement and environmental protection.

In order to better convey our content, we began a relaunch of our corporate identity in the second half of 2018. This new identity gives the brand and underlying mission of Varengold Bank AG a modern and appropriate external appearance. We have not only clearly optimized our digital business card with this project but have also sharpened our self-image

and our aspirations for everything related to today’s Varengold brand.

In addition to the new digital presence, the subsidiary in Sofia (Bulgaria) was opened in November 2018. This location emphasizes the importance of the Southeast European region to the bank.

All of these measures lead to a considerable improvement in results as compared with 2017. The bank closed the financial year 2018 with a year-end profit in the amount of 515,372.82 EUR (Previous year 24 TEUR). The income from normal business operations of Varengold Bank AG totaled 2,283,410.60 EUR (Previous year 556 TEUR). The comparably high tax income resulted primarily from tax adjustments of fund investments and non-recognizable depreciation.

We thank our business partners for the trust bestowed upon us and would like to express our appreciation to our employees for their commitment to the continuous further development of Varengold Bank AG. The achieved year-end profit of the bank is not least the result of valuable cooperation of the entire Varengold team with our customers and we are determined to pursue this path of success. The positive development in 2018 continued into the first months of financial year 2019. In 2019 we have implemented additional measures to boost business growth. In this light, we anticipate even further positive results than in 2018.



Hamburg, June 2019

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

# 02 Our Success Story

The Varengold Bank AG is a credit institute founded in 1995 in Hamburg which positioned itself and made its mark with its regulatory competence and readiness to innovate in the technology driven evolution of the finance industry. In both of its core businesses Marketplace Banking and Transaction Banking / Commercial Banking the bank offers its commercial and private customers a broadly diversified product and service portfolio with a clear intention of delivering substantial added value.

For roughly the past four years, the focus has been on the support of marketplaces that offer companies and consumers digital financial solutions. Varengold Bank makes debt and equity capital markets products, international payment transactions, as well as fronting services for bank licensing obligations products available to these marketplaces. Varengold Bank is convinced that its current combination of solidity and agility provide an outstanding basis for a successful positioning in this market sector. Their credit knowledge and regulatory expertise, coupled with their network in the European banking scene, helps marketplaces (often called Fintechs), to develop successful and sustainable businesses. The bank's strategy is to cooperate with the Fintechs and not to duplicate their services. "It is our job to enable people to have access to capital and bank services. QUICKLY AND EASILY", is the motto of the bank.

Varengold Bank had around 70 employees at the end of 2018 and maintains, in addition to its headquarters in Hamburg, two additional branch offices in London and Sofia. They are coordinating their expansion strategy from the Bulgarian site to expand their activities across the entire southern European region.

Varengold Bank AG is listed on the Frankfurt Stock Exchange as a Basic Board company (symbol: VG8) and is subject to regulation by the German Federal Financial Supervisory Authority (BaFin).

In addition, Varengold Bank is a member of the Deposit Guarantee Scheme of German Banks (EdB), where-

by the deposits of each customer are legally protected up to a value of 100,000 Euro.

## Milestones since founding

The corporate history of Varengold Bank is one of continuous growth. Founded as a "GmbH" in 1995, the legal structure changed to an incorporated company in 1999. The most significant milestone in the history of the enterprise is the expansion of licensing from a securities trading bank to a deposit-taking institution (in the meaning of § 1 para. 3d sentence 3 KWG). With the receipt of the license in 2013, the new business area Transaction Banking / Commercial Banking was established.

## Versatile capital markets expertise

When Varengold Bank AG was founded in 1995 as an asset management boutique, the primary goal in the first years was the development of individual, specialized hedge fund strategies from the managed funds space. Implementing a derivative financial instruments investment strategy concentrated on the systematic trade of raw materials and stock indices. To further diversify the individual trading approach was expanded to include complimentary strategies on the fund of funds level for individually customized portfolios. Based on a reduced risk-return profile, Varengold later launched the first German-managed futures fund of funds and hedge fund to be approved for public sale; the HI Varengold CTA Hedge, which was recognized numerous times as the best German fund of hedge funds. Within the scope of these trading activities it became clear that transparency of the managed futures strategies on the level of each individual transaction was necessary to ensure successful monitoring and management of the trading strategies. To provide an optimized management structure, Varengold Bank developed a managed account platform which enabled real-time brokerage and online reporting.

In peak periods today, around 9,000 customers globally use the Varengold gateways to international

financial markets, with a transaction volume of over 20 billion euro per year. These customers thereby have access to global stock exchanges, as well as non-exchange products such as Forex and CFDs (contracts for differences) on one single trading platform.

Due to further strategic refocusing, Varengold Bank AG decided in March 2016 to discontinue the business area Capital Markets Brokerage to reduce risk and return volatility, and to lay the primary focus upon business areas which have a better risk-return ratio. The many years of capital market expertise will continue to be used, especially for companies that want to protect international cash flows from currency fluctuations.

# 03 Our Products and Services

## Marketplace Banking

In the last ten years the development of online marketplaces which deal with the financing of companies and consumers (peer to peer platforms) have blossomed worldwide. As a rule, they offer customers considerably faster, easier and therefore also more pleasant credit processing than with established banks. In addition, the Fintechs are able to offer financing to customers who fall outside of the standard framework of banks, due to their more efficient processes. To do this, financial resources are required, and also, dependent on each regulatory environment, specific financial licenses. Varengold Bank provides in its core business area Marketplace Banking these marketplaces with the necessary financial and regulatory products. The bank thereby helps its customers to optimally implement their business concepts which generally focus on receivables finance, real estate finance and trade finance.

An anchor product of Varengold Bank is the structured financing, because a marketplace typically needs capital in order to implement its business model. The refinancing of marketplace portfolios, whose structure is closely aligned with the requirements of the customer, is however, only the beginning of a long-term working relationship. In addition, the bank's business areas DCM (debt capital management) and ECM (equity capital management) acquire suitable partners from their network to cover the possible additional capital needs of the customer.

Varengold Bank's business area Fronting Services makes their bank license available to marketplaces throughout Europe that offer products and services requiring bank licenses that they themselves do not possess. Generally, credit products, as well as account services are "fronted". The sound process knowledge and high level of technology competence helps clients to enter markets quickly and efficiently.

Essentially, Varengold Bank accompanies their customers in Marketplace Banking in an early phase of their business activities which often leads to a growth phase.

A benefit for customers is that Varengold Bank has no conflict of interest with their customer relationship and the marketplaces, because the bank is practicing no credit business for itself, which would stand in competition to the marketplaces.

## Transaction Banking / Commercial Banking

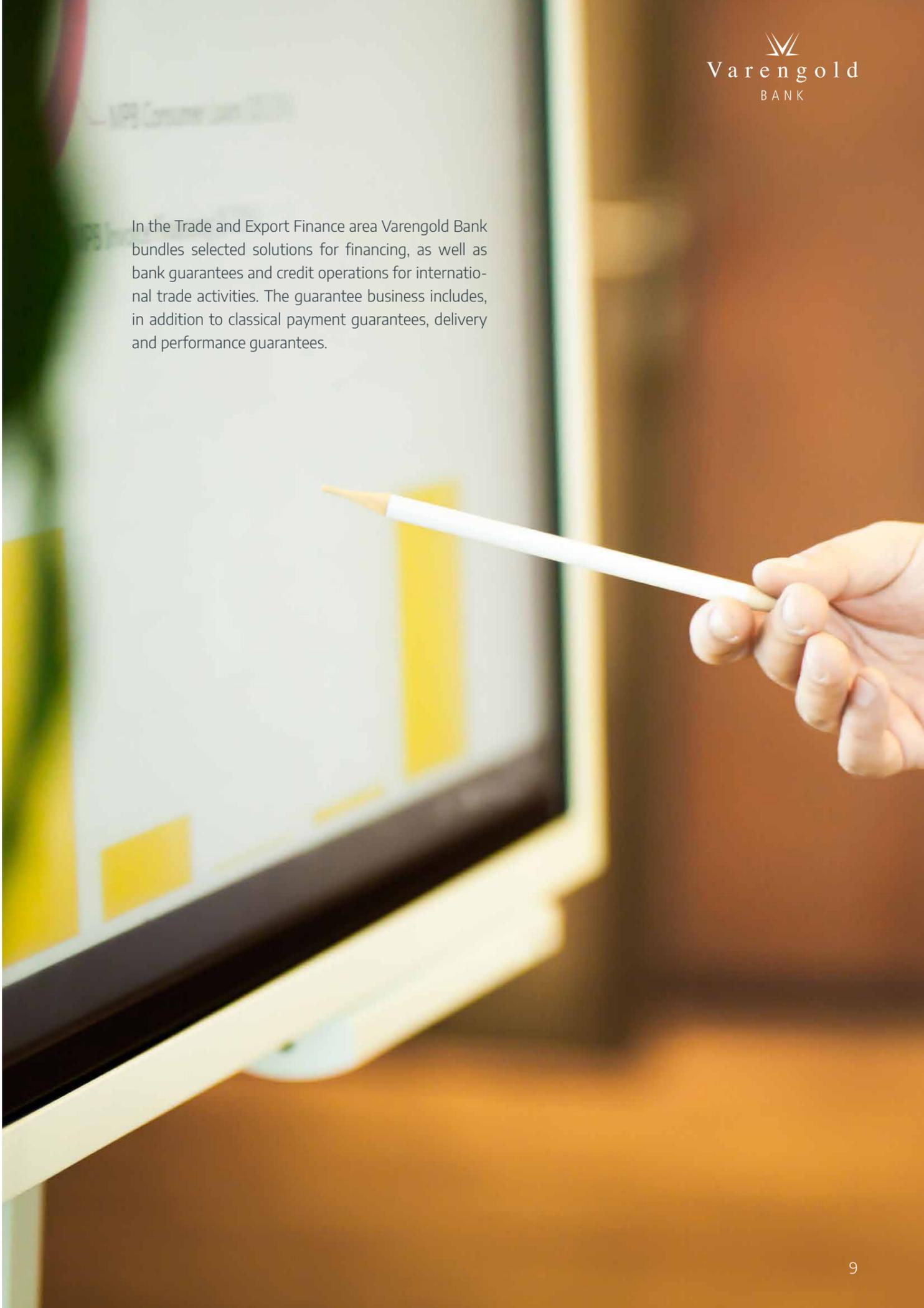
In the core business area Transaction Banking / Commercial Banking (terms are used synonymously), Varengold Bank AG presents itself as a global partner for demanding customers and investors, who give their business partners the possibility to process their transactions and trading activities with the help of individualized products and solutions. Over the past years Varengold Bank has developed a solid customer base for trade finance transactions and would like in the future to further develop as a specialized supplier to commercial customers who are concentrating on trade within the eastern European and Middle East regions.

The core business area of Transaction Banking is comprised of the deposit business, as well as the international payment transaction, trade and export finance, Lombard credit and structured finance areas. For products such as deposit accounts, private customers are offered complimentary daily deposit and term deposit accounts, which combine daily available deposits with 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 profit from the statutory deposit protection in the amount of up to 100,000 EUR.

Through the increasingly exacting requirements in a globally networked world, cross-border payment transactions are growing in importance at a furious pace. In order to be a globally successful company and to rely upon secure, efficient and transparent services of payment transactions, Varengold Bank AG offers its clients customized solutions for almost every country.

In the Trade and Export Finance area Varengold Bank bundles selected solutions for financing, as well as bank guarantees and credit operations for international trade activities. The guarantee business includes, in addition to classical payment guarantees, delivery and performance guarantees.



# 04 Varengold Bank Shares

The shares of Varengold Bank have been listed on the Frankfurt Stock Exchange since 2007 and since 2017 in Basic Board on the open market. The shares are also traded on the stock exchanges Stuttgart, Düsseldorf, Berlin and on the electronic trading system XETRA.

## Current key figures

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock symbol	VG8
Market segment	Open Market / Basic Board
Transparency level	Basic Board
First listing	20 March 2007
Share (type)	No par-value share
Number of shares	9,315,634 shares (As of 31.12.2018: 6,210,423 shares)
Total capital	9,315,634 EUR (As of 31.12.2018: 6,210,423 EUR)
Designated sponsor	Oddo Seydler Bank AG
Paying agent	Bankhaus Gebrüder Martin AG
Specialist	Baader Bank AG

## Conditions and Development 2018

After the very positive development of the stock market in 2017, the course of financial year 2018 put the international trading floor under pressure. The conflicts in geopolitical “hot spots” such as the monetary crisis in Turkey or the trade dispute between Italy and the European Union did not go unnoticed on the financial markets. Although some indices were able to achieve high notes at the beginning of the period due to prevailing optimism, a strongly negative market correction followed based on the increasing political uncertainty and the growing worries about an escalation of the trade dispute on the side of the USA. The DAX registered a minus of nearly 18% and the Euro Stoxx 50 needed to cope with a loss of more than 14 %.

In financial year 2018, the shares of Varengold Bank AG did not register any strong movement on the market. Right at the start of the year the shares reached their yearly high of EUR 3.92 on 29.01.2018 and after a short downturn, the course gently wavered until the middle of the year at a relatively even range. In the following second half of the year the course dropped to its lowest point of the year of EUR 2.53 on 09.08.2018 until finally initiating a renewed recovery phase in the last quarter, so that a closing price of EUR 3.82 was reached at the end of the year.

On average the price of Varengold shares fell as compared to year 2017 from EUR 3.92 to EUR 3.22 in financial year 2018. The average daily shares traded in the reporting period was significantly higher at 17,653 shares (Previous year 1,268 shares), which was a result of very high trading volume on just four trading days.

The earnings per share increased a total of EUR 0.01 to EUR 0.06. Market capitalization rose considerably due to the new capital increase on reporting day 31.12.2018 to EUR 23,723,816 (Reporting day 31.12.2017: EUR 17,575,497).

## Price history of Varengold shares



# 05 Supervisory Board Report

## Dear Shareholders,

The Supervisory Board expressly thanks all shareholders, business partners and customers of Varengold Bank AG for the confidence you have placed in us. A sincere thank you goes in particular to the members of the Board of Directors and the employees for the high level of personal engagement in financial year 2018 and the always constructive teamwork. In the past year the entire Varengold team, working to implement the strategic direction, further developed the business operations of the bank, brought sustainable stability to the organization and initiated fundamental steps for a promising outlook for the bank.

## Cooperation between the Supervisory Board and the Board of Directors

In the past year the Supervisory Board of Varengold AG concentrated on the business and strategic development of the company in their supervisory board meetings. Throughout financial year 2018, the Supervisory Board performed all statutory and company obligations and thereby regularly monitored the Board of Directors. 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. The Board of Directors always answered the Supervisory Board's questions thoroughly and to the satisfaction of the Supervisory Board. To broaden the informational base and to widen 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 thereby always informed about the current business activities of the

company and received written monthly status reports on the current financial standing of the company, as well as quarterly reports on the risk situation of the bank. Furthermore, all internal audit reports, as well as further detailed documents from individual functional areas were reviewed by the Supervisory Board. The always complete written and oral reports provided by the Board of Directors complied with the requirements under section 90 of the AktG (German Stock Corporation Act). The Supervisory Board was convinced by the regular exchange with the individual Members of the Board over the course of the financial year 2018, as well as with the suitability and reliability of the individual Board members.

## Supervisory Board meetings in 2018

Over the course of last year, in total four ordinary meetings of the Supervisory Board took place on 28 March 2018, 5 June 2018, 21 August 2018 and 23 November 2018. All Supervisory Board members, as well as both members of the Board of Directors were present at each of these meetings. Principally, at each meeting the Board of Directors reported on the development of the financial and economic relationships of the preceding months to the Board of Supervisors.

In the meeting on 28 March 2018 the development of the business areas and the company's financial figures with a review of the previous year 2017 was discussed. Moreover, the business strategy 2018 and the 5-year plan, as well as the current risk strategy was debated and approved by the Board of Supervisors. Furthermore, the members discussed, among other topics, current business development in the first quarter 2018, the Compliance Report 2017, the existing shareholding structure of the Varengold Group, and the suitability and implementation of the existing compensation system.

On 5 June 2018 the central items on the agenda were the annual accounts of 2017 in direct discussions with the auditor PricewaterhouseCoopers GmbH, the Board of Director's report on the current business develop-

ment and the introduction of the "OKR" (objectives and key results) management method to all levels of the bank. Also, the compliance with the requirements of § 25d KWG and the monitoring of the non-auditing services of the auditing firm PricewaterhouseCoopers GmbH were important topics of this meeting.

The major agenda items of the meeting on 21 August 2018 were the current business development of the bank and the possibilities for an additional capital increase.

In the last meeting of the year, on 23 November 2018, the members reviewed the development of bank results in financial year 2018 and discussed the present status of business development within the current framework conditions. In addition, among other issues, the ownership structure of Varengold Group, risk control, and present compliance activities were discussed and an update on the progress of the capital increase was given.

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 section 9, para. 4 of the Charter of the Varengold Bank AG. Additional efforts were required in particular to deal with further increasing regulatory requirements for credit institutes.

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 over the course of the reporting year. Supervisory Board member 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 year, as in the last year, the Supervisory Board has declined to form committees due to 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 21 August 2018 to be the auditors for financial year 2018. Subsequently, the Supervisory Board awarded the auditing contract to PricewaterhouseCoopers GmbH. The contract itself contains, among other agreements, clear provisions as to the scope of the audit, the implementation of the audit, as well as the productive 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 a reason to doubt their independence.

## Annual audit 2018

The auditing firm for business year 2018 PricewaterhouseCoopers GmbH, Hamburg, has reviewed the annual financial reporting of 31 December 2018 and the management report according to HGB regulations and has granted an unqualified auditor's certificate.

In advance of the committee meeting on 18 June 2019, the Supervisory Board received a draft of the auditor's report of the annual financial statements 2018, as well as the management report for review and audit. All open questions were 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 2018 between the Board of Directors and the auditing firm on 28 May 2019.

Through a unanimous decision of the Supervisory Board of 18 June 2019, 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 2018 which was not materially revised since the drafts in accordance with to statute § 12 in conjunction with § 22 of the Varengold Bank AG Bylaws, after a final review of the Supervisory Board, and was approved. The annual report of Varengold Bank AG for financial year 2018 is thereby complete.

### Institutional bodies

The acting Supervisory Board member of at the beginning of financial year 2018 Mr. Alexander Körner, resigned his position effective 27 March 2018. The Supervisory Board would like to thank Mr. Körner for his valuable contribution and trustworthy collaboration.

At the request of the Board of Directors, the court of Hamburg appointed Mr. Vasil Stefanov to the Supervisory Board in a decision on 21 March 2018 for the time period until the next ordinary or extraordinary shareholders meeting. With a resolution of the ordinary shareholders meeting of Varengold Bank AG on 21 August 2018, Mr. Stefanov was elected to the Supervisory Board for the time period from the end of the ordinary shareholders meeting 2018 until the end of the ordinary shareholders meeting in which the financial report for business year 218 is discharged.

For the Supervisory Board Hamburg,  
18 June 2019



Dr. Karl-Heinz Lemnitzer  
Chairman of the Supervisory Board



# 06 Annual Report

in accordance with the German Commercial Tax Code (HGB)  
**for the year ending 31 December 2018**

Varengold Bank AG  
Große Elbstraße 14  
22767 Hamburg



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Varengold Bank AG, Hamburg

## Balance Sheet as of 31 December 2018

Assets	Euro	Financial year Euro	Previous year TEuro
1. Cash reserve			
a) Cash balance	2,781.67		4.7
b) Credit with Central Banks	134,495,193.75		79,969.3
- of which:		134,497,975.42	79,973.9
with the German Central Bank: Euro 134,495,193.75			(79,973.3)
2. Loans and advances to credit institutions			
a) Due on demand	5,878,473.12		20,898.5
b) Other receivables	7,318,218.50		3,036.9
		13,196,691.62	23,935.4
3. Customer receivables		267,363,119.32	250,607.8
- of which:			
Secured by mortgages: Euro 39,405.84			(37.9)
Municipal loans: Euro 43,700,000.00			(61,482.0)
4. Bonds and other fixed-income securities			
a) Bonds and debt			
aa) from public issuers	4,078,236.51		17,231.6
- of which:			
acceptable as collateral at the German Central Bank: Euro 4,021,680.00			(16,913.0)
ab) from other issuers	4,915,111.59		5,102.1
		8,993,348.10	22,333.7
5. Shares and other variable-yield securities		101,150,447.62	57,663.2
5a. Trading portfolio		0.00	3,774.1
6. Participating interests		1,678,518.18	698.0
7. Shares in affiliated companies		1,299,375.67	2,260.6
- of which:			
in financial services institutions: Euro 855,313.25			(1,709.8)
8. Intangible assets			
a) Self-created industrial and similar rights and assets	0.00		0.0
b) Acquired concessions	154,486.00		116.4
		154,486.00	116.4
9. Fixed assets		156,240.50	159.9
10. Other assets		1,557,170.65	1,744.7
11. Accruals and deferred income		191,155.58	91.3
12. Deferred tax assets		695,948.56	1,852.6
<b>Total Assets</b>		<b>530,934,477.22</b>	<b>445,211.6</b>

Liabilities	Euro	Financial year Euro	Previous year TEuro
1. Liabilities to banks			
a) Due on demand	5,947,047.59		16,426.2
b) With agreed maturity dates or periods of notice	12,840,440.00		13,940.3
		18,787,487.59	30,366.6
2. Amounts owed to customers			
a) Other liabilities			
aa) due on demand	250,777,726.68		245,421.0
ab) with agreed maturity dates or periods of notice	217,564,225.42		141,948.1
		468,341,952.10	387,369.1
3. Other liabilities		9,572,919.36	747.9
4. Accruals and deferred income		237,075.09	679.8
5. Provisions			
a) Reserves for pensions and similar obligations	83,673.00		98.2
b) Provisions for taxes	692,935.57		111.9
c) Other provisions	3,446,380.88		2,377.8
		4,222,989.45	2,588.0
6. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
7. Share equity			
a) Subscribed capital		6,210,423.00	4,140.3
b) Capital reserves		37,974,640.30	34,248.4
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		-19,431,409.67	-19,946.8
<b>Total Liabilities</b>		<b>530,934,477.22</b>	<b>445,211.6</b>
1. Contingent liabilities			
a) Liabilities from guarantees and indemnity agreements		677,859.95	1,998.9
2. Other liabilities			
a) Irrevocable loan commitments		25,629,949.73	14,980.0

**Varengold Bank AG, Hamburg**

# Profit and Loss Statement

**for the period 1 January 2018 to 31 December 2018**

	Euro	Euro	Financial year Euro	Previous year TEuro
1. Interest income from				
a) Credit and money market transactions	8,262,744.68			5,792.2
less negative interest from bank balances	-986,830.48			-1,460.2
	7,275,914.20			4,332.0
b) Fixed-income securities and debt register claims	774,752.52			980.3
less negative interest	0.00			-1.1
	774,752.52	8,050,666.72		979.2
2. Interest expense	-2,598,314.62			-2,025.6
less positive interest from the banking business	916,707.39			555.2
		-1,681,607.23		-1,470.3
		6,369,059.49		3,840.8
3. Current income from				
a) Shares and other variable-yield securities		682,115.19		571.4
b) Shareholdings		0.00		0.0
c) Interests in affiliated companies		0.00		0.0
		682,115.19		571.4
4. Commission revenue		16,214,199.99		19,607.3
5. Commission expense		-1,915,591.56		-9,484.9
		14,298,608.43		10,122.4
6. Net income from trading portfolio			79,872.36	148.8
7. Other operating income			355,861.41	267.4
8. General and administrative expense				
a) Personnel expense				
aa) wages and salaries	-6,386,278.98			-6,038.9
ab) social security contributions and expense for pensions and other employee benefits				
- of which: for pensions 228,416.13 Euro (Previous year 275.0 TEUR)	-874,196.00	-7,260,474.98		-901.1
				-6,940.0
b) Other administrative expense	-7,513,090.95			-6,481.2
		-14,773,565.93		-13,421.2
9. Depreciation and amortization of intangible assets and property			-135,820.35	-173.4
10. Other operating expense			-861,953.88	-1,077.5

	Euro	Euro	Financial year Euro	Previous year TEuro
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business			-2,836,447.36	0.0
12. „Income from write-ups to claims and certain securities, as well as from the release of provisions for possible loan losses.“			0.00	617.0
13. Income from attribution of shares, shares in affiliated companies, and asset traded securities			-894,318.76	-340.2
<b>14. Income from ordinary business activities</b>			<b>2,283,410.60</b>	<b>555.6</b>
15. Extraordinary income	0.00			19.9
16. Extraordinary expense	0.00			0.0
17. Extraordinary results			0.00	19.9
18. Taxes on income and earnings	-1,767,624.78			-551.9
19. Other taxes, as long as not posted under 10.	-413.00			-0.1
			-1,768,037.78	-551.9
<b>20. Net annual profit or loss</b>			<b>515,372.82</b>	<b>23.5</b>
21. Lost from previous year			-19,946,782.49	-19,970.3
22. Net loss			-19,431,409.67	-19,946.8

**Varengold Bank AG, Hamburg**

District Court Hamburg, HRB 73684

# Notes

**For financial year 1 January 2018  
to 31 December 2018**

## 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 continue to be displayed in general posts, in variance with § 284 para. 1 sentence 1 HGB to improve clarity and transparency.

As all subsidiaries pursuant to Section 290 para. 2 HGB are of lesser importance for an appropriate 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.

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

Assets and liabilities are valued according to the requirements under §§ 252 ff. HGB, as well as supplementary provisions of § 340 ff.

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 higher the 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. Their determination is carried out in accordance with the letter from the Ministry of Finance on 10 January 1994.

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 1,125. The book value corresponds to fair value.

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 30,000 (book value).

The internally determined criteria for including finance instruments in the trading portfolio have not changed in the past year. According to § 340e para. 3 sentence 1 HGB, finance instruments in the trading portfolio are valued at the fair value taking a risk discount into consideration. The fair value is, in accordance with § 255 para. 4 sentence 1 HGB, the market price of the finance instrument.

The risk premium is determined using the value at risk method with a confidence level of 99 %, a holding period of five days and an observation period of 520 days with a historical simulation. The calculation of the value at risk is identical to the method used for internal purposes of risk monitoring in accordance with MaRisk.

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.

Expected useful lives are claimed in accordance with the tax guidelines regarding tax depreciation for wear and tear (AfA). Purchased software is reported under intangible assets, and as with tangible assets, are valued at amortized costs with consideration of scheduled depreciation. Assets are measured at amortized cost less scheduled depreciation. The bank uses the fiscal depreciation rates as a basis (asset depreciation) for expected useful life.

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 bundled into a compound item, 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 (essentially prepaid licenses, insurance and rent) are stated in accordance with § 250 para. 1 HGB.

Deferred tax liabilities in the amount of TEUR 696 (Previous year TEUR 1,853) result from tax losses carried forward. The deferred tax assets are subject to the distribution block. The Board of Directors expects the full utilization over the next five years of the deferred tax assets formed in previous years. For the calculation of deferred tax liabilities, a tax rate of 32.275 % was applied, which is composed of corporate tax (15.0 %), a solidarity surcharge (0.825 %) and commercial tax (16.45 %).

Liabilities are treated as deferred items with their repayable amount.

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

Pension provisions, which depend upon provision 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 was used. It was based on an actuarial interest rate of 3.21 %, 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. 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 considered. 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).

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

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

### 3 Currency Translation

All foreign currency transactions which are not assigned to the trading portfolio 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 RS BFA 4 No. 22.

Over the course of the year, earnings and expenses 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 2018 the following balance sheet items contain foreign currency amounts:

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>TEUR</b>	<b>TEUR</b>
Loans and advances to credit institutions	7,379	10,828
Customer receivables	18,639	33,681
Bonds and other fixed-income securities	1,125	0
Shares and other variable-yield securities	50,411	46,929
Shares in affiliated companies	900	1,754
Other assets	241	247
Accruals and deferred income	74	0
Liabilities to banks	0	0
Amounts owed to customers	28,678	47,049
Other liabilities	81	76
Provisions	0	0

## 4 Notes to the Balance Sheet

### 4.1 Overall disclosures

#### 4.1.1 Relationships to affiliated companies

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>TEUR</b>	<b>TEUR</b>
Customer receivables	267,363	250,608
of which pertains to affiliated companies	4,657	5,291

The "of which" position is a receivable against Varengold Capital Investment Company Limited, British Virgin Islands.

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>TEUR</b>	<b>TEUR</b>
Amounts owed to customers	468,342	387,369
of which pertains to affiliated companies	565	754

The "of which" position contains payables to Varengold Verwaltungs AG i.L., Hamburg, the Varengold Capital Holdings Limited, British Virgin Islands, the Varengold Capital Investment Company Limited, British Virgin Islands, the Varengold Capital Asset Management Limited, Hongkong, as well as Varengold Investment Funds SPC, Cayman Islands.

#### 4.1.2 Breakdown of residual terms

	31.12.2018 TEUR	31.12.2017 TEUR
<b>Loans and advances to credit institutions</b>	13,197	23,935
due on demand	5,878	20,898
up to three months	340	834
over three months to one year	6,979	2,203
<b>Customer receivables</b>	267,363	250,608
due on demand	2,770	4,406
up to three months	26,709	45,291
over three months to one year	156,467	146,412
more than one year to five years	81,378	54,499
more than five years	39	0
<b>Bonds and other fixed-income securities</b>	8,993	22,334
of which due in the following year	4,696	19,334
<b>Loans and advances to credit institutions</b>	18,787	30,367
due on demand	5,947	16,427
up to three months	340	13,940
more than three months to one year	12,500	0
<b>Customer receivables</b>	468,342	387,369
due on demand	250,778	245,420
up to three months	53,128	30,391
more than three months to one year	63,495	88,370
More than one year to five years	100,941	23,188

#### 4.1.3 Securities

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

	31.12.2018 TEUR	31.12.2017 TEUR
<b>Bonds and other fixed-income securities</b>	8,993	22,334
unlisted	0	0
listed	8,993	22,334
- of which: publicly listed	8,993	22,334
<b>Shares and other variable-yield securities</b>	101,150	57,663
unlisted	101,150	0
listed	0	57,663
- of which: publicly listed	0	32,199
<b>Shares in affiliated companies</b>	1,299	2,261
unlisted	399	506
listed	900	1,755
- of which: publicly listed	0	0
<b>Investments</b>	1,679	698
unlisted	1,100	100
listed	579	598
- of which: publicly listed	531	550

#### 4.2 Individual post disclosures

##### 4.2.1 Customer receivables

The customer receivables (TEUR 267,363) consist primarily of customer loans and municipal loans.

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

Bonds and other fixed-income securities amounts to TEUR 4,078 (Previous year TEUR 17,232) from bonds and debt securities issued by public issuers and in the amount of TEUR 4,915 (Previous year TEUR 5,102) in bonds and debt securities from other issuers. The total portfolio is comprised of three European government bonds and two corporate debt securities.

##### 4.2.3 Shares and other variable-yield securities

The balance sheet items contain shares in investment funds in the amount of TEUR 101,150.

This amount totals TEUR 76,044 in investment funds, in which the bank holds more than 10 % and includes the following:

in TEUR	Investment objective	Book value	Market value	Hidden reserves / charges	Distribution in 2018
Dalma Corporate Bond Fund	Real estate		17,047	3	0
Varengold Fixed Income Fund SP	Trade finance	29,000	29,000	0	0
Varengold Spezial I	Pensions	30,000	29,523	477	0

For the Varengold Spezial I funds no write-off was taken, because the depreciation was a result of price fluctuations and these are not expected to be permanent. The price had corrected itself by the reference the reference date.

The return option with Dalma Corporate Bond funds is possible within one month and with Varengold Fixed Income funds within 90 days. There is no limitation with Varengold Spezial I funds with respect to daily return option.

#### 4.2.4 Shares and holding in affiliated companies

Varengold Bank AG has the following unlisted holdings:

Company	Participation rate		Equity capital	Results
	direct %	indirect %	31.12.2018 TEUR	2018 TEUR
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		0 <sup>1)</sup>	-1,073 <sup>1)</sup>
Lava Trading Ltd., Valetta, Malta	49.79		-6 <sup>2)</sup>	-6 <sup>2)</sup>
Varengold Capital Holdings Limited, British Virgin Islands	100.00		-356 <sup>3)</sup>	39 <sup>3)</sup>
Varengold Capital Securities Limited, Hong Kong	100.00		666 <sup>3)</sup>	96 <sup>3)</sup>
Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg	100.00		399 <sup>4)</sup>	-130 <sup>4)</sup>
Varengold Capital Asset Management, Limited, Hongkong		100.00	944 <sup>3)</sup>	409 <sup>3)</sup>
Varengold Capital International Company Limited, British Virgin Islands		100.00	-642 <sup>3)</sup>	-2 <sup>3)</sup>
Varengold Investment Funds SPC, Cayman Islands		100.00	-634 <sup>3)</sup>	-16 <sup>3)</sup>
Varengold Capital Investment Company Limited, British Virgin Islands		100.00	-381 <sup>3)</sup>	436 <sup>3)</sup>
Varengold Capital Management Limited, British Virgin Island		100.00	-718 <sup>3)</sup>	-671 <sup>3)</sup>
Ansan Sadong 90 Block PFV Co Ltd., Ansan		30.00	7.518 <sup>5)</sup>	28.874 <sup>5)</sup>
Naga Brokerhouse GmbH, Hamburg		33.00	52 <sup>6)</sup>	0 <sup>6)</sup>

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 31.12.2018; price HKD: 8.9675
- 4) Interim Annual Report of 30 November 2018 (different financial year)
- 5) Annual Report of 31 December 2017; entries in EUR were adjusted on the reporting date 31.12.2017; price KRW: 1,279.61
- 6) Annual Report of 31 December 2016

#### 4.2.5 Gross assets analysis

	Purchase costs				Depreciation				Residual book value	
	01.01.18	Accruals 2018	Uses 2018	31.12.18	Cumulative 01.01.18	Annual accruals 2018	Uses 2018	Cumulative 31.12.18	31.12.18	31.12.17
	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	2,133	112	0	2,246	2,017	74	0	2,091	154	116
Fixed assets	729	58	0	786	569	61	0	630	156	160
<b>Total</b>	<b>3,249</b>	<b>170</b>	<b>0</b>	<b>3,420</b>	<b>2,973</b>	<b>136</b>	<b>0</b>	<b>3,109</b>	<b>311</b>	<b>276</b>
	<b>Change<sup>*)</sup></b>									
Bonds and other fixed-income securities					-3,977				1,125	5,102
Shares and other variable-yield securities					30,000				30,000	0
Investments					981				1,679	698
Shares in affiliated companies					-962				1,299	2,261

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

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

#### 4.2.6 Trading portfolio

The trading portfolio on 31 December 2018 stood at TEUR 0 (Previous year TEUR 3,774). In financial year 2018 a reclassification of the financial instruments in the trading portfolio liquidity reserve that existed on 31 December 2017 took place (value on 31 December 2018: TEUR 3,790). The reclassification was necessary due to impairments in tradability which lead to a change in trading intent. Despite sustained efforts no potential purchaser could be found. As a result of the reclassification, the risk discount on 31 December 2017, was posted as an expense in trading results in accordance with § 340c para. 1 HGB, in the amount of TEUR 60, on 31 December 2018 income of the trading portfolio in the amount of TEUR 60.

#### 4.2.7 Other assets

Under other assets are mainly receivables for tax overpayments in the amount of TEUR 1,181 (Previous year TEUR 1,372) and receivables from paid security deposits amounting to TEUR 168 (Previous year TEUR 161).

#### 4.2.8 Deferred income

Prepaid expenses and deferred charges primarily include prepaid licenses (TEUR 68), insurance premiums (TEUR 41) and rental expenses (TEUR 35).

#### 4.2.9 Loans and advances to credit institutions

Loans and advances to credit institutions with agreed upon maturity dates or period of notice in the amount of in TEUR 12,840 (Previous year TEUR 13,940) include cash securities for forfeiting businesses.

#### 4.2.10 Obligations to customers

The post obligations to customers contains liabilities payable on demand in the amount of TEUR 250,778 (Previous year TEUR 245,421) and liabilities with agreed upon terms or periods of notice in the amount of TEUR 217,564 (Previous year TEUR 141,948). The obligations are comprised of term deposits (TEUR 217,564), accounts for payment transactions (TEUR 147,830), due on demand accounts (TEUR 79,286) and security deposits (TEUR 23,662).

#### 4.2.11 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 606. In addition, this post includes obligations from the factoring business (TEUR 171) and obligations for tax matters amounting to TEUR 180.

#### 4.2.12 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 84) and that of the 7-year average (TEUR 92) is TEUR 8 and is subject to a distribution ban (§ 253 para. 6 sentence 2 HGB). The interest rate is 3.21 % (market interest rate of the past 10 business years). The interest expense from compounding is recorded at TEUR 3 (Previous year TEUR 3).

#### 4.2.13 Provisions for taxes

The position provisions for taxes are corporate tax provisions (tax rate 15 % plus 0.825 % solidarity tax) in the amount of TEUR 328 (Previous year TEUR 40), as well as commercial tax provisions (tax rate 16.45 %) in the amount of TEUR 343 (Previous year TEUR 41).

The remainder is comprised of tax provisions for pro rata profit in the London branch office for the year 2018 in the amount of TEUR 22 (Previous year TEUR 31). This is based upon a 20 % income tax rate.

#### 4.2.14 Other provisions

This post includes the following:

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>TEUR</b>	<b>TEUR</b>
Variable remuneration	1,365	1,162
Audit and annual report costs	615	397
Legal and consulting costs	421	167
Provisions for litigation and claims	318	71
Auditing fees	157	130
Vacation accrual	110	69
Archiving costs	87	60
German Bank Compensation Scheme	70	63
Miscellaneous	303	259
<b>Total</b>	<b>3,446</b>	<b>2,378</b>

#### 4.2.15 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds (AT1 bonds) in the amount of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated bonds of Varengold Bank AG. The semi-annual interest payments for these 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 only after five years after their date of issue and after each interest payment due date. Furthermore, under certain conditions, they may be prematurely called. The bond regulations include, among others, that Varengold Bank AG must call the bonds in their entirety, not in portions, when there are 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 2018.

On 31 December 2018 outstanding Tier-1 bonds were the following:

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

#### 4.2.16 Share equity

Fully paid-up share capital (TEUR 6,210) is divided on the reporting date into 6,210,423.00 no-par value registered shares. The capital reserve in the amount of TEUR 37,975 comes, 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), and in the first half of 2014 when 159,571 new shares were issued at a premium of EUR 19.00 per share (TEUR 3,032), as well as 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), from 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), as well as the capital increase in July when 1,217,730 new shares were issued at a premium of EUR 2,99 per share (Premium TEUR 3,641). Moreover, the Board of Directors, with approval of the Supervisory Board was authorized in a resolution passed by the Annual General Meeting on 23 August 2017 to increase the company's share capital in the first half year of 2018 by issuing an additional 2,070,141 new shares at a premium of EUR 1,80 (Premium TEUR 3,726). The commercial registration of this capital increase took place on 16 February 2018.

On the balance sheet date, the company has approved capital in 2018 in the amount of EUR 3,105,211.00.

Moreover, authorization was given at the general shareholders meeting on 21 August 2018 to further increase the share equity against cash for direct subscription rights and with subscription rights for fractional amounts in the amount of up to EUR 3,105,211.00 with an implementation period until 20 February 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 financial year in by the execution of subscription rights. The AOP 2012 is designed as a performance incentive for program participants and is expected to simultaneously have a binding effect between the participants and the company.

In the course of 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 2018, no distributions of stock options occurred by the reporting date.

The distribution block according to § 268 para. 8 HGB results in deferred taxes in the amount of TEUR 696 and a balance from pension reserves (TEUR 8).

#### 4.2.17 Contingent liabilities

On 31 December 2018, liabilities from guarantees and indemnity agreements exist mainly in the form of guarantee credits in the amount of TEUR 678 (Previous year TEUR 1,999). The risk of utilization was classified as low. The guarantees are entirely collateralized.

The risk of loss of utilization from possible liabilities was reduced to each customer using the existing possibility of recourse and therefore depends mainly upon the credit risk of the customer.

The bank estimates that a risk of loss may result from utilization of possible liabilities before the binding obligation of the commitment associated with a credit assessment of the customer and possibly by means of an evaluation of the expected fulfillment of the underlying obligations of each customer.

As of 31 December 2018, other liabilities exist in the form of irrevocable credit commitments against customers in the amount of TEUR 25,630 (Previous year TEUR 14,980) 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 this risk that a loss will occur based upon irrevocable credit commitments before entering into a contractual obligation during its credit review.

#### 4.2.18 Transferred collateral

On the reporting day, loans and advances to credit institutions in the amount of TEUR 2,729, served as guarantees for business on futures exchanges.

## 5 Notes to the Profit and Loss Statement

All results took place within Germany.

### 5.1 Interest income

The interest income is derived mainly from loans granted and fixed-income securities. Negative interest paid (mainly incurred at the German Central Bank) and for 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 all income from shares of investment funds.

### 5.3 Provision income

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

The provisions expenses originated mainly from fees for brokering of businesses in the Transaction Banking area.

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>TEUR</b>	<b>TEUR</b>
Provision income	16,214	19,607
Provision expense	1,915	9,485
<b>Provision surplus</b>	<b>14,299</b>	<b>10,122</b>

### 5.4 Other operating income

The other operating income earnings increased from TEUR 267 in year 2017 to TEUR 356 in year 2018. Included in other operating income are primarily earnings from reversal of accruals.

## 5.5 Personnel expense

	31.12.2018 TEUR	31.12.2017 TEUR
Wages and salaries	6,386	6,039
Social benefits	646	626
Expenses for pensions and other employee benefits	228	275
<b>Total</b>	<b>7,260</b>	<b>6,940</b>

The increase in personnel expense resulted mainly from the increase in number of employees.

## 5.6 Other administrative expenses

	31.12.2018 TEUR	31.12.2017 TEUR
Consulting, accounting and auditing costs	2,794	2,249
IT expenses	1,778	1,419
Premiums and insurance	642	633
Occupancy costs	533	429
Communication expenses	347	395
Advertising, entertainment and travel costs	275	219
Office supplies, magazines, training	134	158
Vehicle costs including leasing (without road tax)	26	29
Other administrative expenses	984	950
<b>Total</b>	<b>7,513</b>	<b>6,481</b>

For the financial year, the total fees for the auditor's opinion, in accordance with § 285 Nr. 17 HGB amounted to TEUR 606. Of which, TEUR 346 was for auditing services, TEUR 46 for other confirmation services (audit according to § 89 WpHG) and TEUR 214 for tax advisory services. The tax advisory services were particularly utilized for support of generating the tax returns, for the tax audit, as well as for foreign tax issues.

## 5.7 Other business expenses

Other business expenses decreased from TEUR 1,078 in the previous year to TEUR 862 in year 2018. This post contains mainly results from foreign currency translation (TEUR 772, previous year TEUR 504).

## 5.8 Taxes from income and earnings

The assessment basis for the taxes from income and earnings is via a non-deductible amortization on shares in affiliated companies.

The tax results result primarily from the reversal of deferred taxes in amount of TEUR 1,157 (Previous year TEUR 445), from corporate taxes of TEUR 288, as well as trade taxes amounting to TEUR 302. The expenses from the reversal of deferred taxes are non-cash items.

The tax results are comprised mainly from the reversal of deferred taxes in the amount TEUR 1,252, from corporate tax of TEUR 319, as well as from commercial tax in the amount of TEUR 335. The expenses from the reversal of deferred taxes are non-cash items.

## 6 Other Information

### 6.1 Institutions

6.1.1 Supervisory Board

**Herr Dr. Karl-Heinz Lemnitzer** Chairman  
Tax advisor and auditor

**Herr Michael Stephen Murphy** Deputy Chairman  
Independent investment banker

**Mr. Vasil Stefanov** (from 28 March 2018)  
Management Board, Euro-Finance AD; Head of M&A, Euroins Insurance Group AD

**Mr. Alexander Körner** (until 27 March 2018)  
Shareholder/Managing Director, Greenshield GmbH

Dr. Lemnitzer and Mr. Murphy have not accepted any other appointments to statutory supervisory boards or comparable control bodies as defined by § 125 para. 1 sentence 5 AktG.

6.1.2 Management Board

Dr. Bernhard Fuhrmann  
Back Office

Mr. Frank Otten  
Market

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

6.1.3 Mandate in Supervisory Boards

On the reporting date, in addition to his post as Supervisory Board member of Varengold Bank, Mr. Stefanov also held the position of: Chairman of the Supervisory Board of the insurance company Euroins Ukraine, Kiev (until 28 February 2019), non-executive Director of Hanson Asset Management Limited, London, Supervisory Board member of First Investment Bank AD, Moscow, as well as co-owner of Vinart Stefanovi Ltd., Plowdiw and Arkont-Invest Ltd., Plovdiv.

In addition to his responsibilities as Chairman of Varengold Bank AG, Dr. Fuhrmann is active on the Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg. Moreover, he is the Managing Director of JUCLA Invest GmbH, Hamburg.

Alongside his activities on the Board of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of the management consultancy Arensburg Consult GmbH, Molfsee, and a member of the Advisory Board of KERNenergie GmbH, Großwallstadt and Chairman of the Supervisory Board of Varengold Verwaltungs Aktiengesellschaft i.L., Hamburg.

Mr. Lukas Diehl, authorized representative of Varengold Bank AG, is also a member of the Supervisory Board of Varengold Investment-aktiengesellschaft mit Teilgesellschaftsvermögen, 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 to § 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 2018 to 31 December 2018 total remuneration in the amount TEUR 354 (Previous year TEUR 320) which reflects net compensation in the amount of TEUR 301 (Previous year TEUR 300). The difference resulted from incurred travel costs.

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

## 6.2 Employees

The total average number of employees in financial year 2018 was 60 (Previous year 54), of which 24 were female employees (Previous year 20). With the exception of 5 employees, all staff work in Germany.

## 6.3 Other financial obligations

Other financial obligations are primarily liabilities from rental and leasing contracts in the amount of TEUR 618 with residual terms of up 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 fair value.

	Nominal TEUR	Positive market value TEUR	Negative market value TEUR
Foreign currency	45,625	389	0

## 6.5 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).

## 6.6 Notifications according to § 20 AktG

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

## 6.7 German Corporate Governance Code

Varengold Bank AG (ISIN DE0005479307) was listed in the Entry Standard of the German Stock Exchange from 20 March 2007 to 28 February 2017. After the closing of the Entry Standards, Varengold stock has been listed in Basic Board on the open market in Basic Board since 1 March 2017. 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.

## 6.8 Supplementary statement

In the first quarter of 2019, Varengold Bank AG executed a capital increase by way of public offering and a subsequent private placement. The share capital of the company was increased from EUR 6,210,423.00 against cash contributions of EUR 3,105,211.00 to EUR 9,315,634.00 through the issuance of 3,105,211 new shares. All shares were offered at an issue price of EUR 2.50 per share. The registration of the capital increase was entered into the commercial register on 29 January 2019.

Hamburg, 29 March 2019

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

# Management's Discussion and Analysis

## A. Principles of Varengold Bank

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

Within the core business areas Transaction Banking and Marketplace Banking Varengold Bank offers its national and international customers individual product structures, established know-how and swift solutions. The customers include companies for which Varengold is active in all fields of activity and also private customers for whom, in particular, on-demand and fixed-deposits are offered.

By obtaining the full banking license in the 2013, today's Transaction Banking / Commercial Banking business area was established, which is comprised of especially the deposit business, as well as international payment transactions, trade and export finance, Lombard loans and structured finance.

Founded in 2015, the core business area Marketplace Banking provides the Varengold Bank marketplaces (Peer-to-Peer Platform) with necessary financial and regulatory products. The portfolio contains debt and equity capital markets products, as well as fronting services for banks with license obligations.

## B. Economic Report

### 1. Macro-economic and in Industry-related conditions

In reporting year 2018 trade conflicts between the USA and China and economic disparities in some emerging markets were the key events on the global stage and brought about general uncertainty. While economic growth in the USA continues to progress, the introduction of import duties on main trading partners and the one-sided termination of international agreements lead to difficult political discussions regarding a possible trade war. In Germany new emissions tests left palpable declines in the automobile industry. In France the growth dynamic was dampened through strike activities of the "Yellow Vests" against the reform politics. In Italy, economic development was devastated by the budget dispute with the EU and in Great Britain, due to the uncertainty surrounding Brexit over the past year, many companies planning reliability was virtually destroyed.

Consequently, in 2018 the gross domestic product (GDP) of the Eurozone recorded economic growth of 1.8 % for the year, compared to the previous year at 2.4 %. The inflation rate rose in the entire EU to just under 2.0 % compared to last year. On the whole, the economy in the Eurozone remained intact, but expanded somewhat less strongly than in year 2017. In particular, private consumption in the European region, as well as within Germany, revealed itself again as an important pillar of economic the recovery. The price-adjusted GDP was 1.5 % higher than in the previous year on the reporting date. Therefore, the German economy grew, but the growth lost some momentum. In year 2017, the price-adjusted GDP increased 2.2 %. Moreover, a positive result was that the labor market profited, leading to further reductions in the unemployment rate. In Germany the unemployment rate sank on average in year 2017 by 5.7 % and to about 5.2 % in year 2018.

The fear of the USA inciting a trade war and the political flurry around Brexit also strained the global financial markets, which resulted in even stronger volatility than was experienced in 2017. The US Dollar increased in value against the Euro while the British Pound, after maintaining a nearly constant course against the Euro over the year, had to accept a devaluation. The European Central Bank (ECB) announced the end of net fixed-income products effective at year end and signaled that the most important interest rate will be kept low until summer of 2019.

The business activities of Varengold Bank were regulated by numerous requirements on both the national, as well as the European level. The tendency toward more strict regulatory conditions in banking supervision also continued in year 2018. In the reporting period, the regulatory environment occupied the banks with, among other issues, the effective since 3 January 2018 MiFID II / MiFIR regulation and the amendment to the minimum risk requirements (MaRisk), including the new bank supervisory requirements of IT (BAIT), as well as the recommendations of the EU Commission regarding revisions to the Capital Requirements Regulation and the Capital Requirements Directive, among others. Through the Supervisory Review and Evaluation Process (SREP) the ECB ensured a consistent approach to the supervisory assessment of banks and derived from the results potential measures for the maintenance of additional capital reserves and/or liquidity requirements. In addition, new requirements from national, as well as European regulators regarding a stronger prevention of money laundering and tax evasion/terrorism financing needed to be fulfilled. Furthermore, banks were intensely focused on the implementation of the new EU General Data Protection Regulation (GDPR) and the implementation of AnaCredit requirements because this ordinance required that comprehensive credit data statistics be submitted to the German National Bank for the first time.

### 2. Business development

In year 2018, banks were headed into the wind, with concerns about the global political developments, their influence upon the financial markets, the progression of competition of digitalization in the financial services sectors, as well as regulatory hurdles. The sails were filled, however, for Varengold Bank due to the economic success of their customers which lead to growth and increased profits for Varengold Bank itself.

Varengold Bank already works with more than 20 financial platforms in the Marketplace Banking area, thereby handling the financing and/or offers modular fronting services. Last year the bank frequently acted as early phase credit provider. In order to provide credit to a customer, despite lacking history on the side of the client, Varengold Bank structured financial solutions which also often contained innovative price components.

In the Transaction Banking area Varengold Bank developed a solid customer base for trade finance transactions. The featured products were payment transaction services, Lombard loans, letters of credit, forfeiting and bank guarantees to export-oriented companies. Varengold Bank is internationally active in this core business area.

To build regional presence of business activities, Varengold Bank opened a new branch office in Sofia (Bulgaria), in addition to the existing office in London (UK). The new branch was registered on 21 May 2018 and commenced business activities. In its first development phase, customers acquired for the bank will have their product needs met initially by the Hamburg office.

A continuing operating expense accompanied Varengold Bank since the beginning of the year, in light of various statutory changes whose implementation is connected to financial and also personnel resources. In order

to be able to fulfill future bank supervisory requirements for equity capital, at the very beginning of the period a capital increase in the form of a public offering and a subsequent private placement was conducted. The capital of the company was increased from EUR 4,140,282.00 against cash contributions to EUR 6,210,423.00 through the issuance of 2,070,141 new no-par value shares. All shares were offered at an issue price of EUR 2.80 per share and the capital increase was entered into the commercial registry on 16 February 2018. Moreover, the shareholders of Varengold Bank AG approved an additional increase of capital in the amount of up to EUR 3,105,211.00 at the general meeting on 21 August 2018. Subsequently, Varengold Bank executed a capital increase with subscription rights within the scope of a public offering and a subsequent private placement and thereby further increased the capital to EUR 9,315,634.00. All shares were offered at an issue price of EUR 2.50 per share and the capital increase was officially registered on 29 January 2019. This enabled management to acquire new institutional investors primarily from the finance and insurance sector in addition to existing investors.

Overall, the bank rated the business development 2018 as satisfactory.

A change occurred to the Supervisory Board of Varengold Bank AG at the end of the first quarter 2018. Mr. Alexander Körner resigned his post as member of the Supervisory Board effective on 27 March 2018. Subsequently, per request of the Board of Directors based on the decision from 21 March 2018, the District Court of Hamburg legally appointed Mr. Vasil Stefanov of Sofia (Bulgaria) as member of the Supervisory Board. This appointment received the ongoing support of the shareholders at the general meeting on 21 August 2018.

### 3. Position

#### 3.1 Financial position

The interest income of the company grew from TEUR 5,311 in year 2017 to TEUR 8,051 in year 2018. The increase of TEUR 2,740 can mainly be traced back to the 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 987. Interest income from fixed-income securities and debt register claims decreased considerably through the volume reduction from TEUR 979 to TEUR 775. At the same time, interest expenses, mainly due to the increase in fixed-income deposits grew 14.4 % to TEUR 1,682 and resulted in an interest surplus of TEUR 6,369 (Previous year TEUR 3,841). Within interest expenses are interest incomes from charging on negative interest to customers in the amount of TEUR 917.

The current earnings from shares and other variable-yield securities increased from TEUR 571 to TEUR 682 and are largely due to the distribution of one investment fund.

The provisions earnings declined mainly as a result of the discontinuation of the securities lending business by TEUR 3,393 to TEUR 16,214. Through the elimination of this business, on the other hand, the provision expenses fell, resulting in a value of TEUR 1,916 (Previous year 9,485) by 31 December 2018.

The other operating expenses grew from TEUR 267 in year 2017 to TEUR 356 in year 2018. Other operating income mainly contains income from the reversal of provisions.

The general and administrative expenses of the company increased by TEUR 1,252 from TEUR 13,421 in year 2017 to TEUR 14,774 in 2018. The causes of this lie mainly in the increase in expenses for consulting, audit and annual reporting costs (from TEUR 2,249 to TEUR 2,794). Another factor is the increase in IT expenses (from TEUR 1,419 to TEUR 1,778), which are specifically attributable to an increase in external services for IT. Further-

more, the personnel costs increased from TEUR 6,940 to TEUR 6,260, chiefly due to an increase in the number of employees.

The depreciation and adjustments on intangible assets moved from TEUR 173 in the previous year, back to TEUR 136 in year 2018.

The other operating expenses diminished from TEUR 1,078 in the previous year to TEUR 862 in year 2018. These are mainly attributable 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 TEUR 2,836 (Previous year TEUR 617). These mainly reflect individual and general value adjustments.

The depreciation and value adjustments on shares in affiliated companies and fixed assets treated as securities increased from TEUR 340 to TEUR 894. The expense resulted primarily from depreciation undertaken on one affiliated company.

In total, the income from normal business activities of Varengold Bank AG was TEUR 2,283 (Previous year TEUR 556).

Considering income tax and earnings, as well as other taxes, an annual net profit of TEUR 515 (Previous year TEUR 23). The comparably high tax income resulted primarily from tax adjustments of fund investments and non-recognizable depreciation.

The return on investment in accordance with § 26a KWG is calculated on the ratio of net profit and balance sheet and is 0,07 %.

#### 3.2 Financial situation

In business year 2018 the balance sheet total increased by 19 % from EUR 445.2 million to EUR 530.9 million. The customer deposits at EUR 468.3 continue to make up the determining items on the liabilities side. As far as the allocation of resources is concerned, the reporting day indicated shares and other variable yield securities at (EUR 101.2 mil., +75.4 %), fund investments and credits with the central banks (EUR 134.5 mil., +68.2 %), customer receivables (EUR 267.4 mil., +6.7 %), a reduction in receivables on banks of EUR 10.7 mil., and a reduction of bonds and other fixed-income securities of EUR 13.3 million. In addition, the trading portfolio was reduced to EUR 0.

The core capital ratio (TIER 1) stood at 14.44 % in the annual statements.

Varengold Bank AG has an orderly asset and capital structure.

#### 3.3 Liquidity position

At EUR 138.6 million or 26 %, cash and cash equivalents constitute a relatively large position on the asset side of the balance sheet. The supervisory requirements liquidity ratio at 230.97 % on the reporting day, as in the previous year, considerably exceeds the regulatory requirements. 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 2018 earnings before tax was planned at between EUR 1.7 million and EUR 2.2 million. Net income from the Marketplace Banking business lie under plan, was, however, more than compensated by increased earnings in Transaction Banking. Despite the discontinuation of the securities lending business, stood provision income, based on increased provisions earnings in payment transactions over plan and could therefore compensate for the plan-exceeding expenses for risk provisioning in the credit business, as well as value adjustments in the investment portfolio. The result is that at EUR 2.3 million, a slightly better than plan financial performance indicator could be achieved.

## 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 Varengold Bank.

The mission of Varengold Bank AG is to develop itself into the leading bank in the marketplace lending industry. The achievement of this goal through applying company objectives in the marketplace of Varengold Bank means the consistent conscious assumption of risk. A fundamental aspect of the business strategy of our 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 and measures to achieve those objectives of Varengold Bank for every business activity.

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

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

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

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

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

Risk is understood to be the negative deviation of occurring events from the expected events. The foundation of the risk management system includes the categorization of significant risks of the bank into counter-party 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 various types of risk. In this context, care is permanently taken to ensure that the different businesses activities are backed with sufficient risk coverage potential.

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

To establish the risk-bearing capacity of Varengold Bank AG, the Going Concern principle is primarily applied. As a secondary control parameter, the bank also uses the liquidation approach. In Going Concern, risks will only be assumed to the extent that the minimum regulatory requirements of pillar 1 can be completely fulfilled. Such an approach requires the bank to reserve the necessary capital. To cover possibly occurring losses this capital in the risk-bearing capacity assessment is not available to prevent it from becoming a part of the risk coverage potential.

The Going Concern approach of Varengold Bank in the calculation of risk-bearing capacity is based on an analysis of the balance sheets and income statements. Of the risk coverage potential of TEUR 9,736, reported on 31 December 2018, TEUR 8,651 were used as risk covering assets. The not to be applied TEUR 1,085 serves as a safety margin to cover risks that are difficult to quantify (strategic and reputation, model risks and concentration risks).

As a rule, the maximum tolerated utilization rate is limited to 100 %. Utilization rates exceeding 100 % within the individual risk categories require a response of the Board of Directors.

The capacity of the risk-covering assets as of 31 December 2018 was 65 %, comprised of 75 % counter-party risk, 11 % market price risk and 14 % operational risk.

At the start of 2019, the bank adjusted its risk-carrying capacity concept and its procedural integration into overall bank management in accordance with the Internal Capacity Adequacy Assessment Process (ICAAP), the new guidelines published by the the Federal Financial Supervisory Authorities in 2018. In so doing, the bank formulated two perspectives for their risk-carrying capacity concept: a normative perspective and an economic perspective. These ensure adherence to both protection goals (AT 4.1 No. 2 MaRisk): continuation of the institute (normative) and protection of the creditor from losses (economic).

Both perspectives enjoy equal status.

For the monitoring of the main counter-party risks and market price risks common models are utilized.

The quantification for the counter-party risk is performed using the key risk indicators of expected loss and unexpected loss. The expected loss is determined on the basis of the likelihood of default under consideration of the loss given defaults (LGDs). The unexpected loss is quantified with the help of a credit risk model for a confidence level of 99 % and a time horizon of one year. The calculation is based on the Gordy model, which is applied by the Basel Committee on Banking Supervision to model bank capital adequacy on the terms of Basel II and the further provisions set out by Basel III. The credit risk model determines the contributions of the individual borrowers and shareholdings to the unexpected loss at portfolio level, which are then additively aggregated to an unexpected loss for the total portfolio. In this process, any available external or internal probabilities of default (PDs) and the transaction-specific loss ratio (LGD) are applied. The determination of the other model parameters is performed by applying the standard specifications of Basel III. In addition to the probabilities of default and loss defaults, also the correlation between the counterparties with the systematic risk factor, as well as the granularity of the portfolio and the residual terms are taken into consideration.

The 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 %, a time horizon of five days and a lookback of 520 days via historical simulation. The monitoring and regulation of the market price risk is oriented on the limit system, which is derived on based of the risk coverage potential for the market price risk. The limits for the liquidity and investment portfolio are addressed and specified by the respective investment guidelines. These are also monitored on a daily basis by the risk control and reporting process.

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

The quantification of operational risk takes place quarterly through the risk controlling process in conjunction with department managers and the Board of Directors by means of a scenario analysis for all identified operational risks.

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

The strategic and reputational risk is considered a decline in earnings in the course of risk-bearing capacity. For the model risk the risk-bearing capacity assessment is seen as total risk in the amount of 10 % of the total risk of counterparty, market price, and operational risks of at least TEUR 400.

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

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

## **2. Opportunity report**

Varengold Bank is currently intensively active in the development of technical progress on the financial and capital market. When considering competitiveness, transparency and availability, large marketplaces have nearly all the advantage on their side. In particular Fintechs have a seemingly unending creative ability to see financial services from the customer perspective, offer speed and without old IT burdens technologically offer tremendous benefits. The beginnings of internal banking sector synergies are therefore obvious: banks bring the regulation competencies and financial resources and can as a license partner bring theoretically optimized business models to practical life. Coupled with the technological expertise of the marketplaces, sustainable banking products are created which offer the best of both worlds. The supply of credit is thereby the central anchor point of customer acquisition.

Varengold Bank therefore focuses on different segments of the lending sector, such as P2P financing of companies, trade financing, invoice or receivable purchasing, real estate financing and consumer credit. To this end, the bank developed a diversified customer portfolio with respect to maturities, credit rating and types of credit, which will be successively further expanded.

Parallel to the core strategy of Marketplace Banking, the bank will position itself very focused on export-oriented companies in niche markets with underlying products for transaction banking, as well as trade finance products in order to position itself as a strong transaction bank. The bank has proven know how and a wealth of existing and in every case necessary infrastructure to make this happen. The new branch office in Sofia, opened in the business year, currently involved in the second development phase of implementing the necessary operational processes, systems and interfaces to open Bulgarian accounts and payment transactions locally in the medium term. The bank hereby bundles its strengths in order to always better advise and support its customers.

In addition to increasing revenues through expanded structured transactions, initiatives in the treasury and deposit business should make their contribution to the current business year.

The central topic of the defining goals for 2019 as a result of the Management Systems OKR (Objectives and Key Results), in addition to economic growth, will be support of technical developmental progress. To this end, new software will be introduced with whose process structures the bank will be digitized internally, as well as externally. The development of an efficient IT environment must be oriented toward the needs of all users and the workplace infrastructure towards mobility in order to reduce complexity and costs and to increase flexibility and scalability in the short term. Additional priorities include the automatized and efficient orientation of customer processes from account opening through to the Back Office and the practical optimization of internal KYC processes (Know Your Customer).

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, to grow sustainably and to increase the economic performance of the bank, which is however, to some degree dependent on the development of the capital markets. Moreover, the economic development in 2019 will have influence on the profitability of the bank. A possible recession could increase the default rates in the credit business to a level which exceeds the bank planning and could lead to a lower result. On the other hand, a continued strong economy could lead to personnel shortages, which could result in lower business growth.

Fundamentally, the bank concentrates on the fields of activity which are very important for its customers and those in which Varengold Bank can occupy a leading market position. Existing opportunities will be carefully analyzed with economic discipline and should ultimately increase the growth and profitability of the bank.

### 3. Outlook report

Looking at the current international political and financial results suggests that the economic development could be threatened in particular by the trade conflict between the USA and China, but also through the reduction of European cooperation, based upon additional independence efforts of individual countries in the aftermath of Brexit. Should a hard Brexit take place, additional negative economic impacts could occur.

In this uncertain situation it is to be expected that the growth in the Eurozone will once again further weaken in 2019. The EU Commission lowered its growth prognosis by 0.6 % and assumes that the Gross Domestic Product in the Eurozone will only increase by 1.3 %. Nevertheless, most of the labor markets in the Eurozone are expecting continued falling unemployment rates.

Moreover, sinking energy prices could lead to a lower inflation rate, which on the other hand, should reflect positively on economic growth.

The interest surplus of the banks is under pressure due to zero and negative interest, through which a noticeable increase in profitability of banks is not to be expected. With a possible moderate increase in the interest rate in 2019, the ECB would slowly disengage from its expansive money politics which resulted from the financial crisis and reverse the current trend.

In addition, banks remain under ever mounting pressure of comprehensive regulation procedures and increasing capital requirements based on increasingly complex and often convoluted supervisory architecture. In fact, this development in the regulatory environment must be considered a risk factor for banks for new supervisory requirements are increasingly costly and resource binding. This currently applies to, among others, the finalizing of Basel III to extensive changes in the assessment of the method to quantify regulated capital for operational risks, new requirements from the CRR II and the CRR V, as well as increased preventative measures to hinder money laundering and the financing of terrorism. Moreover, in the coming years, business continuity management for emergency planning will certainly experience a growth in importance and will result in more operational effort and expenses.

The German banking and financial services sector is characterized by intense competition. At the same time, the necessary investments in the future viability of the financial institute are noticeable in the form of increases in project and IT costs.

Furthermore, German providers now compete with several foreign providers, who in the past years have considerably developed their presence in the German market. Existing and potential competitors of Varengold Bank are also companies, equipped with, at times, significantly larger financial and personal resources. These companies may be able to conduct more comprehensive and cost intensive sales activities and also to offer customers more favorable conditions. In addition, for several years the banking sector has been living through a digitization upheaval which is creating new demands on the banks. Tech-savvy companies have alternative offerings and business models which are reforming traditional bank processes in many areas. But, from Varengold Bank's perspective, financial institutes can take a valuable position precisely in this new financial services sector, as they, as a rule, have the necessary financial resources and meet basic regulatory requirements.

Based on the successful implementation of the planned business goals and an increase in operational efficiency, a positive result before taxes (as central financial performance indicator) of between EUR 2.8 million and EUR 3.2 million is expected for 2019.

Hamburg, 29 March 2019

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 2018 and the profit and loss account for the business year from 1 January 2018 to 31 December, as well as the notes including the presentation of the balancing and accounting methods. In addition, we have audited the management report of Varengold Bank AG for the business year from 1 January to 31 December.

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 2018, as well as its earnings situation for business year 2018 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 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 accounting 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 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 law, as well as German commercial law and occupational law principles and have fulfilled our other German professional responsibilities in compliance with those requirements. Moreover, we declare in compliance with Article 10 para.2 letter f) 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 2018. 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 insights
3. Reference to further information

Subsequently, we identify 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 (50 % of total assets) is declared. A financial risk provision for this credit portfolio on 31 December 2018 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 global 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 to be disclosed on the reporting day. 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 forming 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 assessed 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 and 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 recoverability of the securities. For asset collateral for which the company submitted valuation reports, we developed an understanding of the underlying initial data, the applied valuation parameter and underlying assumptions. We critically reviewed this information and evaluated whether they lie within an acceptable range. We have also evaluated the individual and general value adjustments of the company applied valuation methods, as well as the underlying assumptions and parameters. By virtue of our audit of the appropriateness of the 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, we could convince ourselves of the validity of the information.

3. The company statements for balancing and valuation of risk provisions in customer credit business are 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 € 16.2 million, of which the amount of € 15.4 million are accountable to provision income from payment transaction services (95 % of the total amount). By 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. In the course of our audit we first developed an understanding of the processes and controls for the compilation of the provision earnings introduced 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 used. Then 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 of provision income. We could convince ourselves that the deployed systems and processes, as well as the utilized controls are on the whole appropriate and that the implemented systems and processes, and in addition, 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 2018 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 substantially 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. Moreover, the legal representatives are responsible for preparation of the management report, which portrays a generally 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.

Furthermore, the legal representatives are responsible for the provisions 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 amount 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 reveal a substantial false statement. 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.

Moreover,

- › we identify and assess the 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 and acquire audit evidence which is sufficient and suitable to serve as a basis for our audit opinion. The risk that substantial false statements are 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 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.
- › 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 about 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, and could lead to meaningful doubts regarding the company's ability to continue business activities. Should we conclude that a substantial uncertainty exists, we are obligated to draw attention to the relevant notes in the annual financial statements and in the management report, 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 so 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 presents.
- › 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 are not submitting an independent audit opinion on the future-oriented statements or on the 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 they can reasonably undertake, which affect our independence and the corresponding precautionary measures.

We determine from the issues, which we discussed with those responsible for the monitoring, the issues which were the most meaningful in the audit of the annual financial statements in the current reporting period and are therefore particularly important to the audit issues. 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 21 August 2018. We were commissioned by the Supervisory Board on 23 August 2018. We have been the auditor of 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**

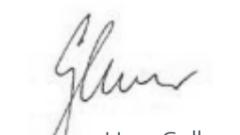
The responsible auditor for the audit is Lothar Schreiber.

Hamburg, 28 May 2019

PricewaterhouseCoopers GmbH  
Audit and Assurance Consulting and Tax Services



Lothar Schreiber  
Auditor



ppa. Uwe Gollum  
Auditor

# Corporate Information

## Varengold Bank AG

Große Elbstraße 14  
22767 Hamburg

T +49.40.66 86 49 0  
F +49.40.66 86 49 49

E-Mail: [info@varengold.de](mailto:info@varengold.de)  
<http://www.varengold.de>

## Board of Directors

Dr. Bernhard Fuhrmann  
Frank Otten

## Supervisory Board

Dr. Karl-Heinz Lemnitzer (Vorsitzender)  
Michael Stephen Murphy  
Vasil Stefanov

## Corporate Register

District Court of Hamburg, HRB 73684

## USt-IdNr. (value added tax identification number)

Finance Authority Hamburg, DE247069729

## Corporate Governance

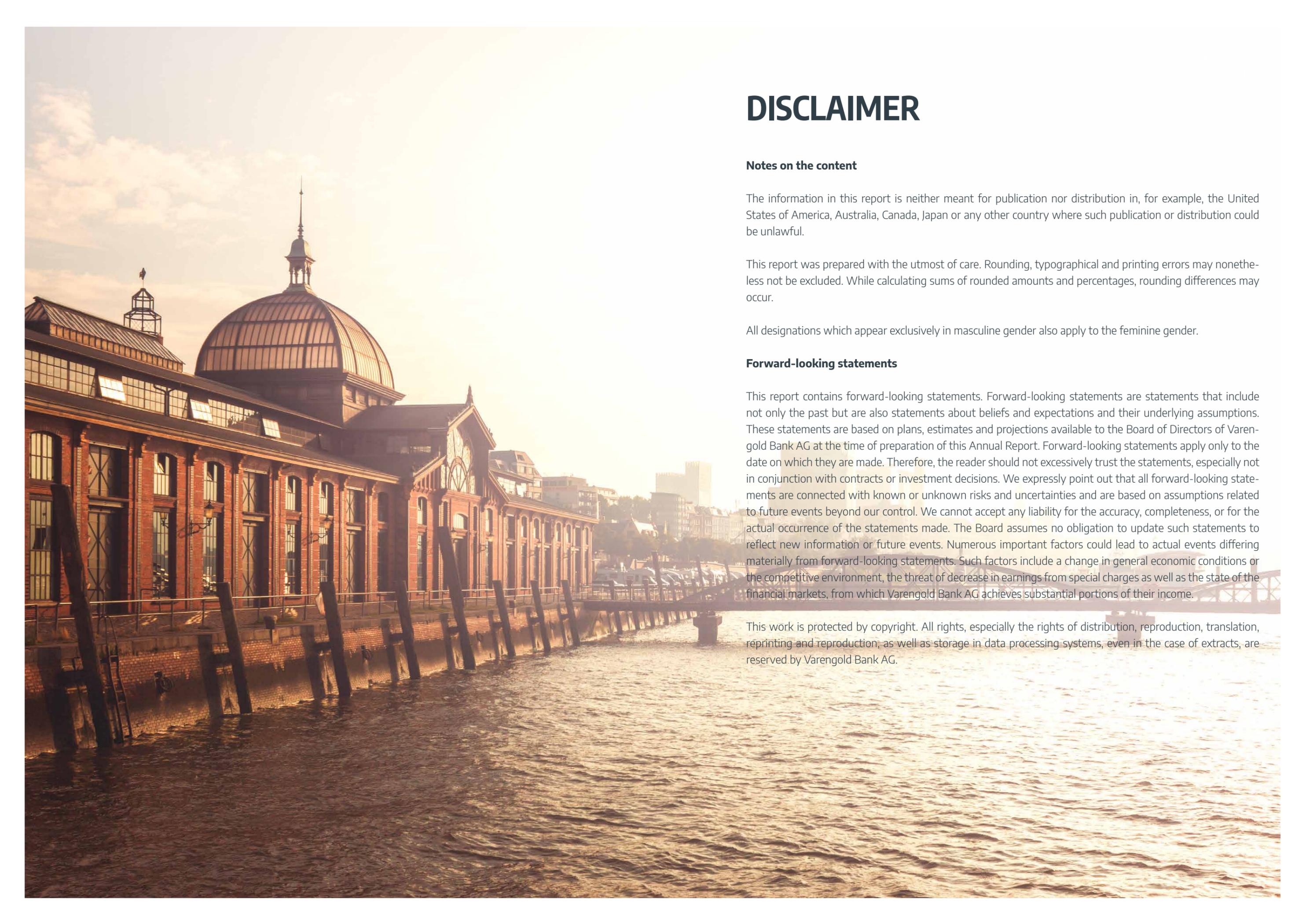
Varengold Bank AG is registered with the Federal Financial Supervisory Authority (BaFin, Graurheindorfer Str. 108, 53117 Bonn; Tel.: 0228 / 4108 – 0) under the number 109 520 and published on the internet site: [www.bafin.de](http://www.bafin.de)

## Permissions/Approvals of Varengold Bank AG

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

## Deposit insurance

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



# DISCLAIMER

## 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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