

Forecast, Opportunities and Risk Report 2024

V-Bank AG – Munich

4 Forecast, Opportunities and Risk Report

4.1 Forecast Report

4.1.1 Macroeconomic Outlook

For the coming financial year, economic development in Germany is expected to remain subdued. Following the slight decline in gross domestic product in 2024, only marginal growth is forecast for 2025. Economic momentum is expected to be dampened in particular by persistent structural challenges in industry, subdued export expectations and ongoing geopolitical uncertainties.

Inflationary pressure is expected to continue easing. Nevertheless, the inflation rate is projected to remain above the European Central Bank's long-term target of 2 percent in the short term. The monetary policy environment is therefore likely to remain restrictive overall, even if further moderate interest rate reductions cannot be ruled out.

On a global scale, more robust growth is expected compared to Germany, particularly in Asia and North America. However, geopolitical risks and trade policy uncertainties continue to pose potential downside risks to global economic development.

4.1.2 Expected Development of V-Bank AG

Against the backdrop of the described macroeconomic conditions, V-Bank AG anticipates a stable to moderately positive development in the 2025 financial year.

The Bank expects further growth in assets under custody, supported by net client inflows and potential positive market effects. Deposit volume is expected to develop in line with assets under custody.

In the Lombard lending business, moderate growth is anticipated, depending in particular on capital market developments and client demand.

Net interest income will continue to be influenced by the interest rate environment and the investment of surplus liquidity. A decline in interest rates could have a dampening effect on interest income, while commission income is expected to remain stable or increase slightly due to the expected development of transaction volumes and assets under custody.

The Bank plans to continue investing in information technology, digitalization and the further development of its platform model. Accordingly, administrative expenses may increase moderately.

Overall, V-Bank AG expects a positive result from ordinary business activities for the 2025 financial year, although below the exceptionally strong level of 2024 if interest rates decline more significantly.

4.2 Opportunities Report

V-Bank AG identifies opportunities for its future development both in its core business and in the further expansion of its strategic initiatives.

Structural trends within the asset management market, in particular increasing regulatory requirements, rising cost pressure and the ongoing need for digitalization, continue to favour specialized service providers. As an independent B2B platform bank, V-Bank AG is well positioned to benefit from further consolidation within the market for independent asset managers.

Additional growth opportunities arise from the continued expansion of the Bank's ecosystem and open banking capabilities. By integrating additional services and cooperation partners, the Bank can further increase the depth of value creation and strengthen client loyalty.

In the field of digital assets, the crypto custody license obtained in 2024 provides opportunities to develop new business areas and offer innovative solutions for asset managers and their clients. The establishment of corresponding processes and infrastructure creates potential for additional revenue streams in the medium term.

Technological developments, in particular in the area of artificial intelligence, also offer opportunities to further increase efficiency, optimize processes and enhance client service.

Should capital markets develop positively, this could result in higher assets under custody and increased transaction volumes, which would have a favourable impact on commission income.

4.3 Risk Report

4.3.1 Risk Management System

The risk management system of V-Bank AG is designed to ensure the Bank's ability to continue as a going concern at all times and to safeguard its risk-bearing capacity.

The business and risk strategy defined by the Management Board forms the foundation of risk management. The risk strategy is derived from the business strategy and defines the material risk types, risk tolerance levels and the measures for managing and monitoring risks.

The risk management system comprises, in particular: identification of material risks, measurement and assessment of risks, monitoring and reporting, definition and monitoring of limits, and regular stress testing.

Risk management is embedded in the Bank's overall management system and is subject to continuous review and further development.

4.3.2 Material Risk Types

The material risks of V-Bank AG include in particular counterparty risk, market price risk, liquidity risk, operational risk, business risk, and legal and compliance risk.

These risks are analyzed, assessed and monitored on an ongoing basis within the framework of the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

4.3.3 Counterparty Risk

Counterparty risk describes the risk of losses resulting from the default of a contractual partner.

At V-Bank AG, counterparty risks arise primarily from receivables from customers in the Lombard lending business, from receivables from banks and from investments in securities.

Lombard loans are generally granted against adequate collateral in the form of securities. The collateral is subject to conservative valuation haircuts and continuous monitoring. If the value of the collateral falls below defined thresholds, appropriate measures are initiated, such as margin calls or the realization of collateral.

Receivables from banks are predominantly held with institutions of high credit quality. Investments in fixed-income securities are subject to strict investment guidelines, focusing primarily on issuers with good credit ratings and high liquidity.

Overall, counterparty risk is assessed as manageable in view of the conservative risk policy and the broad diversification of exposures.

4.3.4 Market Price Risk

Market price risk refers to potential losses resulting from adverse changes in market prices, in particular interest rates, equity prices and spreads.

Due to the structural deposit surplus, interest rate risk in the banking book represents a material risk type for V-Bank AG. Interest rate risks are measured regularly using scenario analyses and stress tests. The impact of interest rate shocks on earnings and on the economic value of equity is analyzed.

The securities portfolio consists predominantly of fixed-income securities. Changes in market interest rates may lead to valuation effects, which are taken into account in risk management and accounting in accordance with the applicable HGB provisions.

Equity price risks arise mainly from fund units held in the trading portfolio. The volume of these positions is limited and subject to defined limits.

Overall, market price risk is considered to be moderate and controllable.

4.3.5 Liquidity Risk

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations as they fall due.

The Bank maintains a high level of liquidity and invests surplus funds predominantly in highly liquid assets. The regulatory Liquidity Coverage Ratio (LCR) is monitored on a daily basis and remained comfortably above the minimum requirement of 100 percent throughout the reporting year.

Stress scenarios are regularly conducted in order to analyze potential liquidity bottlenecks under adverse conditions. The results of these analyses confirm the Bank's solid liquidity position.

4.3.6 Operational Risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risks are identified and assessed within the framework of a structured risk inventory. Loss events are systematically recorded and analyzed.

The Bank has implemented comprehensive internal control systems and organizational safeguards. In addition, specific measures are taken to address IT risks, including information security and data protection.

Outsourcing arrangements are subject to strict selection and monitoring processes in accordance with regulatory requirements.

Overall, operational risk is considered manageable in view of the implemented control mechanisms.

4.3.7 Business Risk

Business risk describes the risk of losses resulting from changes in the general economic environment, competitive conditions or client behaviour.

As a specialized B2B platform bank, V-Bank AG is particularly dependent on the development of the independent asset management market. A prolonged downturn in capital markets or a significant decline in assets under custody could negatively affect commission income and earnings.

In addition, increasing regulatory requirements and rising cost pressure within the financial sector may impact the Bank's cost structure.

The Bank continuously monitors market developments and adjusts its strategic positioning where necessary. The diversified client base and the scalable platform model contribute to mitigating business risk.

4.3.8 Legal and Compliance Risk

Legal and compliance risk comprises the risk of losses arising from violations of legal provisions, regulatory requirements or internal guidelines.

The regulatory environment for credit institutions remains complex and subject to ongoing change. Compliance with regulatory requirements is ensured through dedicated compliance functions and regular monitoring processes.

New regulatory initiatives, amendments to supervisory requirements or changes in tax law may result in additional implementation costs and organizational adjustments.

The Bank maintains an appropriate compliance management system and continuously adapts it to new regulatory developments.

4.3.9 Overall Risk Assessment

Taking into account the current risk situation and the results of the conducted stress tests, the Management Board assesses the overall risk position of V-Bank AG as appropriate and manageable.

The risk-bearing capacity of the Bank was ensured at all times during the 2024 financial year. The available risk coverage potential significantly exceeded the aggregated risk exposure.

From the perspective of the Management Board, no risks are currently identifiable that could endanger the continued existence of the Bank as a going concern.