

# 1 Fundamentals of V-BANK

## V-Bank AG, Munich

### 1.1 Business Model

In 2008, V-BANK received authorization to conduct banking business pursuant to Section 1 (1) sentence 2 no. 1 KWG (deposit business), no. 2 (lending business), no. 4 (financial commission business), no. 5 (custody business), no. 8 (guarantee business), and no. 9 (current account business; the latter expired in 2009 pursuant to Article 2 of the Payment Services Implementation Act), as well as pursuant to Section 1 (1a) sentence 2 no. 9 KWG (factoring) and no. 10 (financial leasing).

In 2009, the authorization was extended to include Section 1 (1a) sentence 2 no. 11 KWG (asset management) and Section 1 (1) sentence 2 no. 9 KWG (cheque collection, bill of exchange collection and travellers' cheque business). In 2011, it was further extended to include no. 4 (proprietary trading) as well as the authorization pursuant to Section 32 (1a) sentence 1 KWG to acquire or dispose of financial instruments for the Bank's own account (own-account dealing). Since 2024, V-Bank AG also holds authorization pursuant to Section 1 (1a) sentence 2 no. 6 KWG (crypto custody business).

V-BANK provides custody account and current account management services as well as securities settlement services for independent asset managers, (single) family offices, foundations, asset-managing banks and selected institutional clients, including professional clients.

In Germany, approximately 500 independent asset managers currently represent the Bank's primary target group. Within the asset manager segment, the Bank focuses its sales activities on large and medium-sized firms with assets under management exceeding EUR 100 million, as well as start-ups and firms with assets under management of EUR 50 million or more that demonstrate corresponding growth potential.

In addition, the Bank serves asset management firms in German-speaking foreign markets (primarily Switzerland and additionally Liechtenstein). The custody business with client groups that utilize the Bank's infrastructure for the implementation of their own investment decisions represents a further market segment. In this context, the current focus lies particularly on single-family offices (SFOs) and foundations without a KWG license.

V-BANK does not pursue its own advisory or product distribution interests. The objective is to provide, as a platform, an optimized product and service portfolio exclusively tailored to the Bank's business segments, in particular independent asset managers and their clients. The Bank continuously supports its business partners in acquiring new clients and strengthening client relationships. The lending business focuses on Lombard loans as a complementary product to custody accounts.

## 1.2 Objectives and Strategies

Following completion of Strategy 2.4 at the end of 2023, the strategic target framework of V-BANK was newly established for the year 2024. The strategic target framework from 2024 onward continues to be based on the unchanged ambition level of creating a 'preferred ecosystem for asset management' generating added value for clients, employees, network partners and shareholders.

For clients, the strategic ambition means that V-BANK aims to position itself as the independent market leader in Germany with a market share of more than 30 percent in the B2B4C (Business-to-Business-for-Customers) segment, to act as a full-service provider, to position itself as a 'quality leader' in services and technology, to achieve a B2B recommendation rate of at least 80 percent (i.e., more than 80 percent of clients would actively recommend V-BANK), and to pursue continuous penetration and diversification of its target client segments.

With regard to employees, the Bank strives for above-average employee satisfaction, jointly develops and consistently lives its values, and pursues the objective of offering attractive working conditions and remuneration models. For network partners, the Bank positions itself as an attractive and innovative platform provider, maintains a value-added depth of 30–40 percent and continues to expand its open banking capabilities.

Current developments and trends in the Bank's market environment were incorporated into the strategic target framework 2024 within four clusters: (1) overall market environment, (2) clients and products, (3) competitive environment, and (4) technology.

The strategic target framework is structured along two key thrusts underpinning V-BANK's positioning:

1. Strengthening the core business: securing and expanding the position as independent market leader, reinforcing the claim to 'quality leadership', and increasing operational efficiency and excellence.
2. Scope expansion: targeted expansion along the dimensions of target clients, technology innovation along the value chain, and geographic market expansion.

In 2024, the focus lay on implementing nine strategic initiatives defined as part of the strategy process:

- Innovation of the service offering
- Quality leadership in service
- Quality leadership in technology
- Expansion and further development of skills
- Increase in operational excellence
- Geographic market expansion DACH+
- Market development and penetration of additional target client segments

- Technology innovations (ecosystem for digital assets and innovation field artificial intelligence)
- Culture, communication and employee retention

Key topics such as digitalization, value-added services and competence expansion, new distribution channels (e.g., digital asset management), and new custody technologies such as DLT/blockchain in the context of digital assets are reflected in the strategic target framework and strategic initiatives.

In 2024, the Bank achieved a significant milestone in the area of digital assets by obtaining the crypto custody license from the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin) as the first pure custodian bank and, at that time, the second bank in Germany.<sup>1</sup>

The license forms the basis within the strategic framework for the establishment and expansion of digital asset applications and use cases. In addition, topics relating to scalability and efficiency enhancement, further development of internal management systems, and the integration and promotion of corporate culture and employees are addressed.

The strategic initiatives identified in the strategy are supported by specific strategic measures that are continuously implemented. In 2024, implementation was financed from operating results and contributes to business success and improvements in the operating model/processes and market positioning.

Technology, open banking and platform/ecosystem economics play a central role:

1. The Bank will continue advancing digitalization to increase efficiency. IT and process infrastructure are aligned not only to automate internal processes and utilize data effectively, but also to ensure connectivity for external partners via standardized interfaces.
2. The Bank offers an open platform to which network partners and service providers can connect. Within the V-BANK ecosystem, business partners shall find all relevant services from a single source required for successful client relationships and business success. This strengthens client loyalty and supports new client acquisition.

Within V-BANK's outsourcing management, key outsourced functions include Avaloq Sourcing (Europe) AG, service providers in the field of information technology such as Amazon Web Services (AWS), service providers for client identification and onboarding, and service providers in connection with crypto custody. Outsourcing partners support V-BANK in its market positioning, in further increasing efficiency and in maintaining its current value-added depth.

The strategic target framework will continue to be refined and advanced next year through specific strategic initiatives and measures. At the same time, the Bank will continuously identify further efficiency levers and/or growth fields based on the strategic framework,

translate them into concrete measures and consistently prioritize their implementation. Accordingly, the strategy and strategic initiatives will continue to contribute to the Bank's growth and business success.

<sup>1</sup> V-BANK AG, press release dated 2 May 2024, "V-Bank receives crypto custody license".

### **1.3 Management System and Strategy Process**

The design of the management systems, risk management and the strategy process is determined by both the business strategy and the risk strategy. The business and risk strategy of V-BANK outlines the strategic initiatives and measures with which the Bank intends to ensure its long-term and sustainable existence. The business strategy describes, based on the business model, the Bank's key business activities and strategic areas of action. The risk strategy is derived from the business strategy and includes the objectives for managing material risks and the strategic measures to achieve these objectives.

A specific feature of the business model is that there is only a limited extent of asset-side client business requiring refinancing, while at the same time a dynamically growing deposit surplus exists, increasing quasi proportionally in line with assets under custody. Accordingly, treasury plays a central role at V-BANK, as a substantial portion of deposits can be invested on a risk-oriented basis.

In accordance with the conservative investment strategy and the applicable investment guidelines, a significant share of deposits is invested in low-risk investments with low or zero solvency capital requirements as well as in highly liquid assets (sovereign bonds, public-sector bonds, covered bonds or placements with the Deutsche Bundesbank).

The strategy defined by the Management Board is reviewed at least annually within the strategy process and incorporated into multi-year planning accordingly. Strategic management designed accordingly supports this process. Within the strategy process, the individual phases from analysis (analysis of external and internal influencing factors such as megatrends, competition, costs, processes or IT), planning and implementation to assessment are carried out. Consistency between the business and risk strategy and close alignment with operational planning and management are ensured.

If, during the assessment phase, the Management Board concludes that adjustments to the strategy are required, the strategy process is restarted with a new analysis phase. Within the strategic analysis, earnings and risk concentrations are examined and corresponding measures are embedded in the strategy.