

Annual Report

2016



Varengold

BANK

Key Figures of Varengold Bank AG (German Commercial Tax Code)

	31.12.2016	31.12.2015	Change
Key figures per share	in EUR	in EUR	in EUR
Earnings per share	-0.51	-6.78	+6.27
Market capitalization	14,612,760	19,775,935	-5,163,175
	01.01.2016 to	01.01.2015 to	Change
	31.12.2016	31.12.2015	in TEUR
Profit and loss statement	in TEUR	in TEUR	in TEUR
Interest income	1,578	-2,408	+3,986
Commission income	5,716	3,908	+1,808
Net income from trading portfolio	5,685	11,117	-5,432
Other operating income	1,703	808	+895
Income from investments/securities	554	412	+142
Administrative expenses	-15,547	-20,962	+5,415
Depreciation and value adjustments	-2,212	1,307	-3,519
Income from normal business operations	-2,523	-5,818	+3,295
Income/loss for the year	-1,486	-13,217	+11,731
	31.12.2016	31.12.2015	Change
Balance sheet	in TEUR	in TEUR	in TEUR
Total assets	613,895	601,215	+12,680
Equity capital	13,578	2,400	+11,178

Disclaimer:

This English version of the annual report 2016 is for informational purposes only.

Legally binding is solely the German version of the Annual Report 2016.

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Dear Shareholders

The economic market environment of Varengold Bank AG continued to be influenced in 2016 in particular by low interest rates and a series of political events. Among the notable political occurrences were the referendum vote for Great Britain's exit from the European Union ("Brexit"), concerns about the weak capitalization of Italian banks, as well as the outcome of the presidential election in the United States. In addition, the regulatory environment of the banks was again guided by an increasing intensification of regulatory requirements.

In particular, the business development of Varengold Bank AG was shaped in business year 2016 by the new focus of both of the core business areas Prime Brokerage and Commercial Banking, as well as, among other aspects, subsequent expansion of the target customer focus to a widely-diversified base of institutional customers. The operational efficiency of individual areas was thereby able to be appreciably increased. Nonetheless, the market environment and strategic decisions such as discontinuing the Capital Markets Brokerage business area had a negative effect upon the development results of the company.

The total assets of Varengold Bank of EUR 613.9 million on 31 December 2016 remained largely constant (previous year: EUR 601.2 million). Customer deposits, at around 96%, continued to occupy the predominant positions on the liability side of the balance sheet. In addition, the capital increase against cash deposits in February 2016 took place, during which 974,184 new shares at a price of EUR 13.00 per share were distributed.

The interest earnings of the Bank increased through loans in the Prime Brokerage business area, as well as increased yields from bonds of TEUR 1,326 in year 2015 to TEUR 4,474 in year 2016, while interest costs, due to the continued lowering of the interest rates, were reduced to TEUR 2,896, resulting in an interest surplus of TEUR 1,578 (previous year: TEUR -2,408).

The commission income increased from TEUR 3,908 in business year 2015 to TEUR 5,716 in business year 2016.

Due predominantly to the closure of the Capital Markets Brokerage business area, the net income from the trading portfolio decreased by TEUR 5,432 to TEUR 5,685.

General administrative expenses sank by TEUR 5,415 to TEUR 15,547. The reason for this was primarily the reduction in personnel, legal and consulting costs, and IT expenditures.

In total, the results of normal business activities of Varengold Bank during business year 2016 were TEUR 2,523 (previous year: TEUR -5,818). Taking the extraordinary results into consideration, the year-end total results amounted to a net loss of TEUR -1,486 (previous year: -13,217).

We consistently followed and further developed the new business strategy of the Bank in the past year, including making adjustments to ensure the business growth of the Bank and to create long-term stable value for shareholders, customers and employees.

Overall, due to the strategic refocusing and the active expansion of the existing product portfolio, as well as operational improvement measures, the Board of Directors are looking forward with confidence in the continued progress in business year 2017.

Also during the ongoing new orientation, it is essential to move forward with a careful eye on the ever-increasing regulatory requirements to ensure that the Bank continues to strengthen the institution's equity base in the medium term. Since April 2017, we have been implementing a capital increase for cash through the issuance of new shares and are

utilizing the authorized capital of 2016. The planned strengthening of the equity base should enable the expansion of a stable foundation of business activities.

We would like to thank our customers, business partners and shareholders for the fruitful collaboration and the trust bestowed upon the Bank. We are particularly grateful to our staff members who have, through their extraordinary dedication and innovative ideas, made essential contributions to the further development of Varengold Bank.

Hamburg, June 2017

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

Varengold Bank AG was founded in 1995 as an asset management boutique and in the initial business years focused on the development of individual specialized hedge fund strategies from the managed futures arena.

With the current core business areas Prime Brokerage and Commercial Banking, Varengold Bank commands a widely diversified product and service portfolio.

Varengold Bank AG is listed on the Frankfurt Stock Exchange (symbol: VG8) and is subject to regulation by the German Federal Financial Supervisory Authority (BaFin). In addition, Varengold is a member of the Deposit Guarantee Scheme of German Banks (EdB), whereby the deposits of each customer are legally protected up to a value of 100,000 Euro.

As an independent, private German bank, the company has enjoyed the trust of institutional and private customers, to whom, thanks to our expertise, we offer individual, transparent and performance-oriented solutions. Security and quality of service offerings is always our priority in our domestic and international activities and are the foundation of our strategy of intelligent investments.

ALTERNATIVE INVESTMENTS AS CORE COMPETENCY

For a representative and diversified implementation of the planned strategies, the former founders of the company selected the derivative financial instrument of futures. The Bank implemented custom-developed trading strategies that concentrated on the systematic trade of raw materials and stock indices. Very quickly the value of diversification of the various trading strategies was recognized: the individual trading approach was expanded to include complimentary strategies on the funds of funds level

for custom tailored portfolios which lead to 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. Today's Prime Brokerage business area evolved from the business area formerly known as Asset Management and later Capital Markets.

In the year 1999 the conversion of the legal structure from a "GmbH" to an incorporated company took place. Four years later Varengold received the additional license as a securities trading bank (§1 para. 3d pg. 3 German Banking Act – "KWG").

Already in the first developmental years of the enterprise it was clear that transparency of the managed future strategies on the level of each individual transaction was necessary in order to secure successful monitoring and management in the sense of integrity of style and the trading strategies. For this purpose, the development of a managed account platform was required through which the trading activities of the individual managers would be made visible. In so doing, Varengold Bank AG positioned itself as leader in financial innovations and development structures that enabled real-time brokerage and online reporting. The Capital Markets Brokerage business area was thus established and attracted additional customers. Among these were not only professional traders and private investors, but also companies with international payment streams that sought to protect themselves against currency fluctuations.

In the meantime, around 9,000 customers worldwide with a transaction volume of over 20 billion Euro annually, use the Varengold gateway to the international finance markets for securities, as well as non-securities products such as Forex and CFDs (Contracts for Differences) on a single trading platform.

In the summer of 2013, Varengold continued its successful enterprising development through attaining the license extension for operation as a deposit credit institute and achieved the largest milestone in the history of the company. Through these actions, the new business area Commercial Banking was established and with it further product solutions were placed on the market.

STRATEGY ORIENTATION FOR THE FUTURE

The Varengold Bank AG is currently concentrating on their offerings in the areas of Prime Brokerage and Commercial Banking. In line with this strategic focus, the decision was made in March 2016 to discontinue the Capital Markets Brokerage business area. The existing infrastructure allowed the bank to realize significant scale effects in these two core business areas within the growth strategy. Over the coming years, the bank would like to develop into a specialized provider of trade financial solutions for business customers and to a professional Prime Brokerage partner for a variety of asset classes. Furthermore, the Bank is further expanding its network of finance technology companies (FinTechs). In addition to financial solutions, custom-tailored products designed for the specific needs of customer groups, for example payment transactions, will continue to be offered. Varengold is convinced that the vital combination of stability and flexibility is an excellent foundation for a successful positioning in this market sector.

The Bank employed just over 60 employees at the end of 2016 and in addition to its headquarters in Hamburg, operates an additional location in London. The Bank succeeded in recruiting new qualified employees in the reporting year and can thereby ensure the fulfillment of its professional needs in the future.



PRIME BROKERAGE

The Prime Brokerage division benefits from over twenty years of Varengold Bank expertise in the area of alternative investments with comprehensive service offering in securities. Varengold Bank makes it possible for each of their international business partners to efficiently implement their individual investment strategies. The activities conducted previously by the Asset Management and Capital Markets divisions have now been combined under the umbrella of the new Prime Brokerage division.

The Prime Brokerage division offers international asset and fund managers, HNWI's (High net worth individuals) and hedge fund managers the entire value-added chain to execute their trading operations. The emphasis lies in meeting the requirements of the customer through offering tailor-made solutions to optimally support the often complex and very individual trading strategies. Through the offering of additional structuring and financial solutions, the bank offers international customers a comprehensive range of services in this area. In addi-

tion to trading of derivatives and securities, clearing services, execution services, capital call facilities and capital introductions are also included.

In addition to offering services for fund managers and the trade development of forward transactions, securities and pension positions, as well as currency transactions, the bank also offers account services from one centralized source. Since 2016 the bank has successively started to shift its current focus from equity strategies to other asset classes such as real estate and short-term receivables.

At the start of the year Varengold Bank also began to expand the company's network of financial technology enterprises (FinTechs) in order to be a more stable and flexible banking partner for this customer group in the future. As well as financial solutions, custom-tailored products designed for the specific needs of customer groups, for example payment transactions, will continue to be offered.

COMMERCIAL BANKING

With the Commercial Banking division, Varengold Bank presents itself as global partner for demanding customers and investors, that, with the help of individualized products and solutions, gives our business partners the possibility to develop their transactions and trade activities across country borders. In this segment, we benefit from our many years of expertise supported by the depth of experience of our employees.

The BaFin license to operate as a deposit-taking credit institution, received in June 2013, enables us to offer our customers a wider product palette of bank services to support their world-wide goods and services trade.

Deposit accounts

The bank offers private customers free money market and fixed-term deposit accounts, which offer the full flexibility of a daily disposable deposit account at an attractive interest rate which provides a reliable basis for every investment portfolio. In addition to a guaranteed interest rate and monthly compounding, customers also benefit from the statutory deposit guarantee of up to 100,000 Euro.

International payment transactions

Through the increasing requirements of the globalized world, cross-border payment capabilities are becoming increasingly important. Varengold Bank is addressing these requirements and offers customers around the world tailored solutions for international payment transactions. To be globally successful means being able to rely upon secure, efficient and transparent payment services, even across international borders.

Trade & Export Finance

In the Trade & Export Finance division, Varengold Bank bundles selected financing and bank guarantee and credit transactions for international trade activities. In addition to traditional payment guarantees, the guarantee business also includes warranty, delivery and performance guarantees.

CAPITAL MARKETS BROKERAGE

Since 2007 Varengold Bank has been offering online trading of Forex and CFDs for institutional and private customers in the Capital Markets Brokerage division. In March 2016 Varengold Bank decided to dissolve the Capital Markets Brokerage division.

The Bank wanted to limit risks and earnings volatility and to place its future main focus on the core business areas Prime Brokerage and Commercial Banking, which offer better risk-return profiles.

Shares of Varengold Bank have been listed in the open market on the Frankfurt Stock Exchange since 2007. The shares are also traded on the Stuttgart, Düsseldorf, Berlin-Bremen exchanges, as well as on the electronic trading system XETRA.

Key Figures

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock Symbol	VG8
Market Segment	Open Market
Transparency Level	Basic Board
(until 1 March 2017: Entry Standard)	20 March 2007
First Listing	20 March 2007
Share (Type)	No par-value shares
Number of	2,922,552 shares
Total Capital	2,922,552 EUR
German Stock Market Listing	Dero Bank AG (until 28 February 2017)
Designated Sponsor	Dero Bank AG
Specialist	Baader Bank AG

Conditions and Development

Investor worries about economic turbulences defined the activities on the global securities markets in business year 2016. Within just a few trading days, an average decline of 10% was booked. The middle of the first quarter marked the lowest point of these developments. The measures taken by the Central Banks were nevertheless able to calm the investors and bring an improvement to the atmosphere of the securities markets. A key factor for the securities markets was moreover, the change in the trend of the oil price, which additionally generated interest in selected emerging markets and was consequently a benefit to developing nations. The surprising decision of Great Britain to leave the European Union, as well as the election of the new US president Donald Trump caused only a brief disturbance on the global stock exchanges.

At the beginning of the reporting period, the stock of Varengold Bank AG was listed at a value of just about EUR 10.00, then declined over time to almost EUR 8.16 before then increasing briefly at the beginning of February 2016 again to EUR 10.77. Subsequently, the stock prices steadily moved downwards and reached its yearly low of EUR 3.67 in the summer months on 5 July 2016. A demonstrative recuperation phase ensued,

leading to a high value of EUR 12.88 on 17 August 2016. Already at the start of the fourth quarter the volatility resumed and the stock again fell under the EUR 4.00 mark and has hovered at a similar value level since the beginning of 2017.

The average price of Varengold stock fell considerably in comparison to reporting period 2015 from EUR 14.31 to EUR 6.55. The average daily shares traded in business year 2016 was 1,325 shares (previous year: 1,155). The earnings per share increased as compared to end of the year 2015 from EUR -6.78 to EUR -0.51 at the end of year 2016. Market capitalization on the reference date 31 December 2016 was recorded at EUR 14,612,760.00.

In the middle of February 2017, the Board of Directors and the Advisory Board of Varengold Bank decided to include the shares (Symbol: VG8) in the stock exchange segment "Basic Board" on the open market, since the German Stock Market AG discontinued the Entry Standard and introduced a new stock market segment.

Price History of Varengold Shares in 2016



Source: Bloomberg

Dear Shareholders,

The Supervisory Board wishes to thank all customers, shareholders and business partners of Varengold Bank AG for their trust. In addition, we would like to express our gratitude to the employees and the Board of Directors for their personal and professional engagement in the development of new business opportunities and the preparation of a sustainable organizational stability of Varengold Bank in business year 2016.

Cooperation between the Supervisory Board and the Board of Directors

The Supervisory Board of Varengold Bank AG concentrated predominantly on the business and strategic development of the organization during the Supervisory Board meetings in the past year. Over the course of the entire business year 2016, the Supervisory Board conducted the obligatory tasks in accordance with organizational legal regulations including conducting a continuous review of the activities of the Board of Directors. The supervisory goals were oriented on the legal requirements and were appropriately adjusted according to internal and external developments over the course of the year. In addition, outside of the meetings, the Supervisor Board was in close contact with the Board of Directors to review and discuss strategic options and current questions related to business policy. The Board of Directors always answered the Supervisory Board's questions and provided thorough explanations to the satisfaction of the Supervisory Board. In order to broaden the informational base and to expand their own 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 council was thereby always informed about the current business activities of the company and received monthly written reports on the current financial and risk situation of the bank in addition to the detailed reports received at the meetings. The always complete and timely written and oral reports provided by the Board of Directors complied with the requirements under section 90 of the AktG (German Stock Corporation Act). Through regular exchanges with individual members of the Board during the year 2016, above and beyond the targeted questioning of the Board of Directors, the Supervisory Board is convinced of the suitability and the reliability of the individual members of the Board of Directors.

Supervisory Board Meetings in 2016

Over the past business year four regular meetings of the Supervisory Board took place on 22 February 2016, 31 May 2016, 24 August 2016 and 16 November 2016. Supervisory Board member Michael Stephen Murphy was excused from the meeting on 31 May 2016, but received a protocol of the meeting and responded to the recommendations under discussion thoroughly in written form. Each of the remaining meetings were conducted with all Supervisory Board members and both members of the Board of Directors present. At each Supervisory Board meeting the Board of Directors presented a report to the Supervisory Board on the development of the financial and business relationships of the previous months.

The meeting on 22 February 2016 dealt primarily with the business development of individual business areas and their perspectives. In addition, among other issues, the successful implementation of the capital increase

was reported and intermediate results of the financial statements of 2015 were given to the Supervisory Board. Moreover, the members of the meeting discussed the previously distributed business strategy for 2016, as well as the individual aspects related to organizational affairs. Furthermore, the Board of Directors reported on the introduction of a remuneration system according to regulatory requirements.

On 31 May 2016, the main focus on the agenda was specifically the 2015 Annual Report in direct discussion with the auditor PricewaterhouseCoopers AG. In addition, the Supervisory Board was informed about the status of the previously-decided development plan for the Capital Markets Brokerage division and the newly implemented remuneration system according to regulatory requirements. The previously-submitted risk strategy for 2016 was approved. Furthermore, among other topics, the Supervisory Board was informed about the requirements related to the implementation of the European Market Abuse Directive and discussed the requirements of section 25d KWG.

The focal points of the meeting on 24 August 2016 were the election of a chairman of the Supervisory Board and the report of the Board of Directors with respect to the current business development in the first half of 2016.

In the last meeting of the year on 16 November 2016 the results of the development of the Bank over the past year were reviewed, as well as the expansion of both core business areas Prime Brokerage and Commercial Banking. The Supervisory Board received a report on the successful closing of the Capital Markets Brokerage division, including controlling of shareholdings and the future planned orientation of the Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen. The Board of Directors gave an update on the risk-management of the Bank and the members discussed regulatory and organizational requirements. Subsequently, the business plan for the year 2017 was discussed in detail.

In addition to the regular meetings between Supervisory Board members and members of the Board of Directors, the Supervisory Board held telephone conferences at regular intervals to process the topics decided upon at the regular meetings and to prepare topics relevant to upcoming regular meetings. In addition, further decisions related to were made via circular procedure, according to section 9, para. 4 of the Charter of the Varengold Bank AG. Additional efforts were required and due in particular to increased regulatory requirements for credit institutes.

Due to the size of the company and the fact that the Supervisory Board consists of only three members, the Supervisory Board, as in previous business years, has declined to form committees.

Granting the Audit Engagement to PricewaterhouseCoopers AG

The auditing firm PricewaterhouseCoopers AG, Hamburg, was selected as auditors for financial year 2016 at the ordinary shareholders meeting on 24 August 2016. Subsequently, the Supervisory Board awarded the contract to PricewaterhouseCoopers AG. The contract itself includes, among other aspects, clear rules regarding the specifics of annual audits including the scope of the audit, how the audit is performed and the goals of the cooperation. Per the recommendation of the Supervisory Board, with respect to the election proposal to the general shareholders, the auditors declared that no business, financial, personal or any other relationships exist that could justify a reason to doubt their independence.

Audit Committee Meeting 2016

The auditing firm for business year 2016, PricewaterhouseCoopers AG, Hamburg, has reviewed the annual financial reporting as of 31 December 2016 and the management report according to HGB regulations and has granted an unqualified auditor's certificate.

In advance of the committee meeting on 29 May 2017, the Supervisory Board received a draft of the auditor's report. On 23 May 2017, the Supervisory Board received the final version of the auditor's report, as well as the management report for review and audit. All open questions were resolved with the Board of Directors and the attending auditors on 29 May 2017. Previously, two Supervisory Board members took part in the meeting for the initial discussion of the auditor's report 2016 between the Board of Directors and the auditing firm on 15 May 2017.

Through unanimous decision of the Supervisory Board on 29 May 2017, the annual financial report of Varengold Bank AG of 31 December 2016, audited and granted with the auditor's unqualified opinion and which was not materially revised since the draft, and which was approved by the Supervisory Board, adheres to the statute section 9, para. 4 of the Varengold Bank AG Bylaws. The annual report of Varengold Bank AG for business year 2016 is therefore complete.

Institutional Bodies

At the beginning of business year 2016, Supervisory Board member Mr. Edo Barac resigned his seat effective 31 March 2016. Per request of the Board of Directors, the Court of Hamburg decided to appoint Mr. Alexander Körner to the Supervisory Board on 1 April 2016. At the general shareholders meeting of Varengold Bank AG on 24 August 2016, the court-appointed Supervisory Board members Dr. Karl-Heinz Lemnitzer and Mr. Alexander Körner were approved as Supervisory Board members of Varengold Bank AG for the time period from the end of the general shareholder's meeting through the end of business year 2018.

For the Supervisory Board
Hamburg, 06 June 2017



Dr. Karl-Heinz Lemnitzer
Chairman of the Supervisory Board

In accordance with the German Commercial Tax Code (HGB)
for the year ending 31 December 2016

Varengold Bank AG

Große Elbstraße 27
22767 Hamburg

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Varengold Bank AG, Hamburg

Balance Sheet as of 31 December 2016

Assets

	Financial year	Previous year
	EUR	TEUR
1. Cash reserve		
a) Cash and cash equivalents	4,153.49	1.9
b) Balances with Central Banks	455,701,106.16	217,082.4
- of which: with the German Central Bank:		
TEUR 455,701.1 (previous year: TEUR 217,082.4)	455,705,259.65	217,084.3
2. Loans and advances to credit institutions		
a) Due on demand	14,959,344.59	29,210.5
b) Other receivables	1,043,947.77	110.5
	16,003,292.36	29,321.0
3. Customer receivables	75,555,649.08	24,361.3
- of which: secured by mortgages		
TEUR 36.5 (previous year: TEUR 36.5)		
Local authority loans TEUR 6,500.0 (previous year: TEUR 0.0)		
4. Bonds and other fixed-income securities		
a) Bonds and debt		
aa) from public issuers	24,142,042.72	1,890.9
- of which: acceptable as collateral at the German Central Bank:		
TEUR 24,142.0 (previous year: TEUR 1,890.9)		
ab) from other issuers	5,011,666.67	2,500.0
	29,153,709.39	4,390.9
5. Shares and other variable-yield securities	29,775,194.33	0.0
6. Trading portfolio	137,250.00	315,906.9
7. Participating interests	668,184.36	547.7
8. Shares in affiliated companies	2,774,951.05	2,775.0
- of which: in financial services institutions TEUR 1,710		
(previous year: TEUR 1,710)		
9. Intangible assets		
a) self-created industrial and similar rights and assets	0.00	3.5
b) Concessions acquired for consideration	212,967.00	358.9
	212,967.00	362.4
10. Fixed assets	169,600.00	284.0
11. Other assets	1,398,964.17	3,680.9
12. Accruals and deferred income	42,048.02	203.2
13. Deferred tax assets	2,297,479.03	2,297.5
Total assets	613,894,548.44	601,215.0

Liabilities

	Financial year	Previous year
	EUR	TEUR
1. Liabilities to banks		
a) Due on demand	1,100,000.00	576.0
b) With agreed maturity dates or periods of notice	137,250.00	0.0
	1,237,250.00	576.0
2. Amounts owed to customers		
a) Other liabilities		
aa) Due on demand	225,432,749.12	498,579.2
ab) With agreed maturity dates or periods of notice	364,251,681.55	89,135.9
	589,684,430.67	587,715.1
2a. Trading portfolio	0.00	926.3
3. Trust liabilities	921,747.70	1,922.8
4. Accruals and deferred income	590,288.38	790.4
5. Provisions		
a) Reserves for pensions and similar obligations	73,202.00	53.2
b) Provisions for taxes	129,687.44	65.0
c) Other provisions	2,679,896.79	1,766.5
	2,882,786.23	1,884.7
6. Instruments of additional regulatory core capital	5,000,000.00	5,000.0
7. Share equity		
a) Subscribed capital	2,922,552.00	1,948.4
b) Capital reserves	30,607,373.80	18,917.2
c) Retained earnings		
ca) Legal reserve	1,700.00	1.7
cb) Other retained earnings	16,700.00	16.7
d) Net loss	-19,970,280.34	-18,484.3
Total liabilities	613,894,548.44	601,215.0
1. Contingent liabilities		
a) liabilities from guarantees and warrantees	1,120,465.28	0.0

Varengold Bank AG, Hamburg

Profit and Loss Statement
for the Period 1 January to
31 December 2016

		Financial year	Previous year		Financial year	Previous year
	EUR	EUR	TEUR		EUR	TEUR
1. Interest income from				13. Income from ordinary activities	-2,522,553.38	-5,818.3
a) Credit and money market transactions	3,810,345.54		797.5	14. Extraordinary income	1,667,974.93	72.8
less interest from bank balances	<u>-1,074,259.56</u>		<u>-329.2</u>	15. Extraordinary expenses	<u>-605,848.12</u>	<u>-7,407.0</u>
	2,736,085.98		468.3		1,062,126.81	-7,334.2
b) Fixed-income securities and debt register claims	<u>1,738,145.12</u>		<u>858.1</u>	16. Taxes on income and earnings	-24,687.44	-63.9
	4,474,231.10		1,326.4	17. Other taxes, not posted under "Other operating expenses"	<u>-820.00</u>	<u>-1.1</u>
2. Interest expenses	<u>-2,896,361.21</u>		<u>-3,734.0</u>		-25,507.44	-65.0
		1,577,869.89	-2,407.6	18. Net annual loss	-1,485,934.01	-13,217.5
3. Current income from				19. Loss from previous year	<u>-18,484,346.33</u>	<u>-5,266.8</u>
a) Shares and other variable-yield securities	553,668.15		0.0	20. Net loss	<u><u>-19,970,280.34</u></u>	<u><u>-18,484.3</u></u>
b) Shareholdings	<u>0.00</u>		<u>411.9</u>			
		553,668.15	411.9			
4. Commission revenues	20,927,258.08		5,242.5			
5. Commission expenses	<u>-15,211,114.59</u>		<u>-1,334.9</u>			
		5,716,143.49	3,907.6			
6. Net income from trading portfolio		5,684,728.20	11,117.1			
7. Other operating income		2,065,508.09	1,175.3			
- of which: income from currency conversion						
TEUR 1,124.0 (previous year: TEUR 548.1)						
8. General administrative expenses						
a) Personnel expenses						
aa) Wages and salaries	-6,211,398.75		-8,145.5			
ab) Social security contributions and expenses						
for pensions and other employee benefits	<u>-998,610.71</u>		<u>-953.1</u>			
- of which: for pensions						
TEUR 264.5 (previous year: TEUR 58.6)	-7,210,009.46		-9,098.6			
b) Other administrative expenses	<u>-8,336,910.56</u>		<u>-11,863.7</u>			
		-15,546,920.02	-20,962.3			
9. Depreciation and amortization of intangible assets and property		-328,422.66	-435.9			
10. Other operating expenses		-362,270.20	-367.3			
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business		-1,802,801.24	-1,510.1			
12. Income from attribution of shares, shares in affiliated companies and asset traded securities		-80,057.08	3,252.9			

NOTES

For the Period from 1 January 2016 to
31 December 2016

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 affect several positions are posted comprehensively to improve clarity and comprehensibility according to Section 284 para. 1 sentence 1 HGB.

Since all subsidiaries pursuant to Section 296 para. 2 HGB, even when combined, are of lesser importance in the building of an accurate depiction of the group's asset, financial and earnings position, use is made of the exemption clause on the preparation of group financial statements pursuant to Section 290 para. 5 HGB.

2. Accounting and valuation methods

The accounting and valuation methods remained unchanged compared to last year.

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

The cash position and deposits in central banks are recorded at nominal value.

Claims to banks and customers were recorded at nominal value. Where necessary, counterparty risks are covered by the formation of individual value adjustments.

Where necessary, counterparty risks are covered by the formation of reserves for bad debt. Bad debts were written off. The latent credit risk was carried through the creation of value adjustments. The amount of risk provisioning for individual counterparty risks is calculated by the difference between the book value of the claim and the probable recoverable amount. The unrecoverable debts are written off. The latent credit risk was carried through the creation of value adjustments. The calculation of unrecoverable debt is conducted in accordance to the written statement of the Federal Ministry of Finance of 10 January 1994.

Bonds and other fixed-income securities are assigned to fixed assets valued according to the diluted lower of cost or market principle. The allocation of liquidity reserves is conducted using the strict lower of cost or market principle. The fixed-assets are recorded at a value of TEUR 5,012.

Stocks and other variable-interest securities are listed under fixed assets and are valued in accordance with the diluted lower value principle.

The internal institutionally established criteria for the inclusion of financial instruments in the trading portfolio did not change in financial year 2016. Pursuant to Section 340e para. 1 sentence 3 HGB, financial instruments held for trading are valued at fair value less a deduction for risk. The fair value, according to Section 255, para. 4, sentence 1 HGB, is the market price of the financial instrument because there is an active market for all positions of Varengold Bank AG.

The risk premium is determined using the value at risk method with a confidence level of 99 %, a holding period of one day and an observation period of 260 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. As of 31 December 2016, the risk premium of TEUR 0 was adjusted in the amount of TEUR 201 and was reported according to Section 340c para. 1 HGB.

Holdings and shares in associated companies are valued at the lower fair value between acquisition costs and fair value at balance sheet date, according to the relevant regulations of fixed-asset reporting.

The voting right according to Section 248 para. 2 HGB was utilized and in the years 2010 and 2012 development costs for internally-created intangible assets was activated. In business years 2013 to 2016 no further activations took place. The write-offs for all internally-created intangible assets (TEUR 4) are listed under depreciation and value adjustments to intangible and physical assets. The internally-created intangible assets are depreciated over an anticipated operational lifetime of over four years each and are fully written off as of 31 December 2016.

Purchased software is recognized under intangible assets, and tangible assets classified as 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 Bank relies on the usage periods specified by the tax authorities (depreciation table for general assets (depreciation table "AV").

Low value assets are recorded in accordance with the provisions of Section 6 paragraphs 2 and 2a EStG. The low value assets purchased at acquisition costs of between EUR 150.00 and EUR 1,000.00 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 150.00 are treated as immediate operating expenses.

Other intangible assets are stated at their face value.

Active prepaid expenses (essentially prepaid rents and insurance) are stated in accordance with Section 250, para. 1 HGB.

Deferred tax liabilities in the amount of TEUR 2,297 result mainly from tax losses carried forward. The deferred tax assets are subject to the distribution block. The Management Board expects the full utilization in the next five years of the deferred tax assets formed in previous years, which were based on losses carried forward of approximately EUR 7.1 million for corporate tax and EUR 7.2 million for commercial tax as at 31 December 2014. For the calculation of deferred taxes, 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 %).

Current liabilities are shown with their estimated amount required to settle the obligation.

Accruals and deferred income (mainly interest received in advance) are reported in accordance with Section 250, para. 2 HGB and are written down over the residual term of the underlying transactions.

Provisions, including provisions for taxes, are measured at the amount expected to become payable in accordance with reasonable commercial judgement.

Pension provisions, which are mainly based on provisions for surviving dependents, are calculated according to actuarial principles using the 2005G guideline tables of Klaus Heubeck in accordance with the provisions of Section 253, para. 2 HGB. For the valuation process, the modified part-value method was used. It was based on an actuarial interest rate of 4.00 %, a salary and career trend of 2.0 % and a fluctuation of 10 %.

The stated instruments of additional supervisory core capital is valued at their nominal value. Interest expenses are limited on the basis of expected cash flow to the owner of the instrument.

The interest-related business of the banking book is examined in their entirety for excess liability on an annual basis. For this purpose, a cash value oriented process with consideration of as yet accruing risk and management costs is used. The valuation determined that there no excess liability exists in the banking book and that therefore, there is no need for a provision for contingent losses.

According to Section 340e, para. 4, sentence 1 HGB, in each financial year an amount equal to at least 10 percent of the net income from the trading portfolio is booked to a special account on the balance sheet, the "Fund for general banking risks" in accordance with Section 340g HGB. According to Section 340e, para. 4, sentence 2, no. 4 HGB, the amount is booked into the special account until it reaches 50 percent of the average of the last five years' net income from the trading portfolio (including a net gain in the year's trading portfolio) after adjusting for risk. The delivery of special items was recorded at the reporting date at the end of the financial year. Due to existing losses carried forward and an annual loss amount, pursuant to Section 340e, para. 4, sentence 2, nos. 2 and 3 HGB, no allocation was made to the special account in the financial year. (Status 31/12/2016: EUR 0.00)

The treatment of the results from the foreign currency conversion, according to Section 256a HGB in conjunction with Section 340h HGB, depends on whether the foreign currency transactions in the trading portfolio are separately hedged or not specially hedged transactions. In the case of the trading portfolio and if special hedging exists, both the expenditure and the income from foreign currency conversion are recognized as income. The conversion results from foreign currency conversion are included in the net income from the trading portfolio and in other operating income and expenses.

The exchange results from currency exchange are listed in the net income from the trading portfolio and in other operating income and expenses.

The irrevocable loan commitments, other financial obligations and all other balance sheet items are reported in their nominal amounts.

The Bank exercises its right of vote on the cross-offsetting option in accordance with Section 304f para. 3 HGB in conjunction with Sections 32 and 33 of the Regulations on Accounting for Banks (RechKredV).

Income and expenses are limited on an accrual basis.

The amounts, unless otherwise indicated, are expressed in thousands of Euros.

Rounding differences in the amount of + / - one unit may occur in the tables, due to computational reasons.

3. Currency conversions

Accruals and expenses incurred over the course of the year are recorded at the current daily rate in the profit and loss calculations. Foreign currency positions are converted into Euro on the reference day at European Central Bank reference prices according to Section 256a HGB.

As of 31 December 2016 the foreign currency amounts listed below are included in the following balance sheet items:

Balance Sheet Items	31/12/2016 TEUR	31/12/2015 TEUR
Loans and advances to credit institutions	6,214	13,960
Customer receivables	8,733	4,663
Shares and other variable-yield securities	29,775	0
Trading portfolio (active)	0	23,563
Shares in affiliated companies	1,754	1,754
Other assets	209	2,308
Prepaid expenses (active)	25	177
Obligations to credit institutions	0	1
Obligations to customers	43,070	41,590
Other liabilities	155	332
Provisions	284	41

4. Notes to the Balance Sheet

4.1 Overall disclosures

4.1.1 Relationships to affiliated companies

	31/12/2016 TEUR	31/12/2015 TEUR
Customer receivables	75,556	24,361
of which from companies in which an interest is held	5,865	741

The "of which" item results from claims against Varengold Capital Investment Company Limited, British Virgin Islands and the Varengold Capital Holdings Limited, British Virgin Islands.

	31/12/2016 TEUR	31/12/2015 TEUR
Amounts owed to customers	589,684	587,715
of which to associated companies	1,128	743

The "of which" item results from liabilities owed to Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg, Varengold Capital Securities Limited, Hongkong, Varengold Capital Holdings Limited, British Virgin Islands, Varengold Capital Investment Company Limited, British Virgin Islands, Varengold Capital Asset Management Limited, Hongkong and VirtuFX GmbH, Hamburg.

4.1.2 Breakdown by remaining maturity

	31/12/2016 TEUR	31/12/2015 TEUR
Loans and advances to credit institutions	16,003	29,321
to three months	16,003	29,321
Customer receivables	75,556	24,361
to three months	33,227	4,971
more than three months to a year	11,071	3,348
more than a year to five years	26,469	16,001
more than five years	4,789	41
Notes and other fixed-income securities	29,154	4,391
of which due in the following year	18,734	2,779
Liabilities to credit institutions	1,237	576
to three months	1,237	576

Amounts owed to customers	589,684	587,715
to three months	500,481	521,869
more than three months to a year	64,135	46,729
more than a year to five years	25,068	19,117

4.1.3 Securities

The following table indicates the negotiable securities contained in the balance sheet items:

	31/12/2016	31/12/2015
	TEUR	TEUR
Notes and other fixed-income securities	29,154	4,391
unlisted	0	2,500
listed	29,154	1,891
- of which: publicly owned	29,154	1,891
Shares and other variable-yield securities	29,775	0
listed	29,775	0
- which: publicly owned	15,249	0
Shares in associated companies	2,775	2,775
unlisted	30	30
listed	2,745	2,745
- which: publicly owned	0	0
Participating interest	668	548
unlisted	620	500
listed	48	48
- which: publicly owned	0	0

4.2 Post-individual disclosures

4.2.1 Claims and liabilities with customers

The customer receivables consist primarily of Lombard loans, commission claims liabilities for call deposit accounts of distributed securities.

4.2.2 Bonds and other fixed-income securities

Apart from a loan against a borrower's note, this position contains exclusively European government bonds, total reserves of which were TEUR 5 on the reference day.

In April, all government bonds in the trading portfolio were reclassified as liquidity reserves at a book value of EUR 45.9 million. This was due to a mass acquisition of securities by the ECB and the subsequently resulting terminated state bond trading strategy of the bank. Had these securities remained in the trading portfolio, undisclosed reserves in the amount of TEUR 0.3 could have been realized on 31 December 2016.

In May, all government bonds that were listed in the banking book were reclassified as liquidity reserves at a book value of EUR 1.9 million, because state bonds could only be used as liquidity management.

Had these securities remained in the asset portfolio and the balance according to Section 340e para. 2 HGB was partially liquidated over the remaining period, the book value of the securities as of 31 December 2016 would have been TEUR 17 lower.

4.2.3 Shares of investment assets

Shares of foreign investment assets were held that were mainly invested in short-term receivables and short-term real estate loans. Both distribution shares, as well as accumulation shares were reported.

4.2.4 Equity ownership and shares in affiliated companies

Varengold Bank AG holds the following unlisted shareholdings:

Affiliated companies	Ownership interest		Share equity 31/12/2016 TEUR	Result 2016 TEUR
	direct %	indirect TEUR		
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		2,018 ¹⁾	1,497 ¹⁾
Lava Trading Ltd., Valetta, Malta	49.79		-6 ²⁾	-6 ²⁾
Varengold Capital Holdings Limited, British Virgin Islands	100.00		-333 ³⁾	-645 ³⁾
Varengold Capital Securities Limited, Hong Kong	100.00		4,610 ³⁾	-14 ³⁾
Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg	100.00		799 ⁵⁾	106 ⁶⁾
ViaLight Communications GmbH, Gilching	2.39		262 ⁴⁾	-1,843 ⁴⁾
Ges. Bürgerlichen Rechts VirtuFX, Hamburg	50.01		78 ⁴⁾	-69 ⁴⁾
Varengold Capital Advisory Limited, Hongkong		100.00	256 ³⁾	-18 ³⁾
Varengold Capital Asset Management, Limited, Hongkong		100.00	4,859 ³⁾	-6 ³⁾
Varengold Capital International Company Limited, British Virgin Islands		100.00	-712 ³⁾	-754 ³⁾
Varengold Investment Funds SPC, Cayman Islands		100.00	-362 ³⁾	-362 ³⁾
Varengold Capital Investment Company Limited, British Virgin Islands		100.00	1,379 ³⁾	1,338 ³⁾
Varengold Capital Management Limited, British Virgin Island		100.00	-10,692 ³⁾	-7,216 ³⁾

- 1) Preliminary annual financial statements as of 31 December 2015
- 2) Annual financial statements as of 31 March 2015 (different financial year)
- 3) Stated in HKD based on preliminary annual financial statements as of 31 December 2016
- 4) Annual financial statements of 31 December 2016
- 5) Company's assets as of 30 November 2016 (different financial year)
- 6) Results as of 30 November 2016 (different financial year)

Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen has issued company shares exclusively for the investment business assets. The capital of this sub-fund amounted to TEUR 799 as of 30 November 2016.

4.2.5 Gross assets analysis

	Purchase costs				Depreciation				Residual book value	
	01.01.16	Accruals 2016	Uses 2016	31.12.16	Cumul. 01.01.16	Accruals 2016	Uses 2016	Cumul. 31.12.16	31.12.16	31.12.15
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Intangible assets										
Intellectual property rights and similar rights and assets	756	0	368	388	752	4	368	388	0	4
Acquired concessions, intellectual property rights and similar rights and assets as well as licenses of such rights and assets	3,084	59	1,012	2,130	2,725	192	999	1,917	213	359
Fixed assets	1,050	83	453	681	766	133	388	511	170	284
Total	4,889	142	1,833	3,198	4,243	328	1,755	2,816	383	646
	Change^{*)}									
Notes and other fixed-income securities				621					5,012	4,391
Shares and other variable-yield securities				29,775					29,775	0
Participating interests				121					668	548
Shares in affiliated companies				0					2,775	2,775

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

Intangible assets consist mainly of purchased software and corresponding licenses and intellectual property rights. The tangible assets are attributable to operating and office equipment (including leasehold improvements).

The accruals in the 2016 financial year are mainly attributable to diverse fund investments.

4.2.6 Trading portfolio

The trading portfolio is comprised of the following:

Assets	31/12/2016 TEUR	31/12/2015 TEUR
Derivative financial instruments	0	0
Trading portfolio assets FX	0	1,849
Trading portfolio assets CFD	0	3,596
Sub-total	0	5,445
Trading portfolio fund shares	0	651
Trading portfolio securities	0	310,012
Trading portfolio shares	137	0
Risk discount (VaR)	0	-201
Total	137	315,907

Liabilities	31/12/2016 TEUR	31/12/2015 TEUR
Trading portfolio liabilities FX	0	324
Trading portfolio liabilities CFD	0	602
Total	0	926

Pursuant to Section 340e para. 1 sentence 3 HGB, financial instruments held for trading are valued at fair value less a deduction for risk.

Pursuant to Section 255, para. 4, (1) HGB, the fair value corresponds to the market price of the financial instrument, because there is an active market for all trading portfolio positions at Varengold Bank AG.

4.2.7 Other assets

This position mainly includes receivables from initial margin payments against EUREX (TEUR 178), receivables from introducing brokers (TEUR 219), receivables from tax over-payments (TEUR 409), receivables from German bank compensation cases (TEUR 183), adjustments for currency conversions (TEUR 11) and receivables from paid security deposits (TEUR 203).

4.2.8 Amounts owed to customers

These obligations are comprised of call funds (EUR 175 mil.), accounts for payment transactions (EUR 43 mil.), security deposits (EUR 8 mil.) and term deposits (EUR 364 mil.).

4.2.9 Other liabilities

Other liabilities all have a residual maturity of up to one year and are comprised of the following:

	31/12/2016 TEUR	31/12/2015 TEUR
Liabilities from received initial margin	186	14
Liabilities from provision of goods and services	473	1,345
Liabilities from bonus programs	0	90
Other liabilities	48	136
Liabilities from wages and salaries	102	93
Social security liabilities	4	0
Liabilities from currency translation	4	0
Liabilities for current year's sales tax	0	117
Liabilities for withholding tax	105	128
Total	922	1,923

The liabilities from provision of goods and services mainly contains not-yet mature receivables. Other liabilities include mainly liabilities from the payment obligations in the equity capital of Varengold Capital Holdings Ltd.

4.2.10 Reserves for pensions and similar obligations

Pension reserves have been formed for dependents. The difference between the value of the 10-year average interest (TEUR 73) rate and the 7-year average interest rate (TEUR 78) is TEUR 5.

4.2.11 Provision for taxes

Tax provisions were formed mainly for pro rata profits of the office in London for the year 2015 and 2016 were based on an income tax rate of 20 %.

4.2.12 Other provisions

This line item is comprised of the following:

	31/12/2016 TEUR	31/12/2015 TEUR
Annual provisions	0 ¹⁾	180
Vacation accrual	150	179
German Bank Compensation Scheme	67	0
Negative interest	58	0
Variable remuneration	0	58
Surcharge for non-employment of disabled persons	1	13
Outstanding invoices for IT services	11	246
Audit and annual report costs	383	209

One-time payment to the Compensation scheme of German private banks (EdB)	313	0
General Shareholders' Meetings	0	26
Personnel leasing	1	0
Storage costs	0	8
Professional association	15	10
Prime Brokerage Fees	623	0
Legal and consulting costs	396	450
Interest expenditure	0	2
Dismantling operations	30	26
Insurance	0	0
Other	632	360
Total	2,680	1,767

1) The voluntary commitment of Anniversary payments was discontinued at the end of 2016 in favor of a higher subsidization in the pension program.

4.2.13 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds ("AT1-Anleihen") 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 right to decide on its own at any time whether to cancel interest payments. Interest payments are not cumulative and will not be increased in the coming year to compensate for possible cancelled interest payments in the previous year. 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, as long as 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 expenses for these bonds was TEUR 67 on 31 December 2016 and is reported under other provisions.

On 31 December 2016 the outstanding additional Tier-1 bonds were the following:

Currency	Amount in EUR	Type	Date of issuance	Interest rate	Due date
EUR	5,000,000	variable interest, cumulative subordinated	19 August 2014	variable	Without maturity date

4.2.14 Share equity

Fully paid-up share capital (TEUR 2.923) is divided as at the balance sheet date into 2,922,552 no-par value registered shares.

The capital reserve in the amount of TEUR 30,607 comes mainly 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). Moreover, the Board of Directors was authorized in a resolution passed by the Annual General Meeting on 26 August 2015 to increase the Company's share capital of EUR 1,948,368.00 by EUR 974,184.00 to 2,922,552.00, with the approval of the Supervisory Board, by issuing up to a total of 974,184 new no-par value bearer shares each with a proportionate share in the share capital of EUR 1.00.

With this authorization the Board of Directors, with the approval of the Supervisory Board increased the capital of the company from EUR 1,948,368.00 against cash or non-cash contributions of EUR 974,184.00 to EUR 2,922,552.00 through by issuing 974,184 new shares by way of a public offering and a subsequent private placement. The shares were offered at a premium of TEUR 12.00 per share (premium TEUR 11,690). The registration of the capital increase took place on 23 February 2016.

The Board of Directors was authorized in a resolution passed by the Annual General Meeting on 24 August 2016 to increase the Company's share capital by 23 August 2021, with the approval of the Supervisory Board, on one or more occasions, up to a total of EUR 1,461,276.00 by issuing up to a total of 1,461,276 new no-par value bearer shares (ordinary shares), each with a proportionate share in the share capital of EUR 1.00 each, against cash or non-cash contributions ("Authorized Capital 2016"). Both ordinary shares and/or preferred shares without voting rights can be issued. The new shares can be acquired by one or several banks stipulated by the Management Board or a company which operates according to Section 53 para. 1 sentence 1 or Section 53b para. sentence 1 or para. 7 KWG with the obligation to offer these to the shareholders (indirect subscription right). The Board of Directors is authorized, with the approval of the Supervisory Board, to define the further details and terms of the capital increases from authorized capital and share issue and to exclude subscription rights of shareholders within the scope of the Articles of Association and legal regulations.

In the Annual General Meeting resolution on 8 August 2012, the Board of Directors was authorized, with the approval of the Supervisory Board, to issue by 7 August 2017, on one or on successive occasions, to the bearer and/or the bearers, convertible bonds, bond with warrants, convertible participatory rights, participation rights, participation rights and/or income bonds (hereinafter referred to as "instruments") in an aggregate principal amount of up to EUR 5,000,000.00 with a maturity not exceeding 15 years and to grant the holders of these financial instruments conversion or option rights to new no-par value bearer shares, with a pro rata amount of share capital of up to EUR 586,174.00 in accordance with the detailed measures of the instruments. The issuance of the instruments may be in exchange for cash and/or kind. To pay the instruments, the share capital was conditionally increased by resolution of the Annual General Meeting on 7 August 2012 by up to EUR 586,174.00, by issuing up to 586,174 no-par value bearer shares for the purpose of granting stock subscription rights (Conditional Capital 2012 I).

In an Annual General Meeting resolution on 8 August 2012, according to Section 4, para. 8 of the Articles of Association, there was a further increase in conditional share capital. The share capital was conditionally increased by up to EUR 140,000.00 by issuing up to 140,000 no-par value bearer shares ("Conditional Capital 2012 II"). The conditional capital increase will only be carried out insofar as the holders of stock options issued in accordance with the resolution of the General Meeting under the stock option programme of 2012 ("SOP 2012") in the period up to 8 August 2017 (inclusive) exercise their rights to subscribe shares of the Company and the Company does not fulfil the subscription rights of its own shares, or a cash settlement is granted. The new shares will participate in profits distribution from the beginning of the financial year in which they are created in the exercise of subscription rights. The Annual General Meeting 2012 serves as a targeted performance incentive for programme participants and should simultaneously strengthen the bond between the participants and the Company.

Within the context of the AOP in 2012 a total of up to 95,000 share options may be issued to members of the Company's Management Board 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 thirty stock exchange 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 can exceed 50 % of the total volume. The acquisition timeframe is 40 work days 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 at the end of the reporting period. In total 45,000 shares options were distributed to particular high-perfor-

mers. An additional 40,500 options were given 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 2016, by the end of the reporting period, 11,250 stock options were offered particularly high-performers of the Company.

The distribution block pursuant to Section 268, paragraph 8 HGB applies to deferred tax assets in the amount of TEUR 2,297.

Liabilities from guarantees and indemnity agreements exist mainly in the form of guarantee credits in the amount of TEUR 1,120 (previous year: TEUR 0). The risk of utilization was classified as low, because the position was already recognized at the time of the financial statements.

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.

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

Interest expenses mainly include interest on customer deposits (on-demand, fixed rates and term deposits).

5.2 Income from shares and other variable-yield securities

Income from shares and other variable yield securities includes all income from shares and investment funds.

5.3 Commission revenues / expenses

Commission income includes fees from the Prime Brokerage division (TEUR 19,324), the Commercial Banking division (TEUR 1,045) and the Capital Markets Brokerage (TEUR 558). The commission expenses come mainly from the Prime Brokerage division (TEUR 14,845) and expenses for payment services.

	31/12/2016 TEUR	31/12/2015 TEUR
Commission revenues	20,927	5,243
Commission expenses	15,211	1,335
Commission surplus	5,716	3,908

5.4 Net income in the trading portfolio

The income in the trading portfolio results mainly from the Prime Brokerage division (TEUR 3,461) and Capital Markets Brokerage (TEUR 3,193). Also included are losses from foreign currency translation of the trading portfolio in the amount of TEUR 696. The remainder results from the Commercial Banking and Treasury division, as well as the change in the risk discount.

5.5 Other operating income

Other operating income is mainly generated from income from foreign currency conversion, income from reversal of provisions and income during other periods.

5.6 Personnel costs

	31/12/2016 TEUR	31/12/2015 TEUR
Wages and salaries	6,211	8,146
Social benefits	734	894
Expenses for pensions and other employee benefits	265	59
Total	7,210	9,099

The decrease in personnel expenses resulted mainly from the smaller number of employees.

5.7 Other administrative expenses

	31/12/2016 TEUR	31/12/2015 TEUR
Occupancy costs	509	958
Premiums and insurance	599	284
Vehicle costs including leasing (without road tax)	50	169
Advertising, entertainment and travel expenses	390	763
IT expenses	1,711	2,555
Communications expenses	588	608
Office supplies, magazines, training	99	169
Consulting, accounting and auditing costs	2,555	3,807
Other administrative costs	1,836	2,551
Total	8,337	11,864

The total auditor's fees calculated and/or set aside for the financial year were TEUR 406. This total was comprised of TEUR 272 for controlling services and TEUR 134 for tax consulting services.

5.8 Depreciation and provisions for receivables and specific securities as well as appropriation to liabilities in credit business

At TEUR -1,630, the majority of the valuation result from the interest-driven value of securities in the liquidity reserve. European government bonds, whose interest rates are significantly higher than the interest level, were purchased above par. The resulting depreciation requirement is accordingly mainly due to the low interest level and not a change in the creditworthiness of the debtor.

The remaining TEUR -176 result from write-offs on receivables, as well as provisions in the credit business.

5.9 Extraordinary income

In the financial year 2016, extraordinary expenses of TEUR 1,668 were incurred. These include TEUR 852 from a legal settlement and the winning of a legal dispute. Additionally, TEUR 789 are claims against customers from the previous year. A further TEUR 28 result from the closure of the Capital Markets Brokerage business division.

The remaining extraordinary expenses are TEUR 606. These result from TEUR 293 restructuring expenses and TEUR 313 of a onetime payment to the Compensation Scheme of the Association of German Banks.

6. Other information

6.1 Institutions

6.1.1 Supervisory Board

Herr Dr. Karl-Heinz Lemnitzer Tax advisor and auditor	Chairman
Herr Michael Stephen Murphy Investment banker	Deputy Chairman
Herr Alexander Körner Banker	(as of 1 April 2016)
Herr Edo Barac Investment banker	(until 31 March 2016)

Supervisory Board member serving at the beginning of financial year 2016, Mr. Edo Barac, irrevocably resigned his position effective 31 March 2016. At the request of the Board of Directors, the District Court of Hamburg decided on 1 April 2016 to legally appoint Mr. Alexander Körner as a member of the Supervisory Board.

By resolution of the Annual General Meeting of Varengold Bank AG on 26 August 2015, Mr. Michael Stephen Murphy, was elected to the Supervisory Board for the period from the close of the Annual General Meeting 2015 to the end of the AGM that decides on discharge for the 2018 financial year. By resolution of the Annual General Meeting of Varengold Bank AG on 24 August 2016 Dr. Karl-Heinz Lemnitzer and Mr. Alexander Körner were elected to the Supervisory Board for the period from the close of the Annual General Meeting 2016 to the end of the AGM that decides on discharge for the 2018 financial year.

Mr. Körner was elected to the Supervisory Board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg, effective 21 March 2016.

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

6.1.2 Management Board

Herr Dr. Bernhard Fuhrmann
Back office

Herr Frank Otten
Market

Dr. Bernhard Fuhrmann and Mr. Frank Otten are each entitled to represent the Company jointly with another Board member or an authorized representative.

6.1.3 Mandates in Supervisory Boards

On the reporting date, Dr. Fuhrmann was, in addition to his position of Chairman of the Board of Directors of Varengold Bank AG, Chairman of the Advisory Board of ViaLight Communications GmbH, Gilching. In addition, since February 4, 2015, Dr. Fuhrmann occupies a seat on the Board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg.

In addition to his role as a Board member of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of the consulting firm Arensburg Consult UG, Molfsee, and a member of the Advisory Board of KERNenergie GmbH, Hamburg, as well as Chairman of the Supervisory Board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg.

Mr. Lukas Diehl, authorised representative of Varengold Bank AG, is also a member of the Supervisory Board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg.

6.1.4 Remuneration and loans

The total remuneration of the Board of Directors in the time period 1 January 2016 to 31 December 2016 is TEUR 1,587 (31/12/2015: TEUR 5,916). Included in the previous year were severance payments in the amount of TEUR 4,046 to three former members of the Board.

For their work during the period 1 January 2016 to 31 December 2016, the members of the Supervisory Board received total remuneration of TEUR 400 (31/12/2015: TEUR 402). This includes net remuneration in the amount of TEUR 299 (31/12/2015: TEUR 113). The difference results primarily from travel expenses accrued.

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 staff employed in the 2016 financial year was 66 (2015: 93), of which 23 (2014: 32) were female employees. With the exception of 11 employees, all staff work in Germany.

6.3 Disclosure report

Varengold Bank AG published a Disclosure Report as of 31 December 2016 according to the regulatory requirements of the Basel III framework of 1 January 2014, as well as the Capital Requirements Regulation (Regulation No. 575/2013). The Disclosure Report of 31 December 2016 will be published in June 2017 at the latest.

6.4 Other financial obligations

Other financial liabilities in the amount of TEUR 1,224 (previous year: TEUR 2,025) primarily include obligations from rental and leasing contracts with residual terms of up to 5 years.

6.5 Forward transactions

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

	Nominal TEUR	Positive market TEUR	Negative market TEUR
Foreign currency	4,475	11	4

6.6 Recommendation for utilization of earnings

The General Meeting of Shareholders was recommended to carry the loss forward to new account.

6.7 Notification in accordance to Section 20 AktG

The following disclosures according to Section 20 para. 6 AktG were transferred to the Federal Gazette for publication in the business year:

25 February 2016

VEM Holding S.à r.l., Luxemburg (Address: 5, rue Guillaume Kroll, 1882 Luxemburg) informed Varengold Bank AG according to Section 20 para. 1 AktG, that they owned more than one quarter of the stock of Varengold Bank AG, that according to § 16 para. 4 AktG, the Varengold Bank AG stock immediately received from Dero Bank, Munich, was attributable to VEM Holding. Dero Bank AG, München (Address: Herzog-Wilhelm-Str. 26, 80331 Munich) informed Varengold Bank AG according to Section 20 para. 1 AktG, that they owned more than one quarter of the stock Varengold Bank AG.

14 March 2016

VEM Holding S.à r.l., Luxemburg (Address: 5, rue Guillaume Kroll, 1882 Luxemburg) informed Varengold Bank AG according to Section 20 para. 5 AktG, that as of 11 March 2016 they own less than one quarter of the stock of Varengold Bank AG. Dero Bank AG, Munich (Address: Herzog-Wilhelm-Str. 26, 80331 Munich) informed Varengold Bank AG according to Section 20 para. 5 AktG, that as of 11 March 2016 they own less than one quarter of the stock of Varengold Bank AG.

29 September 2016

Elysium Global (Dubai) Limited (Address: Level 1, Gate Village Building 5, Dubai International Financial Centre, Dubai, United Arab Emirates, PO Box 506699) informed Varengold Bank AG according to Section 20 paragraphs 1 and 3 and Section 16 AktG, that they directly and Elysium Global Limited indirectly own more than one quarter of the stock of Varengold Bank AG. In addition, they informed Varengold Bank AG that Elysium Global (Dubai) Limited is a fully owned subsidiary of Elysium Global Limited.

6.8 Supplementary statement

No particularly meaningful transactions took place after the conclusion of the reporting period.

6.9 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 since 1 March 2017. Varengold Bank AG is not obliged to publish a statement of compliance with the German Corporate Governance Code (Section 161 AktG), as the Company is not listed according to Section 3 para. 2 of the Code.

Hamburg, 30 March 2017

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten

MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Principles of Varengold Bank

Varengold Bank AG is a private German bank with its headquarters in Hamburg and an office in London. With core business areas Prime Brokerage and Commercial Banking, Varengold Bank AG offers its customers and business partners a wide variety of products and services. The customers include institutional clients for whom the Varengold Bank AG operates in all business divisions, as well as private customers for whom call money and fixed-deposit products are offered.

Since its founding in 1995, the core competencies of the Company have been providing alternative and intelligent investment solutions. Today, the Prime Brokerage division covers this area, in addition to offering services for processing trading transactions. The Prime Brokerage division engages and utilizes the over 20 years of Varengold Bank experience in alternative investments with comprehensive service offering in the securities area. Through the offerings of supplementary structuring and financing solutions, the Bank offers international customers the entire value-added chain of the Prime Brokerage, in addition to derivatives and securities trading.

In 1998 the business activities of the Capital Markets Brokerage, which concentrated in particular on the platform-based Forex and CFD trade, expanded. In February 2016 Varengold Bank established a new strategic orientation and decided to close the Capital Markets Brokerage division.

Varengold Bank AG presents the Commercial Banking division as global partner that provides individualized products and solutions to demanding customers and investors. Operating mainly in the trade finance sector, the Commercial Banking division, among other activities, creates ways for clientele to process transactions and trading activities over international borders.



B. Economic report

1. Macro-economic and industry-related conditions

The general economic and industry-related environment continued to be influenced in the year 2016 in particular by low interest rates and various political events, which contributed to increasing uncertainty with respect to the global economy. Such events were the referendum vote for Great Britain to leave the European Union, concerns about weak capitalization of Italian banks, and the results of the presidential election in the USA. On the other hand, the end of the recession in Russia was a stabilizing factor. The global economy grew slowly in the past year, at a rate of 3.1 %. The Eurozone exhibited moderate, yet stable growth. The Gross Domestic Product (GDP) grew by 1.7 %. The economic development in Germany was initially dynamic, due to domestic drivers such as private consumption and then stagnated later as the year progressed. Based on the strength of the first half of the year, Germany's GDP in 2016 posted an increase of 1.9 %.

The currently most important geographic markets of Varengold Bank are Germany, other European nations with future focus on the Eastern European region, as well as the Middle-East-North-Africa (MENA) region. While the German market is relevant for the Company particularly with respect to private customers in terms of deposit business and with respect to corporate customers in terms of payment transactions and trade finance business, Great Britain remains of importance particularly for customers and business partners in the Prime Brokerage segment. The MENA region plays a significant role here for almost all business divisions of the Bank.

The German banking sector is also affected by almost all developments on the international financial markets. Concerns exist about the potential consequences of Brexit upon the banking market due to the past importance of London as a financial center of activity. On the foreign exchange market the Euro lost around 3.2 % against the dollar. The business activities and the market environment of Varengold Bank itself have, as in previous years, been subject in particular to the impact of increased regulation. The Central banks continued in financial year 2016 with their expansive monetary policy. Continued low interest rates have also meant that it has continued to be difficult for banks to place cash inflows from customer deposits profitably, which has an adverse effect on the earning potential of the banking industry.

The regulatory environment of Varengold Bank AG continued to be influenced by an increasing tightening of supervisory requirements. The expansion of the Bank union and the security schemes intensified the monitoring of the banking sector. The Supervisory Review and Evaluation Process (SREP) of the European Central Bank (ECB) created a standardized process for the valuation of banks. The ECB further amended, and thereby intensified, the SREP requirements at the start of the year. In general, the effects of the regulatory developments announced or introduced in the past year are difficult to reliably estimate. For example, the amended regulations regarding risk management (MaRisk), the European Bank Authority's Consultation Paper, as well as the recommendations of the EU Commission to revise the supervisory regulations of the CRR and CRD. On the whole, the comprehensive regulatory intensification has already noticeably strengthened the European banking system, yet increasingly shows that German banks are limited in global competitiveness, in particular by the retention of strict limitations. For these reasons strict cost management, risk minimization and constant review and possibly adjustment of strategic orientation remain necessary.

2. Business development

The business year 2016 marked the consistent implementation of the strategic and operational focus introduced after the departure of the original founders of Varengold Bank from the Board of Directors in 2015. The core goal was to establish a sound and sustainable business model as a full service bank, with efficient utilization of the critical resource "regulatory capital." The decline in realized earnings related to the closure of the no-longer strategically-aligned Capital Markets Brokerage division were compensated by a concentration on both core areas Prime Brokerage and Commercial Banking.

According to plan, the Prime Brokerage division was able to generate higher earnings and increased results through the expansion of the product palette and the broadening of the customer base to include managers of different asset classes, including in particular areas of real estate and short-term receivables. The risks were consistently limited by receiving mainly short-term and widely-diversified credit commitments. The same conservative approach to risk management was applied to the development of the other core business area of Commercial Banking. The results of this division are due primarily to the generation of non-risk-bearing fee earnings and are only partially affected by the absorption of credit risks. The development of the business divisions has not yet exhibited the dynamism that was originally planned. Over the course of the business year, however, clearly positive trends in particular based on the newly acquired customers, as well as the achieved product palette expansions.

The business year 2016 can be regarded as a year of new orientation and stabilization. The challenges on the one hand, of expansion on the new product and customer relations fronts, while on the other hand simultaneously dismantling the original core areas, fulfilling increasing regulatory requirements and establishing an even more conservative risk management culture ultimately lead to a negative result, which was however, a clear improvement compared to the previous year. The very successful introduction of these measures should demonstrate positive results in the coming years.

Varengold Bank executed a capital increase in the middle of the first quarter 2016 authorized by the Annual General Meeting on 26 August 2015. With the approval of the Supervisory Board, the share capital of the Company was raised from EUR 1,948,368.00 against cash or non-cash contributions of EUR 974,184.00 to EUR 2,922,552.00 by issuing 974,184 new shares by way of a public offering and a subsequent private placement. The shares were offered at a premium of TEUR 13.00 per share and lead to a premium of TEUR 11,690. The registration of the capital increase took place on 23 February 2016.

In March 2016 Mr. Edo Barac resigned his position on the Supervisory Board of Varengold Bank AG effective 31 March 2016. On 10 March 2016 the Board of Directors, in accordance with Section 104 para. 1 AktG, submitted a request to the District Court of Hamburg to legally appointment of Mr. Alexander Körner to membership on the Supervisory Board.

At the Annual General Meeting on 24 August 2016, the 2015 departure of the members of the Supervisory Board and the Board of Director was announced and the voting to engage PricewaterhouseCoopers Corporation as the accounting firm for the 2016 financial year took place. Moreover, a new authorization to raise capital in 2016 was approved. Furthermore, Dr. Karl-Heinz Lemnitzer and Mr. Alexander Körner were

elected to the Supervisory Board for a period of about three years. Subsequently, at the next Supervisory Board Meeting, Dr. Lemnitzer was elected to the position of Chairman and Mr. Michael Stephen Murphy was elected Deputy Chairman, by the Supervisory Board.

3. Company position

3.1 Asset position

In 2016, the total assets increased by 2.1 % from EUR 601.2 mil. to EUR 613.9 mil. and remained. Customer deposits of continue to dominate the liability side at EUR 589.7 mil., or 96.1 % of positions on the liability side. In the application of funds, the reduction of funds and government bonds of the trading portfolio (-EUR 315.8 mil.) as of the reference date, led to an increase in coupons at central banks of EUR 238.6 mil. and an increase in bonds and obligations, as well as stocks and other variable securities of EUR 24.8 mil. and EUR 29.8 million. In addition, claims on credit institutions declined to EUR 13.3 million.

Asset and liability structure

The asset and liability structure compared to the previous year as follows:

Assets	31/12/2016	31/12/2015	Change
Short-term receivables (< 1 year)	88.2 %	95.6 %	-7.4
Medium-term receivables (1 to 5 years)	4.7 %	3.0 %	1.7
Long-term receivables (> 5 years)	0.8 %	0.0 %	0.8
Equity ownership / shares in affiliated companies	0.6 %	0.6 %	0.0
Fixed assets	5.7 %	0.8 %	4.9

Exposures	31/12/2016	31/12/2015	Change
Short-term debt (< 1 year)	92.8 %	96.0 %	-3.2
Medium-term exposures (1 to 5 years)	4.2 %	3.2 %	1.0
Long-term exposures (> 5 years)	0.8 %	0.8 %	0.0

The core capital ratio (TIER 1) was 17.77 % with preparation of the annual accounts and due to the capital increase executed in the first quarter of 2016, was considerably higher than the previous year's result of 8.75 %.

In addition to the obligations to customers (TEUR 589,684; previous year: TEUR 587,715), there still remain obligations to banks (TEUR 1,237; previous year: TEUR 576), as well as other obligations to our suppliers and business partners (TEUR 922; previous year: TEUR 1,923) and provisions valued at TEUR 2,883 (previous year: TEUR 1,885). Instruments of additional Supervisory core capital (so-called Additional TIER 1) exist in the amount of TEUR 5,000.

Varengold Bank AG has an orderly asset and capital structure at its disposal.

Use was made of the option to convert deferred tax assets as per Section 274 of the HGB, as tax loss carryforwards are considered to be recoverable within the next five years based on financial projections. In business year 2016, no additional deterred taxes were generated. The distribution of deferred tax assets is subject to legal restrictions.

3.2 Financial position

At EUR 455.7 mil. (74 %) cash and cash equivalents liquid were the largest position on the asset side of the Balance Sheet. In the trading portfolio, free liquidity is only partially invested in the securities sector. In this way, the cash and cash equivalents more than doubled. The supervisory requirements liquidity ratio on the reference day is exceptionally high at 2,277.90 %. The cash position of the Bank was at no time endangered.

3.3 Results of operations

The interest income of the Company increased from TEUR 1,326 in 2015 to TEUR 4,474 in 2016. The increase of TEUR 3,148 is mainly attributable to increasing interest income from the credit business for originated loans in the Prime Brokerage division, as well as the by EUR 880 increased interest income from fixed-income investment securities, which result from increased holdings. The interest income includes negative interest primarily for German Central Bank balances amounting to TEUR -1,074. The interest income from fixed-income investment securities increased from TEUR 858 to TEUR 1,738. The majority of this (EUR 1,614) resulted from interest income of the first in 2016 formed liquidity reserve. At the same time, the interest expenses decreased due to the continued lowering of the interest rates to TEUR 2,896, so that an interest surplus of TEUR 1,578 was realized.

In addition, dividends from Real Estate and Short Term Receivables Funds in the amount of TEUR 554 (previous year: TEUR 0) were achieved.

Commission revenues almost quadrupled to TEUR 20,927 due to strongly expanded Prime Brokerage activities. Commission expenses were also driven by the expansion of Prime Brokerage activities and increased from TEUR 1,335 to TEUR 15,211. The Commercial Banking and Capital Markets Brokerage divisions contributed TEUR 1,237 to the commission results.

The net results of the trading portfolio declined to TEUR 5,432 from TEUR 5,685. In particular, the revenues in the Prime Brokerage and Capital Markets Brokerage divisions declined significantly to TEUR -3,758 and TEUR -3,227. Although the results of the Treasury division improved by TEUR 1,496, the end result was negative at TEUR -1,213.

The remaining business income grew from TEUR 1,175 to TEUR 2,066. This is mainly comprised of income from foreign currency conversion (TEUR 1,124), income from reversals of accruals (TEUR 388), as well as sales tax refund from the previous year in the amount of TEUR 371.

The general administration expenses of the Company declined to TEUR 5,415 (from TEUR 20,962 to TEUR 15,547). The reasons for this were in particular the decrease in personnel costs from TEUR 9,099 to TEUR 7,210, consulting and audit fees from TEUR 3,807 to TEUR 2,555), as well as IT costs from TEUR 2,551 to TEUR 1835, which was mainly attributable to the reduction in operating costs of Commercial Banking and less subcontracting and outsourced services postings. The expenditures on premises could be reduced to TEUR 449 mainly through the closing of the offices in Dubai and the move in Hamburg. Contributions for premiums and insurance increased to TEUR 315, due primarily to an increase in the contribution rate of the German Bank Compensation Scheme.

Depreciation and write-downs of intangible and tangible fixed assets declined from TEUR 436 in the previous year to TEUR 328.

Other operating expenses decreased from TEUR 367 in the previous year to TEUR 362 in 2016.

The item depreciation and write-downs on receivables increased primarily by lower interest write-downs of securities in the liquidity reserve (TEUR 1,630) from TEUR 1,510 to TEUR 1,803. Government bonds with interest coupons markedly higher than the current interest rate were purchased above par. The resulting need for write-downs is mainly associated with the low interest rate and not with a change in the creditworthiness of the customers. The resulting interest income is TEUR 1,738.

The income from write-ups from participating interests and treated as fixed-asset values declined from TEUR 3,253 to TEUR -80. The expenses of the business year resulted in full from the write-down of a pre-distribution purchased portion of a fund. The write-down was compensated by a distribution in the amount of TEUR 361. The previous year's income resulted mainly from two special effects: the sale of shares of Hanseatic Brokerhouse AG and sales of fixed-asset securities.

In total, the results of normal business activities of Varengold Bank AG were TEUR -2,523 (previous year: TEUR -5,818).

In the financial year extraordinary expenses of TEUR 1,668 were incurred. These include TEUR 851 for a court settlement, as well as a successfully resolved legal conflict. The remaining TEUR 789 resulted from claims against customers from the previous year. An additional TEUR 28 was associated with the closure of the Capital Markets Brokerage business division.

The remaining extraordinary expenses are TEUR 606. These are attributable to restructuring expenditures in the amount of TEUR 293, as well as a one-time payment due for the Compensation Scheme of German Banks in the amount of TEUR 133.

Taking the extraordinary results of TEUR 1,062 into consideration, a year-end loss of TEUR 1,486 (previous year TEUR 13,217) was reported.

The return on investment according to Section 26a KWG is calculated on the ratio of net profit and balance sheet total and based on the year-end loss for 2016 is negative at -0.24 %.

3.4 Financial performance indicators

The key performance indicator is earnings before tax. Earnings before tax of TEUR 342 were planned for 2016. Net income from the Prime Brokerage and Commercial Banking divisions performed under expectations, yet were somewhat compensated for by increased earnings from the Capital Markets Brokerage division. In addition, the unexpected extraordinary income, as well as lower write-downs positively affected the earnings performance. After deducting for administrative expenditures and financing costs, a resulting lower-than-planned results before taxes of TEUR -1,460 was achieved.

C. Outlook, risk and opportunity report

1. Outlook report

Also in 2017, the world economy will face a variety of different situations and uncertainties which could considerably weaken the economic development on the global level. Political hot spots, terrorism, Great Britain's departure from the EU and stagnating world trade could leave a corresponding impact. While China struggles with growing debt, the economy in Russia could be revived by higher oil prices. The economic political perspective and trade strategies of the new US government are also unclear. In Europe, however, experts nevertheless expect stable growth at a moderate tempo for the coming year. A dynamic recovery for the many member states with structural weaknesses is expected. The danger of additional referenda regarding leaving the EU could possibly strain the political and economic stability of Europe and with it the strongly export-oriented economy of Germany. Experts point however, to solid growth overall for the German economy. The key driver of growth continues to be private consumption.

On the finance and capital market the extreme expansive monetary policy and the sustained low interest environment continue to take center stage and could lead to price bubbles on the asset side and the inducement to react could lead to increased risk. In the unforeseeable future, low interest rates could further increase the pressure on the earnings potential of banks. On the whole, Varengold Bank anticipates a liquid market environment with moderate volatility.

On the regulatory side, the adoption of diverse guidelines, regulations, supervisory ordinances is to be expected. The trend anticipated by the Company toward a continuing increase in regulatory requirements could lead to Varengold Bank's incurrence of additional obligations. In order to ensure timely compliance, the development of possible new obligations and regulations will be processed before new individual projects are implemented. Moreover, the compliance and implementation of amended supervisory regulations is as a rule connected with an increase in resource commitment, as well as a corresponding increase in administrative expenditures. Pressure on profitability remains an issue for the banking sector. Banks will continue to try to compensate for these burdens with the development of interest-independent income sources, such as commission income.

The effects of all internal and external factors on the business year 2017 are not quantifiable at this time and allow no clearly defined prognosis to be drawn. No further trends, obligations or occurrences that could have a significant impact on the prospects of the Varengold Bank in the 2017 financial year are known at this time. The product portfolio of Varengold Bank will be developed with a concentration on the most important customer relationships and locations.

2. Risk report

It is not possible to earn income in the banking business 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 AG.

To control the internal and external risks associated with the business of the Company, the Bank applies a risk-control and risk-management system that conforms to the "Minimum Requirements for Risk Management" (MaRisk) of the Federal Financial Supervisory Authority (BaFin).

The definition of risk is understood to be negative changes to expected events. The primary focus of the risk management system is the categorization of significant risks into counter-party risk, liquidity risk, market risk, operational risk and other risks which, among other things, include the risk to reputation, strategic risks and risk concentrations.

To manage these risks, a regular monitoring and evaluation of the identified risks is carried out as part of the risk management system. The whole 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 categorization among the various types of risk. In this context, care is permanently taken to ensure that the businesses are backed with adequate equity.

Varengold Bank AG is responsible for controlling risk to monitor adherence to the risk strategy. All risk reduction measures are transparently reported by the management in order to enable an adequate control mechanism.

Core elements of risk management at Varengold Bank AG are the risk strategy, the risk-bearing capacity concept, the limit system and monitoring processes which are oriented towards the business activities.

The business strategy must determine the essential goals of Varengold Bank AG for each business activity, as well as the measures to reach these goals.

The risk strategy reflects the impact of the business strategy on the risk environment of Varengold Bank AG and describes the approach taken for existing risks, as well as the Bank's ability to carry the risks.

Every potential future risk must be fully transparent from the beginning. Only with complete transparency can whether a risk should be taken or not, be evaluated. This decision is made by the Management Board always under consideration of whether each risk can be expected to deliver reasonable returns and whether the

associated risk can be carried. 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 whose compliance is continuously monitored.

Varengold Bank AG pursues a growth strategy. Part of this business strategy of Varengold Bank AG is to offer flexible competitive products and services and to continuously adjust to changing market conditions. In this fast-paced environment, Varengold Bank AG generated correspondingly volatile income. Therefore, the risk-bearing capacity analysis of risk monitoring takes place on a monthly basis. The methodology of the analysis is continuously monitored for plausibility and to ensure that it adheres to the most current requirements of the regulatory environment.

To establish the risk-bearing capacity of Varengold Bank AG, the Going Concern Principle is applied. This pursues the aim of safeguarding the continuity of the Bank even when a loss of the general risk profile occurs during the observation period. Such an approach requires the Bank to have the necessary capital reserves. In order to cover possible losses, this capital is not available to the risk-bearing capacity observation, to prevent it from being a part of the risk coverage potential.

Calculation of risk-bearing capacity for the going-concern approach at Varengold Bank AG is based on calculating the risk-bearing capacity of the financial statement figures. Of the risk-bearing potential on 31 December 2016 of TEUR 9,050, TEUR 8,658 were used as risk-bearing capacity. The not to be applied TEUR 392 serves as a safety margin to cover risks that are particularly hard to quantify, such as strategic, reputational and other 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 utilization rate of risk-bearing capacity on 31 December 2016 was 42 %.

Conventional models are used to monitor serious counterparty and market price risks.

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 assessed with a confidence level of 99 %, a time horizon of one day and a lookback of 260 days via historical simulation. The monitoring and regulation of the market price risk is oriented on the limit system, which is in turn derived from the risk coverage potential of 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 monitoring process. For counterparty risk, quantification is performed using the key risk indicators of "expected loss" and "unexpected loss." Expected loss is determined on the basis of the likelihood of default under consideration of the loss given defaults (LGDs). Unexpected loss is quantified with the aid of a credit risk model for a confidence level of 99 % and a time horizon of one year. The calculation uses the Gordy model, which is applied by the Basel Committee on Banking Supervision for modelling bank capital adequacy on the terms of Basel II and the further provisions set out by Basel III. Cut here?? (this para. Is so long you could make two!) The credit risk model calculates

the contributions of individual borrowers and shareholdings to the unexpected loss at portfolio level, which are then additively aggregated to an unexpected loss for the portfolio as a whole. In the process, any extant external or internal (if applicable) probabilities of default (PDs) and the transaction-specific loss ratio (LGD) are applied. Specification of the other model parameters is performed by applying the standard specifications of Basel III. Alongside the probabilities of default and loss given defaults, the correlation between the counterparties, as well as the residual terms and the granularity of the portfolio are taken into consideration.

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 and the particular business model.

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

3. Opportunity report

The geopolitical environment as relates to the global perspective of the Bank, continues to be a factor of uncertainty. In the past, the Company invested heavily in the growth of the Bank to create an ongoing solid foundation.

Over the past three years, the Commercial Banking division developed a solid customer base for trade finance transactions and would like to further develop its position as a specialized provider for institutional customers with a trading focus on Eastern European and Middle East regions in the future. Varengold would like to utilize this customer potential to further develop the product palette, in the area, for example, of credit forfaiting. In the competitive arena, the Bank positions itself as a classical niche provider. In the Commercial Banking division all German banks which conduct foreign exchange transactions are part of the Company's competition in the field of international payment transactions. The Board is of the opinion that Varengold Bank AG has an advantage here, whereby as a result of its modest size it can acquire customers who do not appear profitable to traditional providers.

The focus of business activities in the Prime Brokerage division in 2016 was on equity strategies. Varengold expects this asset class to become less attractive to customers in the coming years. The Bank will therefore, as already started in 2016, further develop the asset classes real estate and short-term receivables in order to continue to expand the business possibilities that exist in these areas. In Prime Brokerage the Company competes in particular with European leverage providers and depository banks, as well as German investment corporations. Varengold Bank differentiates itself here from its competitors in particular through short decision paths and tailored products within an established infrastructure.

In addition, Varengold Bank has recently been exploring the development of potential financing and product solutions for finance technology companies (FinTechs) and intends to utilize these opportunities, because it expects to generate substantial growth opportunities and innovation through cooperating with FinTechs.

Since the provision of borrowed capital is an important fundamental offering for all target customers, Varengold will rapidly develop to a recognized risk manager for the relevant asset classes. The special customer access, as well as the analysis competency will be utilized to make the business model of the group a scalable through the establishment of an asset management strategy, even with limited availability of regulatory capital. The existing Varengold Investmentaktiengesellschaft mit TGV already today offers the organizational prerequisites for a successful implementation. The equity position of the Bank should be strengthened in the mid-term, in order to utilize market opportunities and to react flexibly. Based on the strategic refocusing and implemented operational improvement measures, the Board of Directors is looking confidently into business year 2017.

The Company expects the stronger focusing on the product and service offering, including those to institutional customers, to positively influence the earnings of the Bank. Based on the successful implementation of the planned business objectives and the increase in operational efficiency, positive earnings before taxes as a key financial indicator) between TEUR 200 and TEUR 700 for the year 2017 are expected.

Hamburg, 30 March 2017

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten



AUDITOR'S REPORT

Reproduction of the Auditor's Report

„We have audited the financial statements - comprising the balance sheet, profit and loss account and the notes - with the bookkeeping system and the management report of Varengold Bank AG, Hamburg, for the business year 1 January to 31 December 2016. The accounting records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the basis of our audit on the financial statements, including the accounting and the management report.

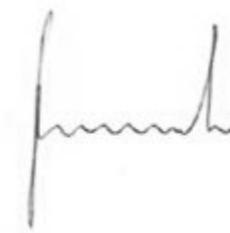
We conducted our audit in accordance with Section 317 of the HGB and promulgated by the Institute of Auditors (IDW) and generally accepted German auditing standards. Those standards require that we plan and perform the audit to detect misstatements materially affecting the presentation of operations in the annual financial statements in accordance with the principles of proper accounting and in the management report of the net assets, financial position and results, with reasonable assurance. In determining the audit procedures, we took into account knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements. During the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the annual financial statements and management report are examined primarily on an evidence-sampling basis. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of the tests conducted, the financial statements comply with legal requirements and, in compliance with generally accepted accounting principles, give a true and fair view of the assets, financial and earnings position of the company. The management report is consistent with the financial statements as a whole, and provides a suitable view of the Company's position and suitably presents the opportunities and risks of applicable future development

Hamburg, 19 May 2017

PricewaterhouseCoopers
Audit and Assurance
Consulting and Tax Services



Lothar Schreiber
Auditor



ppa. Uwe Gollum
Auditor

CORPORATE INFORMATION

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Frank Otten

Supervisory Board
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Michael Stephen Murphy
Alexander Körner

Corporate Register
District Court of Hamburg, HRB 73684

USt-IdNr. (Value-added Tax Identification number)
Finance Authority Hamburg, DE247069729

Regulatory Authority
Varengold Bank AG is registered with the Federal Financial Supervisory Authority under number 109 520 and its registration is published under www.bafin.de.

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 part of the German Banks Compensation Scheme (EdB).

Notes on the content

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

All masculine gender designations also apply to the feminine gender.

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

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Varengold Bank AG

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