

Interim Report for 30 June

2016



V a r e n g o l d

B A N K

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

	30.06.2016	30.06.2015	Change
Key figures per share	in EUR	in EUR	in EUR
Earnings per share	0.56	-0.94	+ 1.5
Shareholder's equity per share	12,853,384	21,451,532	- 8,598,148
	01.01.2016	01.01.2015	Change
	to 30.06.2016	to 30.06.2015	
Profit and loss statement	in TEUR	in TEUR	in TEUR
Interest income	893	-1,168	+ 2,061
Commission income	5,720	1,524	+ 4,196
Net income from trading portfolio	3,936	7,542	- 3,606
Other operating income	755	284	+ 471
Income from investments/securities	129	0	+ 129
Administrative expenses	-8,359	-10,327	- 1,968
Depreciation and value adjustments	1,227	281	+ 865
Income from normal business operations	1,847	-2,426	+ 4,273
Income/loss for the year	1,651	-1,833	+ 3,484
	30.06.2016	30.06.2015	Change
	in TEUR	in TEUR	in TEUR
Balance sheet			
Balance sheet assets without trust assets	634,122	626,252	+ 7,870
Share equity	16,715	13,784	+ 2,931

Disclaimer:

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

Legally binding is solely the German version of the interim report 2016.

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02

PRELIMINARY NOTES

This interim report contains key figures and the half-year financial report – including the balance sheet, profit and loss statement, as well as attached explanatory notes related to the balance sheet, the management report and the segment reporting – which are unaudited and have not undergone a formal review.

Statement of the legal representatives:

The Board of Directors confirms that to the best of their knowledge, the presented interim report, developed using standard accounting principles, provides the most true and fair view of the financial position of the company and that the interim report represents the most true and fair view of the company and with respect to the important events and the consequences thereof, within the first six months of the business year.

29 August 2016
Dr. Bernhard Fuhrmann und Frank Otten
Vorstand der Varengold Bank AG

03

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The economic and political environment in the European Region in the first half of 2016 were largely characterized by uncertainties and market volatilities. The global economy suffered under a loss of purchasing power of the primary producing countries as a result of the low oil prices, the decreasing economic strength of individual large industrial countries, as well as discussions with respect to Great Britain's referendum to leave the EU ("Brexit"). Compared to other countries, the German economy was able to endure these losses on the export side due to its stable domestic business activities.

In this economic environment, the European Central Bank is making it increasingly difficult to earn money with its interest policy. At the same time, the regulatory bodies are demanding a strengthened capital structure. Within this environment, Varengold Bank increased its capital in February 2016 by conducting a cash capital increase through a subscription offering and the subsequent private placement of 974,184 shares of securities at the issuing price of EUR 13.00 per share (funds generated: EUR 12,664,392.00).

In the following month, Mr. Edo Barac resigned his position as member of the Advisory Board effective 31 March 2016. Upon request of the Board of Directors, the District Court of Hamburg legally appointed Mr. Alexander Körner of Langenselbold, to the Advisory Board on 1 April 2016. Mr. Körner is Chief Executive Officer of GreenShield Capital GmbH.

In the same month the Board of Directors, with the approval of the Advisory Board, decided to discontinue the Capital Markets Brokerage business area and to focus on the intensive development of the Prime Brokerage and Commercial Banking business areas. This strategic positioning has demonstrated

its first success and the bank generated an operational result of EUR 1.8 million in the first half of the business year 2016 (first half-year 2015: -EUR 2.4 million). The reasons lie predominantly in the increase in interest income through the credit business for loans in the Prime Brokerage division, as well as in the significant increase in the commission results based on strengthened Prime Brokerage activities. In addition, the general administrative costs of the Bank dropped by almost EUR 2 million following the reduction in personnel costs, the IT costs and consulting expenditures.

At the end of the first half of the year the bank moved into new facilities in which the employees could be better accommodated.

We wish to thank our customers and cooperation partners for their trust and our employees for the dedication, with which they have accompanied Varengold Bank during this time of strategic refocusing and who deliver the necessary impulses for sustainable growth of the business activities.

Hamburg, August 2016

The Board of Directors of Varengold Bank AG



Dr. Bernhard Fuhrmann

Frank Otten

Varengold Bank AG is a German bank headquartered in Hamburg and with an additional location in London. With the business divisions of Prime Brokerage and Commercial Banking, Varengold offers its customers and business partners numerous products and services.

Varengold was founded in 1995 as an asset management boutique and has continued to follow the goal of offering individualised financial products for private and institutional customers. With the receipt of the deposits banking license in 2013, the Commercial Banking business division was established.

Varengold Bank AG is registered with the German Federal Financial Supervisory Authority (BaFin) under the number 109 520 and has been listed since 20 March 2007 in the Entry Standard of the German Stock Exchange in Frankfurt (symbol VG8, IISIN DE0005479307, WKN 547930).

Varengold Bank AG is also bound to the German Deposit Guarantee and Investor Compensation Act (EdB).

Brief Description of the Business Portfolio

	Prime Brokerage	Commercial Banking
Brief Description	In the business division Prime Brokerage, over twenty years of expertise of Varengold Bank AG in the area of alternative investments with a comprehensive service offering in securities takes its form. Here Varengold Bank combines their existing knowledge with innovative consulting approaches that enable their international business customers to secure old paths while successfully forging new ones. Through the offering of extended structural and financial solutions, the bank offers their international clientel an extensive service portfolio.	With the Commercial Banking division, Varengold Bank AG presents itself as a global partner providing individualised products and solutions for demanding customers and investors. Giving our business partners the possibility to process transactions and trading activities over international borders with the help of our products and solutions, is for us not a question of responding to demand, but is a part of our self-image.
Products	<ul style="list-style-type: none"> ■ Derivatives and securities ■ Securities lending transactions ■ Share deposit accounts ■ Lombard loans ■ Clearing services ■ Execution services ■ Capital call facilities ■ Capital introductions 	<ul style="list-style-type: none"> ■ International payment transactions ■ Deposit accounts ■ Lombard loans ■ Bank guarantees ■ Letters of credit ■ Structured finance ■ Trade and export finance
Competitive advantages	<ul style="list-style-type: none"> ■ Innovative product solutions embedded in German legal structures ■ Coverage of entire value-added chain from execution through processing business trades on the international level 	<ul style="list-style-type: none"> ■ Expertise in emerging markets with robust networks ■ Dynamic adjustments to market changes ■ Status of a German regulated bank ■ Deposit protection up to a maximum of EUR 100,000 per customer
Client structure	<ul style="list-style-type: none"> ■ Institutional investors ■ Asset fund managers 	<ul style="list-style-type: none"> ■ Corporate customers
Return components	<ul style="list-style-type: none"> ■ Commerce commissions ■ Deposit and clearing fees ■ Interest yield 	<ul style="list-style-type: none"> ■ Fees ■ Interest yield ■ Commissions

The stock of Varengold Bank (WKN: 547930) has been listed on the Frankfurt Stock Exchange since 20 March 2007. In addition, the stock is traded on the exchanges in Stuttgart, Düsseldorf, Berlin-Bremen and on the electronic trading system XETRA.

Key Figures

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock Symbol	VG8
Market Segment	Free trading
Transparency Level	Entry Standard
First Listing	20 March 2007
Share (Type)	No par value, bearer common shares
Number of shares	2,922,552
Total capital	2,922,552 EUR
German stock exchange listing	Dero Bank AG (until 31 March 2016: Oddo Seydler Bank)
Designated Sponsor	Dero Bank AG (until 31 March 2016: Oddo Seydler Bank AG)
Specialist	Baader Bank AG

General conditions and development

The course of the global stock markets, as with the trend of European banking sector, were comparatively weak in the first half of 2016. The high volatility on the European stock markets were also affected by the negative vote in Great Britain on whether to remain in the European Union ("Brexit") and led to a comparatively poor performance of the European indices. In the middle of 2016, the DAX was nearly 10 % lower than at the end of 2015. On the foreign exchange markets, the Euro in turn, lost value against the US Dollar. Concerns about the future development of the EU and effects upon the global market, as well as the role of the Central

Banks, further increased the nervousness of market participants. In the banking sector in particular, the continued low interest rates, coupled with the resulting lower revenue possibilities, as well as the new tightening of regulatory requirements, caused price declines in some instances.

This stock market environment also influenced the development of Varengold stock in the first half of 2016. At the beginning of the reporting period the shares were at a value of EUR 10.69 and declined over the course of the first six months to the lowest value of the year to date of EUR 3.85. Isolated

trading days with relatively high trading volume led to short, but decisive events. Since the beginning of the second half of the year, the stock has again developed significantly positively. Varengold stock reached a peak value of EUR 13.75 in the middle of August and since then has been hovering around the EUR 9.00 mark.

The average course of Varengold stock fell compared to the first half of 2015 from EUR 13.87 to EUR 7.84.

The average daily shares traded in the reporting period numbered 590 (first half year 2015: 1,143 shares). The per share results increased from EUR -0.94 to EUR 0.56. The market capitalisation on the reporting date 30.06.2016 was EUR 12,853,384 (30.06.2015: EUR 21,451,532).

Price History of Varengold Shares



Source: Bloomberg

In accordance with (German Commercial Tax Code)
as of 30 June 2016

Varengold Bank AG

Große Elbstraße 14
22767 Hamburg

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Varengold Bank AG, Hamburg

INTERIM BALANCE SHEET AS OF 30 JUNE 2016

Assets

	EUR	Financial year EUR	Previous year TEUR
1. Cash reserve			
a) Cash and cash equivalents	1,472.47		11.8
b) Balances with Central Banks	341,956,240.09		195,614.3
- of which: with the German Central Bank:		341,957,712.56	195,626.1
TEUR 341,956.2 (previous year: TEUR 195,614.3)			
2. Claims on banks			
a) Due on demand	44,977,052.74		52,443.7
b) Other receivables	996,776.79		971.4
		45,973,829.53	53,415.1
3. Customer receivables		60,839,462.19	23,508.6
- of which: Secured by mortgages TEUR 36.0			
(previous year: TEUR 35.7)			
4. Bonds and other fixed-income securities			
a) Bonds and debt			
aa) From public issuers	166,820,839.22		61,703.9
- of which:			
acceptable as collateral at the German Central Bank:			
TEUR 164,977.8 (previous year: TEUR 60,452.8)			
ab) from other issuers	1,007,083.33		2,517.7
		167,827,922.55	64,221.6
5. Shares and other variable-yield securities		5,969,083.79	0
5a. Trading portfolio		4,660,909.65	262,479.5
6. Participating interests		668,184.36	759.6
7. Shares in affiliated companies		2,774,951.05	2,908.5
- of which: in financial services institutions TEUR 1,709.8			
(previous year: TEUR 1,709.8)			
8. Trust assets		0.00	0
9. Intangible assets			
a) Self-created industrial and similar rights and assets	1,605.51		24.4
b) Concessions acquired for consideration, industrial	265,965.84		413.9
property rights and similar rights and assets as well as licenses in			
such rights and assets.			
		267,571.35	438.3
10. Fixed assets		238,455.60	492.9
11. Other assets		1,071,648.56	13,476.7
12. Accruals and deferred income		203,417.95	6,034.8
13. Deferred tax assets		1,668,667.76	2,890.8
Total assets		634,121,816.90	626,252.4

Liabilities

	EUR	Financial year EUR	Previous year TEUR
1. Liabilities to banks			
a) Due on demand	971,499.92		140.9
b) With agreed maturity dates or periods of notice	0.00		566.7
		971,499.92	707.6
2. Amounts owed to customers			
a) Other liabilities			
aa) Due on demand	261,205,421.47		513,938.7
ab) With agreed maturity dates or periods of notice	340,243,600.55		82,936.0
		601,449,022.02	596,874.7
2a. Trading portfolio		906,990.57	1,959.3
3. Trust liabilities		0.00	0
4. Other liabilities		906,374.32	6,205.4
5. Accruals and deferred income		742,223.31	914.5
6. Provisions			
a) Reserves for pensions and similar obligations	53,190.00		0.0
b) Provisions for taxes	269,041.18		0.0
c) Other provisions	7,108,643.95		806.6
		7,430,875.13	
7. Instruments of additional regulatory core capital		5,000,000.00	5,000.0
8. Share equity			
a) Subscribed capital		2,922,552.00	1,948.4
b) Capital reserves		30,607,373.80	18,917.2
c) Reserves			
ca) Legal reserves	1,700.00		1.7
cb) Other retained earnings	16,700.00	18,400.00	16.7
d) Net loss		-18,484,346.33	-5,266.9
e) Annual profit/loss		1,650,852.16	-1,832.8
Total Liabilities		634,121,816.90	626,252.4
1. Other liabilities			
a) Irrevocable loan commitments		1,687,227.00	0.00

PROFIT AND LOSS STATEMENT

For the period 1 January 2016
to 30 June 2016

	Financial year		Previous year		Financial year		Previous year
	EUR	EUR	TEUR		EUR	EUR	TEUR
1. Interest income from							
a) Credit and money market transactions	2,164,097.53		555.3				
less negative interest from bank balances	<u>-350,040.86</u>		<u>0.00</u>				
	1,814,056.67		555.3				
b) Fixed-income securities and debt register claims	<u>731,118.75</u>		<u>572.3</u>				
	2,545,175.42		1,127.6				
2. Interest expenses	<u>-1,651,912.33</u>		<u>-2,296.0</u>				
		893,263.09	-1,168.4				
3. Current income from							
a) Shares and other variable-yield securities	129,168.20		0.0				
b) Shareholdings	<u>0.0</u>		<u>0.0</u>				
		129,168.20	0.0				
4. Commission revenues	17,741,382.37		2,129.5				
5. Commission expenses	<u>-12,021,194.23</u>		<u>-605.4</u>				
		5,720,188.14	1,524.1				
6. Net income from trading portfolio		3,936,293.78	7,542.2				
7. Other operating income		926,635.61	396.4				
8. General and administrative expenses							
a) Personnel expenses							
aa) Wages and salaries	-3,630,714.83		-4,321.3				
ab) Social security contributions and expenses for pensions and other employee benefits	<u>-390,052.00</u>		<u>-431.3</u>				
- of which: including for pensions TEUR 2.2 (previous year: TEUR 3.0)	-4,020,766.83		-4,752.6				
b) Other administrative expenses	<u>-4,338,571.53</u>		<u>-5,574.0</u>				
		-8,359,338.36	-10,326.6				
9. Depreciation and amortisation of intangible assets and property		-161,476.95	-229.1				
10. Other operating expenses		-172,079.63	-112.0				
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions in lending business		-984,645.89	-52.1				
12. Income from attribution of shares, Income from attribution of shares, asset traded securities					-80,522.98	0.0	
13. Income from ordinary activities		1,847,485.01	-2,425.6				
14. Extraordinary income		782,928.17	0.0				
15. Extraordinary expenses		<u>-145,662.57</u>	<u>0.0</u>				
16. Extraordinary result		637,265.60	0.0				
17. Taxes on income and earnings	-832,852.45		593.8				
18. Other taxes	<u>-1,046.00</u>		<u>-1.0</u>				
19. Annual profit/loss		<u>1,650,852.16</u>	<u>-1,832.8</u>				

Varengold Bank AG, Hamburg

NOTES

For the period from 1 January
2016 to 30 June 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).

As all subsidiaries pursuant to Section 290 paragraph 2 HGB are of lesser importance for an appropriate view of the group's assets, financial and earnings position, even combined; use is made of the exemption clause on the preparation of group financial statements pursuant to Section 290 paragraph 5 HGB.

2. Accounting and valuation methods

The accounting and valuation methods remained unchanged compared to last year, except for the reporting of the results from foreign currency conversion. This had no effect on the earnings position.

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, paragraph 8 HGB.

In accordance with Section 248, paragraph 2 HGB, the right to elect to use 2010 to 2012 development costs as internally generated intangible assets over the years was activated. There were no further asset creations in the financial years 2013 to 2015. Write-downs for all internally generated intangible assets (TEUR 4) in the first half of the year 2016 are shown under "Depreciation and write-downs of intangible and tangible assets" and are fully written-down.

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 reserves for bad debt. Bad debts were written off. The latent credit risk was carried through the creation of value adjustments.

Bonds and other fixed-income securities are assigned to fixed assets valued according to the diluted lower of cost or market principle.

Stocks and other non-fixed asset securities that are recorded under fixed assets are valued according to the strict lower value principle.

Pursuant to Section 340e paragraph 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, paragraph 4, sentence 1 HGB, is the market price of the financial instrument, because there is an active market for all FX and CFD 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 2015, the risk premium of TEUR 121 was adjusted by TEUR 85 and was reported according to Section 340c paragraph 1 HGB.

The investments and shares in associated companies are valued using the corresponding rules for acquisition costs if applicable, less depreciation at lower of cost or fair value.

Fixed assets and intangible assets are valued at acquisition cost, less scheduled linear depreciation according to expected useful life. Here the Bank relies closely 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 and EUR 1,000 are bundled into a compound item, which is written off in the financial year of

formation and in the following four financial years at one fifth each. Assets with a value of less than EUR 150 are treated as immediate operating expenses.

Purchased software is recognised under intangible assets, and tangible assets classified as assets are measured at amortised cost less scheduled depreciation. The Bank uses the fiscal depreciation rates as a basis (asset depreciation) for expected useful life.

Other intangible assets are stated at face value.

Active prepaid expenses (essentially prepaid rents and insurance) are stated in accordance with Section 250, paragraph 1 HGB. Accruals and deferred income (mainly interest received in advance) are reported in accordance with Section 250, paragraph 2 HGB and are written back over the residual term of the underlying transactions.

There are active deferred taxes amounting to TEUR 1,669 from taxable losses carried forward. The activation of this accounting convenience falls under the distribution restriction according to Section 268 paragraph 8 sentence 2 HGB. The previous year's losses from deferred taxes were reduced by their use in the first half of 2016 by TEUR 629. The Management Board expects the full utilisation in the next five years of the deferred tax assets formed in previous years. 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 %).

Liabilities are treated as deferred items with their repayable amount.

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 Prof. Heubeck in accordance with the provisions of BilMoG (German Accounting Law Modernisation Act). For the valuation process, the modified part-value method was used. It was based on an actuarial interest rate of 3.89 %, a salary and career trend of 2.0 % and a fluctuation of 10 %.

The interest-related transactions in the bank book are examined annually in their entirety for an excess liability. For this, a present value-based approach is used. The valuation showed no need to form a provision for expected losses.

According to Section 340e, paragraph 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, paragraph 4, sentence no. 2 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, paragraph 4, sentence 2, numbers 2 and 3 HGB, no allocation was made to the special account in the financial year.

The treatment of the results from the foreign currency conversion 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 recognised 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 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 paragraph 3 HGB in conjunction with Section 32 and Section 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 TEUR (thousands of Euros).

3. Currency conversions

The amounts under "Commission revenues" and "Net trading income" apply to a considerable extent to the foreign currencies: U.S. dollar (USD), Swiss francs (CHF), British pound (GBP), Japanese Yen (JPY), Arabic dirham (AED), Australian dollar (AUD), Canadian dollar (CAD) and Hong Kong dollar (HKD). During the year, cash-settled income with the current exchange rates was booked in the profit and loss account. The resulting foreign currency items were converted on the reference date at the following closing rates in euros in accordance with Section 256a HGB:

1 EUR =	USD 1.1102
1 EUR =	CHF 1.0867
1 EUR =	GBP 0.8265
1 EUR =	JPY 114.05
1 EUR =	AED 4.0956
1 EUR =	CAD 1.4384
1 EUR =	AUD 1.4929
1 EUR =	HKD 8.6135

Profit or loss from currency translations are reported in profit and loss accounting and are removed from interest results, according to Section 340h HGB.

As of 30 June 2016 the foreign currency amounts listed below are included in the following balance sheet items:

Bilanzposten	30.06.2016	30.06.2015
	TEUR	TEUR
Cash reserves	0	9
Loans and advances to credit institutions	9,887	20,826
Customer receivables	5,861	3,272
Bonds and other fixed-income securities	13,604	0
Shares and other non fixed-income securities	5,969	0
Trading portfolio (active)	0	7,428
Shares in affiliated companies	1,754	1,918
Participating interests	0	96
Other assets	185	2,315
Prepaid expenses	117	0
Liabilities to banks	107	140
Amounts owed to customers	35,187	26,659
Other liabilities	155	250
Deferred income (liabilities)	0	1
Provisions	12	121

4. Notes to the Balance Sheet

4.1 Overall disclosures

4.1.1 Relationships with companies in which an investment is held and to associated companies

	30.06.2016	30.06.2015
	TEUR	TEUR
Customer receivables	60,839	23,509
of which from companies in which an interest is held	0	0
of which to associated companies	6,625	785

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

	30.06.2016	30.06.2015
	TEUR	TEUR
Amounts owed to customers	601,449	596,875
of which to associated companies	2,131	346

The "of which" item results from liabilities owed to Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg; Varengold Capital Investment Company, Hong Kong and Varengold Capital Holdings Limited, British Virgin Islands.

4.1.2 Breakdown by remaining maturity

	30.06.2016	30.06.2015
	TEUR	TEUR
Loans and advances to credit institutions	45,974	53,415
to three months	45,974	53,415
Customer receivables	60,839	23,508
to three months	28,835	5,261
more than three months to a year	7,149	280
more than a year to five years	19,689	17,895
more than five years	5,166	72
Liabilities to banks	971	708
to three months	971	708
Amounts owed to customers	601,449	596,875
to three months	520,825	535,998
more than three months to a year	66,339	47,359
more than a year to five years	14,285	13,518

4.1.3 Securities

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

	30.06.2016	30.06.2015
	TEUR	TEUR
Notes and other fixed-income securities	167,828	64,221
unlisted	1,007	2,517
listed	166,821	61,704
- of which: publicly owned	166,821	61,704
Shares and other variable-yield securities	5,969	0
listed	0	0
- of 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 and commission claims.

The liabilities consist of the following positions: call deposit accounts (EUR 187 million), clearing accounts (EUR 22 million), payment accounts (EUR 22 million), margins from the CMB business (EUR 28 million), cash deposits (EUR 2 million) and fixed-term deposits (EUR 340 million).

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 116 on the reference day. All treasuries are recorded in liquidity reserves.

In April, all treasuries held in the trading portfolio (book value of EUR 45.9 million) were reclassified as liquidity reserves. This was due to a massive purchase of securities by the ECB and the resulting task of the treasury trading strategy of the bank. If these securities had remained in the trading portfolio, reserves in the amount of TEUR 17 could have been realised on 30 June 2016.

In May, all treasuries that were held under assets, at a book value of EUR 1.9 million, were reclassified as liquidity reserves, as treasuries should now only be used for liquidity management.

If these treasuries had remained classified as assets and the difference were recorded according to the maturity date, the book value of the securities would have been TEUR 3 higher on 30 June 2016.

4.2.3 Equity ownership and shares in affiliated companies

Varengold Bank AG holds the following unlisted shareholdings:

Affiliated Companies	Ownership		Share equity 31.12.2015 TEUR	Result 2015 TEUR
	direct %	indirect %		
Hanseatic Brokerhouse Securities AG, Hamburg	33.00		2,126 ¹⁾	1,605 ¹⁾
Lava Trading Ltd., Valetta, Malta	49.79		0 ²⁾	-20 ²⁾
Varengold Capital Holdings Limited, British Virgin Islands	100.00		320 ³⁾	-68 ³⁾
Varengold Capital Securities Limited, Hong Kong	100.00		4,782 ³⁾	-3,444 ³⁾
Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg	100.00		686 ⁴⁾	282 ⁵⁾
ViaLight Communications GmbH, Gilching	2.22		1,479 ⁶⁾	-912 ⁶⁾
VirtuFX GmbH i.L., Hamburg	50.01		143 ¹⁾	-8 ¹⁾
Varengold Capital Advisory Limited, Hongkong		100.00	283 ³⁾	-17 ³⁾
Varengold Capital Asset Management, Limited, Hongkong		100.00	4,872 ³⁾	-128 ³⁾
Varengold Capital International Company Limited, British Virgin Islands		100.00	-28 ³⁾	-28 ³⁾
Varengold Capital Investment Company Limited, British Virgin Islands		100.00	49 ³⁾	-29 ³⁾
Varengold Capital Management Limited, British Virgin Island		100.00	-3,084 ³⁾	-3,161 ³⁾

1) Preliminary annual financial statements as of 31.12.2015

2) Annual financial statements as of 31 March 2014 (different financial year)

3) Stated in HKD based on preliminary annual financial statements as of 31 December 2015

4) Company's assets as of 30 November 2015 (different financial year)

5) Results as of 30 November 2015 (different financial year)

6) Financial statements as of 31 December 2015

Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen has issued company shares exclusively for the investment business assets. The capital of this sub-fund amounted to TEUR 686 as of 30 November 2015. Varengold Bank AG may assert claims against this sub-fund.

Hanseatic Brokerhouse Securities AG held shares in Varengold Bank AG in the amount of 1.78 % on the reference day.

4.2.4 Gross assets analysis

	Purchase			Depreciation			Residual book value	
	01.01.2016	Accruals 2015 TEUR	Uses / Recl- assification 2015 TEUR	Accu- mulated TEUR	Accruals 2015 TEUR	Uses 2015 TEUR	30.06.2016 TEUR	31.12.2015 TEUR
Intangible assets								
Self - created								
intellectual property rights and similar rights and assets	1,959	0	0	1,954	4	0	1	4
Purchased concessions, intellectual property rights and similar rights and assets as well as licenses to such rights and assets	1,880	0	0	1,523	91	0	266	358
Fixed assets	1,050	21	59	766	67	59	238	283
Total	4,889	21	59	4,243	162	59	505	645
Change^{*)}								
Notes and other fixed securities			163,437				167,828	4,391
Shares and Other variable securities			5,969				5,969	0
Participating interests			120				668	548
Shares in affiliated interests companies			0				2,775	2,775

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

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

The accruals in the first half of 2016 financial year are mainly attributable to fixed securities and the capital generation from a participation.

4.2.5 Trading portfolio

The trading portfolio is comprised of the following:

Asse	30.06.2016 TEUR	30.06.2015 TEUR
Derivative financial instruments		
Trading portfolio assets FX	747	2,451
Trading portfolio asstes CFD	4,035	3,734
Sub-total	4,782	6,185
Trading portfolio derivatives	0	0
Trading portfolio fund shares	0	157,280
Trading portfolio securities	0	99,197
Risk	-121	-183
Total	4,661	262,479

Passiva	30.06.2016 TEUR	30.06.2015 TEUR
Trading portfolio liabilities FX	285	698
Trading portfolio liabilities CFD	622	1,261
Total	907	1,959

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

Pursuant to Section 255 (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.

4.2.6 Other assets

This position mainly includes receivables from initial margin payments (TEUR 225), receivables from not yet billed brokers (TEUR 102), receivables from tax over-payments and value-added tax pre-payments (TEUR 255), receivables from customers in loyalty programmes (TEUR 15), receivables from internal money transfers (TEUR 251) and receivables from paid security deposits (TEUR 177).

4.2.7 Other liabilities

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

	30.06.2016 TEUR	30.06.2015 TEUR
Liabilities from received initial margin	0	4,547
Trade payables	386	1,187
Obligations from bonus programmes	15	268
Internal money transfers	0	0
Other liabilities	115	52
Liabilities from wages and salaries	0	2
Income tax liabilities	86	132
Social security liabilities	2	5
Liabilities for current year's sales tax	200	12
Liabilities for withholding tax	102	0
Total	906	6,205

The liabilities from provision of goods and services includes mainly not-yet mature receivables and outstanding commission payments to cooperating partners for services provided. Other liabilities include mainly liabilities from the payment obligations in the equity capital of Varengold Capital Holdings Limited, as well as liabilities towards introducing brokers.

4.2.8 Reserves for pensions and similar obligations

Pension reserves have been formed for dependents.

4.2.9 Provision for taxes

For incalculable losses ("minimum taxation") commercial tax provisions (tax rate 16.45 %) in the amount of TEUR 104, as well as corporate accruals (tax rate 15 % plus 0.825 % solidarity surcharge) of TEUR 100 were recorded. The remainder are tax provisions in the amount of TEUR 65 for pro rata profits of the office in London for the year 2015 on the basis of an income tax rate of 20 %.

4.2.10 Other provisions

This line item is comprised of the following:

	30.06.2016 TEUR	30.06.2015 TEUR
Security loan fees	5,031	0
Anniversary provision	199	175
Vacation accrual	194	254
Outstanding invoices for IT services	79	0
Audit and annual report costs	171	89
General Shareholders' Meetings	40	35
Temporary employment	127	25
Prime Brokerage fees	198	0
Legal and consulting fees	366	100
Commissions	0	121
Prime broker fees	53	0
Bonus payments	557	0
Other	94	8
Total	7,109	807

4.2.11 Instruments of additional regulatory core capital

On 19 August 2014, Varengold Bank AG issued additional Tier-1 bonds ("AT1 bonds") in the amount of EUR 5 million. The additional AT1 bonds constitute unsecured and subordinated bonds of Varengold Bank AG. The semi-annual interest payments for these debts are measured at their nominal values and the development of the EURIBOR. Varengold Bank AG is both obligated and has the 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 producing the facts of the situation. Such an instance of factual circumstances would be if the Tier-1 core capital ratio of Varengold Bank 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 4 on 30 June 2016 and is reported under other provisions.

the outstanding additional Tier-1 bonds were the following:

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

4.2.12 Equity capital

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), 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) and from 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). In addition, The Board of Directors was authorised by resolution of the General Shareholders' Meeting of Varengold Bank AG on 26 August 2015 to increase the share capital of the Company with the approval of the Supervisory Board from EUR 1,948,368.00 against cash contributions up to EUR 974,184.00 to up to EUR 2,922,552.00 through the issue of 974,184 new bearer shares with no-par value (unit shares), each with a pro rata share of the share capital of EUR 1.00 under exclusion of subscription rights.

With this authorisation, the Board of Directors, with the approval of the Advisory Board, increased the capital of the Company from EUR 1,948,368.00 against cash contributions of EUR 974,184.00 to EUR 2,922,552.00 by issuing 974,184 new bearer shares through a public offering and a subsequent private placement. The shares were issued at a premium of EUR 12.00 per share (TEUR 11,690). The entry of the capital increase into the commercial registry took place on 23 February 2016.

The Board of Directors was authorised in a resolution passed by the Annual General Meeting on 26 August 2015 to increase the Company's share capital by 25 August 2020, with the approval of the Supervisory Board, on one or more occasions, up to a total of EUR 974,184.00 by issuing up to a total of 974,184 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 ("Authorised Capital 2015"). 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 (1) sentence 1 or Section 53b (1) sentence 1 or (7) KWG with the obligation to offer these to the shareholders (indirect subscription right). The Board of Directors is authorised, with the approval of the Supervisory Board, to define the further details and terms of the capital increases from authorised 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, bonds 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. In order to pay the instruments, the share capital was conditionally increased by resolution of the Annual General Meeting on 8 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, paragraph 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 target-oriented performance incentive for the programme participants and should simultaneously foster a bonding between the participants and the Company.

Within the context of the AOP in 2012, however, 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 instalments, whereby no instalment 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 authorisation, the Supervisory Board 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 other particular high-performers. An additional 40,500 options were given to members of the Board of Directors; 31,000 of these could not be exercised due to the departure of the respective Board members. Until the end of the first-half of 2016, stock options in the number of 11,250 were issued to particular high-performers of the Company.

The distribution block pursuant to Section 268, paragraph 8 HGB applies to the following items:

	Book value TEUR	Deferred tax liabilities TEUR	Restricted TEUR
Internally generated intangible assets and licenses	0	0	0
Deferred tax assets			1,669
Total			1,669

5. Notes to the profit and loss statement

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

In the previous year, interest income includes income from foreign currency conversion in the amount of TEUR 30, which were reported this year under other operating income.

5.2 Income from shares and other variable yield securities and from equity investments

Income from shares and other variable yield securities includes income from a Real Estate Lending Fund.

5.3 Commission revenues/expenses

Commission income includes fees from the Prime Brokerage division (TEUR 16,908), the Commercial Banking division (TEUR 421) and the Capital Markets Brokerage (TEUR 412). The commission expenses are mainly comprised of fees from the Prime Brokerage division (TEUR 11,566). Commission fees from the Capital Markets Brokerage division amount to TEUR 444.

	30.06.2016 TEUR	30.06.2015 TEUR
Commission revenues	17,741	2,129
Commission expenses	12,021	605
Commissions surplus	5,720	1,524

5.4 Net income in the trading portfolio

According to Section 340c, paragraph 1, sentence 1 HGB, the following income and expenses are included in the net result of the trading portfolio: valuation losses and gains for trading positions; commission expenses and commission revenues related to trading positions (e.g. expenses for distribution partners); reduction for risk; allocations to and releases from the special "Fund for general banking risks" item.

Net Results by Business Division	30.06.2016 TEUR	30.06.2015 TEUR
Prime Brokerage	2,656	3,825
Capital Markets Brokerage	2,383	3,032
Commercial Banking	42	165
Treasury	-1,145	520
Net income from trading portfolio	3,936	7,542

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

	30.06.2016 TEUR	30.06.2015 TEUR
Wages and salaries	3,631	4,321
Social security benefits	388	428
Expenses for pensions and employee benefits	2	3
Total	4,021	4,753

The decrease in personnel expenses was mainly due to the reduced number of employees.

5.7 Other administrative expenses

	30.06.2016 TEUR	30.06.2015 TEUR
Occupancy	301	490
Premiums and insurance	116	124
Vehicle costs including leasing (without road tax)	37	79
Advertising, entertainment, travel expenses	225	447
Maintenance of business equipment, hardware and software	881	1,163
Communication expenses	296	285
Office supplies, magazines, training	41	111
Consulting, accounting and auditing costs	1,291	1,693
Other management costs	1,151	1,182
Total	4,339	5,574

The total auditor's fees calculated and/or set aside for the financial year were TEUR 162.

5.8 Extraordinary results

In the financial year extraordinary expenses of TEUR 146 were incurred. These include mainly restructuring costs in the form of severance payments to employees.

Extraordinary income in the amount of TEUR 783 resulted mainly from a correction, as well as a favorable legal court order.

6. Other information

6.1 Institutional bodies

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 at the beginning of financial year 2016 Mr. Edo Barac irrevocably resigned his position effective 31 March 2016. By request of the Board of Directors, the Hamburg District Court legally appointed Mr. Alexander Körner to the Supervisory Board on 1 April 2016.

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, paragraph 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. Otten are each entitled to represent the Company jointly with another Board member or an authorised representative.

As of the balance sheet date, Dr. Fuhrmann was also Chairman of the Supervisory Board of ViaLight Communications GmbH, Gilching, in addition to his role as director of Varengold Bank AG. In addition, Dr. Fuhrmann has held a seat on the board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg since 4 February 2015.

In addition to his duties on the Board of Directors of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of Ahrensburg Consult UG, Molfsee and member of the Supervisory Board of KERNenergie GmbH, 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 Board of Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Hamburg.

6.1.3 Remuneration and loans

Total remuneration of TEUR 886 was paid to the Board of Directors in the period 1 January 2015 to 30 June 2016 (30.06.2015: TEUR 1,129). This includes bonus provisions amounting to TEUR 452.

Members of the Board received total remuneration of TEUR 225 (30.06.2015: TEUR 188) for their work during the period 1 January 2016 to 30 June 2016. This includes net remuneration of TEUR 144 (30.06.2015: TEUR 150). The difference results primarily from travel expenses incurred in addition to sales tax.

As of the balance sheet date, there are no credit claims against members of either the Supervisory Board the Board of Directors.

6.2 Employees

The total average number of staff employed in the first half of 2016 financial year was 69 (30.06.2015: 108), of which 25 (30.06.2015: 36) were female employees. With the exception of 13 employees, all staff work in Germany.

6.3 Disclosure report

Varengold Bank AG published a Disclosure Report as of 31 December 2015 pursuant to Section 26 a KWG in conjunction with Section 319 et seqq. SolvV (Solvency Regulations).

6.4 Irrevocable loan commitments and other financial obligations

As of 30 June 2016 there were loan commitments in the amount of TEUR 1,687 (30.06.2015: TEUR 0).

Other financial liabilities in the amount of TEUR 1,657 (30.06.2015: TEUR 1,279) primarily include obligations from rental and leasing contracts with residual terms of up to 6 years.

6.5 Forward transactions

Forward transactions not yet processed on the balance sheet date are for trading purposes and exist in relation to customers and institutional counterparties (primarily central counterparties) and are recorded at fair value.

	Nominal TEUR	Positive market TEUR	Negative market TEUR
FX & precious metals	32.1	0.7	0.3
Shares and share indices	59.9	3.6	0.6
Commodities	2.6	0.4	0.0
Interest	7.6	0	0.1

6.6 German Corporate Governance Code

Varengold Bank AG (ISIN DE0005479307) has been listed in the Entry Standard of the Frankfurt Stock Exchange since 20 March 2007. 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 in Section 3 paragraph 2 of the Code.

Hamburg, 22 August 2016

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 the core business divisions of 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. In 1998 the business activities of the Capital Markets Brokerage, which concentrated in particular on the platform-based Forex and CFD trade, expanded. With the extension of the banking license and the expansion of the Varengold Bank AG to a deposits bank in 2013, the current Commercial Banking division was established.

Over twenty years of Varengold Bank AG expertise in the area of alternative investments with a comprehensive service offering in the securities area takes its form in the Prime Brokerage division. Through the offering of additional structuring and financial solutions, the bank offers international customers the entire value-added chain in this division, in addition to trading of derivatives and securities.

Varengold Bank AG presents the Commercial Banking division as global partner that provides individualised products and solutions for demanding customers and investors, giving our business partners the possibility to process transactions and trading activities over international borders with the help of our products and solutions.

B. Economic report

1. Macro-economic and industry-related conditions

The first half of financial year 2016 began amidst a very turbulent global economy. Specific reasons for this were the slump in the Chinese stock market and ongoing geopolitical uncertainties. The dynamics of the economy palpably subsided in certain regions, such as the USA and China. However, growth in the European region and in Germany in particular, exceeded expectations. The Gross Domestic Product of the European region grew moderately in the first six months of the year and unemployment declined slightly.

The monetary policy of the Central banks remained expansive at the global level. The European Central Bank (ECB) extended a low interest environment with its intention to purchase corporate bonds. At the end of the first half of the year the international markets were closely watching the developments in Great Britain with respect to the Referendum regarding whether the members of Great Britain would remain in the European Union ("Brexit") or not. The global markets were surprised and volatile when the majority of the voters cast their vote to leave. Fears about potential consequences were not only limited to the British banking sector and the financial center of London, but were also projected onto the entire European region.

The most important geographic markets of Varengold Bank are currently Germany, the other European countries, as well as the Middle East North Africa (MENA) region. The German market is relevant for Company in particular for private customers for the deposit business, as well as business customers for the payment transactions and the trade finance business. Great Britain remains important in particular for customers and business partners of the Prime Brokerage division. The MENA region plays an important role in all of the bank's divisions.

The banking sector is in general a difficult and intensely competitive environment and is influenced by developments of the global financial markets. The business activities and the market environment of Varengold Bank remain, as in past years, subject to the influence of increased regulation.

In the first half of the current year banks have been dealing with the incremental implementation of BASEL III and the accompanying more strict regulations on capital including among others SREP (Supervisory Review and Evaluation Process). This control and assessment process intensifies the monitoring of the ECB-supervised banks and includes increased capital requirements. In addition, the new focus on the regulatory environment has also included the initiation of the Market Abuse Regulation (MAD/MAR), which took effect on 3 July 2016.

The regulatory environment of Varengold Bank was not only affected by the generally more strict regulatory requirements, but also through changes with respect to the sales of deposit products and changes in tax regulations. The Company foresees a tendency toward further increases in regulatory requirements which might be imposed upon Varengold Bank. In addition, adhering to and implementing changes to the legal requirements is generally associated with an expanded use of resources and an increase in relevant administrative efforts.

2. Business development

In the first half of 2016, the Company has continued to work on the refocusing and strategic new direction of the bank. After having decided at year end to close the headquarters in Dubai, as well as closing the sales office in Beirut in February 2016, the Company decided to fully withdraw from the Capital Markets Brokerage division by the end of the third quarter to limit the risks and income volatilities. The bank will concentrate in the future on the two core business divisions Commercial Banking and Prime Brokerage where higher risk-adjusted gains are expected.

The development of the Varengold Bank AG figures in the first half of the year were particularly influenced by the new focusing of both core business divisions, as well as the associated expansion of the target customer base to a widely diversified base of institutional customers. The operational efficiency of individual areas were thereby noticeably increased.

The total assets of Varengold Bank remained nearly constant according to provisional, unaudited financial figures as of 30 June 2016 at EUR 634.1 million (30 June 2015: EUR 626.3 million). The customer deposits continued to comprise nearly 95 % of the liabilities. In addition, there was an important increase of capital created by the issue of 974,184 new securities offered for cash payments in February at a per share cost of 13.00 EUR.

The interest income earned by the bank increased from TEUR -1,168 in the first half of 2015 to TEUR 893 in the comparable time period in 2016 and was derived mainly from business activities in the Prime Brokerage division, as well as on the expense side through the ongoing declining interest rates.

The commissions results demonstrated a significant increase to TEUR 5,720 in the first half of 2016, in particular driven by the strong expansion of Prime Brokerage activities (first half year 2015: TEUR 1,524).

The net results of the trading portfolio declined noticeably by TEUR 3,606 to TEUR 3,936, mainly due to reduced activities in the out-phasing of the Capital Markets Brokerage division. The other business income position increased from TEUR 396 in the first half of 2015 to TEUR 926 in the first half of 2016.

The general administrative expenses of the Company fell by TEUR 1,968 (from TEUR 10,327 to TEUR 8,359). The reasons for this decrease were decreases in personnel costs, IT costs and legal and consulting service costs.

The total income from normal business activities of Varengold Bank AG in the first half of 2016 were TEUR 1,847 (30 June 2015: -TEUR 2,426) with an annual gain in the amount of TEUR 1,651, compared to an annual loss of TEUR 1,833 in the previous time period 2015.

Varengold Bank AG generated a capital increase in the first quarter of 2016 by implementing the decision of the general shareholder's meeting on 26 August 2015. With the approval of the Advisory Board, the capital of the Company was increased from EUR 1,948,368.00 with cash contributions of EUR 974,184.00 to EUR 2,922,552.00 through the issue of 974,184 new shares and subsequent private placement. The shares were offered at a new price of EUR 13.00 per share which led to an increase of TEUR 11,690. The capital increase was entered into the trade registry on 23 February 2016.

In March 2016 Mr. Edo Barac resigned his position as member of the Varengold Bank AG Advisory Board effective 31 March 2016. On the request of the Board of Directors, the District Court of Hamburg legally appointed Mr. Alexander Körner from Langenselbold as a member of the Advisory Board in a decision on 1 April 2016.

3. Company position

3.1 Asset position

In 2016, the total assets grew by 1.3 % from EUR 626.3 million to EUR 634.1 million and therefore remained stable. Customer deposits at approximately EUR 600 million, or 95 % of total assets, remain the predominant position of the assets. In the use of funds, bonds and other fixed-income securities as well as an increase of credit with the Central Banks, led to an increase from EUR 103.6 million to EUR 146.3 million.

Asset and liability structure

The asset and liability structure compared to 30 June 2015 is as follows:

Assets	30.06.2016	30.06.2015	Change
Short-term receivables (< 1 year)	67.8 %	85.5 %	-17.7
Medium-term receivables (1 to 5 years)	29.8 %	3.9 %	25.9
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	1.0 %	10.4 %	-9.4

Exposures	30.06.2016	30.06.2015	Change
Short-term debt (< 1 year)	94.2	87.3 %	6.9
Medium-term debt (1 to 5 years)	2.4	7.6 %	-5.2
Long-term debt (> 5 years)	0.8	3.0 %	-2.2

The core capital ratio (TIER 1) with preparation of the annual accounts was 8.75 % and increased due to the increase in capital to 16.46 % with submission of regulatory reports dated 31 March 2016. In comparison to the reports from 31 March 2016, the core capital ratio at 16.21 % on 30 June 2016 virtually unchanged.

In addition to obligations to customers (TEUR 601,449; 30 June 2015: TEUR 596,875), there are remaining obligations to banks (TEUR 971; 30 June 2015: TEUR 707), as well as other obligations to our suppliers and business partners (TEUR 906; 30 June 2015: TEUR 6,205) and provisions valued at TEUR 7,431 (30 June 2015: TEUR 807). Instruments of additional subordinated liabilities exist in the amount of TEUR 5,000. Short-term debt (commitments and accrued liabilities) exceed short-term assets.

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. The resulting distribution restriction was TEUR 1,669 (30 June 2015: TEUR 2,891).

3.2 Financial position

The financial position for the first half of 2016 is represented by the following cash flow statements, prepared in accordance with the rules of the German Association for Financial Analysis and Asset Management (DVFA)/Schmalenbach Society:

Varengold Bank AG, Hamburg	30.06.2016	30.06.2015	Change
<i>Cash flow statement 30 June 2016</i>	In TEUR	In TEUR	In TEUR
Half-year result	1,651	-1,833	3,484
+/- Depreciation/Write-ups of fixed assets	242	229	13
= Cash flow according to DVFA / SG standards	1,893	-1,604	3,497
+/- Increase/Decrease in trading portfolio	-62	53	-115
+/- Increase/Decrease in banking provisions for risks	483	52	431
+/- Increase/Decrease in funds for general banking risks	0	0	0
- Income from the dissolution of accruals	-13	-105	92
+/- Deferred income taxes, net	629	-593	1,222
= Cash flow adjusted for income/expenses not affecting liquidity	2,930	-2,197	5,127
-/+ Profit/loss from the disposal of fixed assets	0	0	0
+/- Increase/decrease in reserves	5,559	-295	5,854
-/+ Increase/decrease on loans and advances to customers and other assets	-34,352	-15,576	-18,776
+/- Increase/decrease of liabilities due to customers and other liabilities	12,669	294,958	-282,289
+/- Change in net trading assets	311,289	-75,480	386,769
+/- Increase/decrease of shares and other non-fixed interest securities	-6,049	2	-6051
+/- Increase/decrease in debt securities	-163,437	-21,221	-142,216
+/- Increase/decrease in debts to banks	0	-19,433	19,433
= Cash flow from operating activities	125,679	162,955	-37,276
Proceeds from disposal of fixed assets	59	105	-46
- Payments for investments in fixed assets	-80	-194	114
- Disbursements for investments in intangible assets	0	-103	103
- Disbursements for investments in financial assets	-121	-1,344	1,223
= Cash flow from investment activities	-142	-1,536	1,394
Proceeds from capital (subscribed capital)	974	177	797
+ Proceeds from capital increases (capital reserves)	11,690	3,362	8,328
+ Proceeds from subordinated debt	0	0	0
= Cash flow from financing activities	12,664	3,539	9,125
Net change in cash and cash equivalents	141,131	162,761	-21,630
+ Trade inventory at the start of the financial year	245,829	86,139	159,690
= Trade inventory at the start of the financial year	386,960	248,900	138,060
Composition of cash and cash equivalents at end of financial year:			
Cash reserves	341,958	195,626	146,332
Loans and advances to credit institutions	45,974	53,415	-7441
Liabilities due to credit institutions (due on demand)	-972	-141	-831
Trade inventory at the end of the financial year	386,960	248,900	138,060

In the first half of 2016 the cash flow from operating activities declined by a total of TEUR 37,276 to TEUR 125,679. The increase in cash flow from financing activities in the amount of TEUR 12,664 resulted from the increase in capital in the first half of 2016. During this financial period 974,184 new shares were issued at a price of EUR 13.00 per share. The cash flow from investment activities (-TEUR 142) resulted in the negative, because the Company used liquidity for investments in fixed assets and intangible financial assets. As a result, the Company booked a cash flow increase in the amount of TEUR 141,131 in the first half of 2016. The liquid assets increased from TEUR 245,829 at the beginning of the year to TEUR 386,960 on 30 June 2016. In addition to the amounts due from banks in the amount of TEUR 45,974 (30 June 2015: TEUR 53,415), the Company had accounts with brokers which, according to the KWG, must be recorded as amounts due from customers. As of 30 June 2016, the Company held TEUR 634 (30 June 2015 TEUR 299) in cash and cash equivalents at brokers.

3.3 Results of operations

The interest income of the Company increased by TEUR 1,128 in the first half of 2015 to TEUR 2,545 in the first half of 2016. The increase of TEUR 1,417 is primarily due to an increase in the interest income in the credit business for loans originated in the Prime Brokerage division, as well as the interest income from fixed-income securities in the amount of TEUR 210 resulting from increased holdings. The interest income includes negative interest primarily for German Central Bank balances in the amount of -TEUR 350. The interest income from fixed-income securities increased from TEUR 572 in the first half year of 2015 to TEUR 731 in the first half year of 2016. The majority of this amount (TEUR 633) in the first half of 2016 came from interest income from liquidity reserves. At the same time, the interest expenses declined to TEUR 1,652 due to the continued falling interest rates, so that an interest surplus of TEUR 893 was achieved.

In the first half of 2016 distributions from a real estate fund in the amount of TEUR 129 (30 June 2015: TEUR 0) were recorded.

Commission revenues increased significantly in the first half of 2016 from TEUR 2,129 in the first half of 2015 to TEUR 17,741 due to the strong expansion of activities in the Prime Brokerage division. Commission expenses also increased due to the expansion of activities in the Prime Brokerage division from TEUR 605 to TEUR 12,021. The Commercial Banking division and Capital Markets Brokerage contributed TEUR 465 to the commission results.

The net income from the trading portfolio decreased by TEUR 3,606 to TEUR 3,936. The results in every business division have declined; most significantly in the Treasury division (-TEUR 1,665), followed by Prime Brokerage (-TEUR 1,169) and Capital Markets Brokerage (-TEUR 649).

Other operational income rose from TEUR 396 to TEUR 926. This includes, contrary to the reporting in the previous year (accounting in interest income) income in the amount of TEUR 882 from foreign currency conversion which was reported under interest income in the previous year.

The general administration expenses of the Company fell by TEUR 1,967 (from TEUR 10,327 to TEUR 8,359). The reason for this in particular were the decrease in personnel costs from TEUR 4,753 to TEUR 4,021, the IT costs from TEUR 1,163 to TEUR 881 and the consulting and audit fees (von TEUR 1,693 to TEUR 1,291). In addition, the other remaining administration expenses remained almost constant at 1,151 (30.06.2015: TEUR 1,182) due to a decrease in sales expenses for the Commercial Banking division of TEUR 218 and the subcontracting and outsourced services positions increase of TEUR 331.

Depreciation and write-downs of intangible and tangible fixed assets fell from TEUR 229 in the first half of 2015 to TEUR 161.

Other operating expenses increased from TEUR 112 to TEUR 172 in the first half year 2016.

The position depreciation and value adjustments increased from TEUR 52 to TEUR 984 in the first half of 2016. This resulted from, on the one hand higher risk management costs in the credit business (+TEUR 430) and on the other hand from depreciation of securities in the liquidity reserves (+TEUR 502). Since all treasuries were bought over par due to low interest rates, the depreciation is mainly induced by interest. Interest income was recorded in the amount of TEUR 635.

Depreciation and value adjustments on shareholdings and securities investments were TEUR 81 (30.06.2015: TEUR 0). This full amount resulted from the depreciation prior to a distribution of a portion of a fund. The depreciation was offset by a distribution amounting to TEUR 129.

The total results of normal business activities of Varengold Bank AG in the first half of 2016 were TEUR 1,847 (30.06.2015: -TEUR 2,426).

In the financial year extraordinary expenses in the amount of TEUR 146 were incurred due to the planned closing of the Capital Markets Brokerage business division, as well as the down-scaling of the London office. The remaining extraordinary expenses of TEUR 783 are related to legal disputes.

Sales and income tax resulted despite the existence of a loss ("minimum taxation") through the new accruals of corporate tax (TEUR 100) and business tax (TEUR 104). Furthermore, the reduction of deferred tax assets due the loss carryforwards in the amount of TEUR 629, burdened the tax results in the first half of the year.

Therefore, there is an annual net income of TEUR 1,651 for the first half of 2016, following a net annual loss of TEUR 1,833 in the first half of 2015.

3.4 Financial performance indicators

The central performance indicator is the pre-tax results. For the first half of 2016 a pre-tax result of TEUR 2,518 was planned. The net result of the Prime Brokerage and Commercial Banking business divisions were slightly under plan, but were partially balanced by an increase in the Capital Markets Brokerage division. In addition, unexpected extraordinary income positively affected the earnings position. After deducting for administrative expenses, depreciation and financing costs, final results of pre-tax earnings were on target at TEUR 2,485.

C. SUPPLEMENTARY REPORT

The shareholders of Varengold Bank AG (WKN 547930) approved all of the agenda points at the Annual General Meeting of 26 August 2015 in Hamburg. A clear majority decided to discharge acting members of the Board of Directors and Supervisory Board in 2015 and to select the auditing and consultancy organization PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft for the financial year 2016. In addition, a 99.87 % majority voted to approve a new capital increase in 2016.

Furthermore, proposed candidates Dr. Karl-Heinz Lemnitzer and Mr. Alexander Körner were elected to positions on the Supervisory Board of Varengold Bank AG for an almost 3-year term. The Supervisory Board then elected Dr. Lemnitzer to Chairman of the Board and Mr. Michael Stephen Murphy as Deputy at the subsequent Supervisory Board meeting.

Other than the described events, no further developments of particular importance occurred by the end of the first half of the financial year 2016.

D. Outlook, Risk and Opportunity Report

1. Outlook report

For the remainder of the financial year 2016, stable growth potential in the European region is expected, although expert opinions on the capital market anticipate slowing investments on the part of market participants and view the situation with Italy's banking system crisis with suspicion. In addition, the course of action to implement "Brexit" and the speculation that other European countries could pursue a similar path of withdrawal create uncertainties and in the worst case could have noticeable repercussions for strong export-oriented countries such as Germany. It is however, to be expected that an appropriate legal framework will be found in order to not unnecessarily jeopardise existing and future economic relationships. The political developments in Turkey, the ongoing refugee situation, as well as latent terror threats could negatively affect the political stability in Europe.

The German Parliament approved the "Investmentsteuerreformgesetz" (Investment Tax Reform Act) on 8 July 2016. This new law will take effect on 1 January 2018 and could impact future profitability of Varengold subsidiary Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen (TGV) by reducing the product offering which could lead to a decrease in income from these products.

The Bank and the Board of Directors of Varengold Investmentaktiengesellschaft mit TGV already anticipated these developments at the end of 2015 and within the scope of the new strategic orientation, have started to implement relevant measures to counter these potential effects. A highlight here is the focus on other asset classes of the Prime Brokerage (real estate and short-term retail financing).

In addition, the ongoing low interest rates will continue to generally make it difficult for market participants in the banking sector to place funds from customer deposits in profitable credit businesses or in the money and capital market, which negatively impacts both the profitability of the deposit business, as well as customer deposit volume. Banks will therefore need to implement a continuous review of their strategic orientation. Moreover, initial discussions of the implementation of a financial transaction tax may lead to an inevitable decrease in the trade of financial instruments which would in turn have a negative impact on the banking sector.

The implications of all internal and external factors on the 2016 financial year are not quantifiable at this time and allow no clearly defined prognosis to be drawn. No other trends, obligations or occurrences that could have a significant impact on the prospects of the Varengold Group in the 2016 financial year are known at this time. The individual product offerings of the business divisions are being expanded to enable the Bank to further strengthen its competitive advantage and increase efficiency in a sustainable fashion in order to ensure reasonable profitability.

2. Risk report

In general, it is not possible to earn income in the banking business without entering into risks. In this respect, conscious action, proactive management and ongoing identification and monitoring of risks are core elements of success-oriented business management at 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).

Risk is defined as the negative difference between expected results and actual results. Events that are expected by definition carry a lower risk. The primary focus of this risk management system is the categorisation 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 build on 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 categorisation among the various types of risk. In this context, care is continuously 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 for reaching 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 and the ability to carry the risks.

Every potential future risk must be transparent from the beginning. Only with complete transparency can it be evaluated, whether a risk should be taken. This decision is made by the Board of Directors always under consideration of whether each particular 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 the compliance of which is continuously monitored.

Varengold Bank AG pursues a growth strategy. Part of the business strategy of Varengold Bank AG is to offer flexible competitive products and services and continuously to 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 such 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 financial statement figures. Eighty percent of the risk-bearing potential of TEUR 16,007 calculated as of 30 June 2016 is used as risk-bearing capacity. The 20 % not to be applied serves as a safety margin for covering risks that are particularly hard to quantify (strategic and reputational risks as well as other risks). As a rule, the maximum tolerated utilisation rate is limited to 100 %. Utilisation rates exceeding 100 % within the individual risk types require a response of the Board of Directors. The utilisation rate of risk-bearing capacity in the first half of 2016 averaged 27 %.

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

The market price risk is quantified using the value at risk. 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 surveillance and regulation of the market price risk is oriented on the limit system, which is in turn derived from the risk coverage potential for the market price risk. Varengold Bank AG possesses a comprehensive set of limit systems, some of which are also computerised. This includes the “Exposure Tool,” which provides a real-time view of MT4 portfolio positions. The limits for the liquidity and investment portfolio are addressed and specified by the respective investment guidelines. These are also monitored on a daily basis by the Risk Control unit.

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 utilises 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. The credit risk model calculates the contributions from individual borrowers and shareholdings to the unexpected loss at portfolio level, which are then aggregated to an unexpected loss for the portfolio as a whole. In the process, any extant external or internal (as appropriate) probabilities of default are applied, as is the calculated transaction-specific LGD. Specification of the other model parameters is performed by applying the standard rules from Basel III. Alongside the probabilities of default and loss given defaults, correlation between the counterparties is also factored in, as are the residual terms and the granularity of the portfolio.

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 in responsible risk-taking.

3. Opportunity report

In general, the macroeconomic environment is expected to remain challenging for the banking sector for the remainder of 2016. The company has reinforced investment in the growth of the bank in order to build a solid foundation. In addition, the product portfolios of the two core business areas of Commercial Banking and Prime Brokerage have been further diversified to strengthen competitiveness. The Bank has already begun shifting its original focus in the Prime Brokerage division from equity strategies to other asset classes such as real estate and short-term receivables and adding products in the Commercial Banking division to expand forfaiting. Letter of credit business and the associated issue of bank guarantees are also being further expanded, as will the Treasury.

In the coming years, the Bank aims to position itself as a specialist provider of Trade Finance solutions, especially for corporate customers with a regional focus on Eastern Europe and the MENA region, as well as a professional Prime Brokerage partner for institutional clients. Compared to the competition, the Bank positions itself as a classic 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 believes 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. In the Trade Finance division the Bank benefits from long-standing customer relationships. In the Prime Brokerage division the Company is in competition in particular with European leverage providers and deposit banks, as well as German investment corporations. Varengold Bank differentiates itself here from its competitors through short decision paths and tailored products within an established infrastructure.

Given the international nature of the Bank, the geopolitical environment continues to be one of the factors of uncertainty. Furthermore, the continuing tendency towards increasing regulatory requirements does not generally make it easy for smaller banks to compete profitably in the market.

The Company will try to compensate for the challenges inherent to this ongoing low-interest environment by further expanding revenue streams which are independent of interest rates and through additional cost reductions. With this in mind, Varengold Bank has started to implement a re-oriented growth strategy, in which customer satisfaction and organisational stability play an important role. Varengold Bank's corporate culture will also be characterised in future by flexibility and creativity. In the business divisions of Commercial Banking and Prime Brokerage, the focus is on satisfying customer needs with niche products and delivering a customised product and service quality.

In the medium term, the intention is to increase the Company's equity in order to successfully navigate the challenges and volatility in the current and future market environment with fewer risks. The Management Board feels confident that the operational measures introduced with respect to the strategic re-orientation will continue to establish a foothold in the second half of the financial year 2016 and will bring corresponding benefits to the total year-end results.

Hamburg, 29 August 2016

Varengold Bank AG



Dr. Bernhard Fuhrmann



Frank Otten



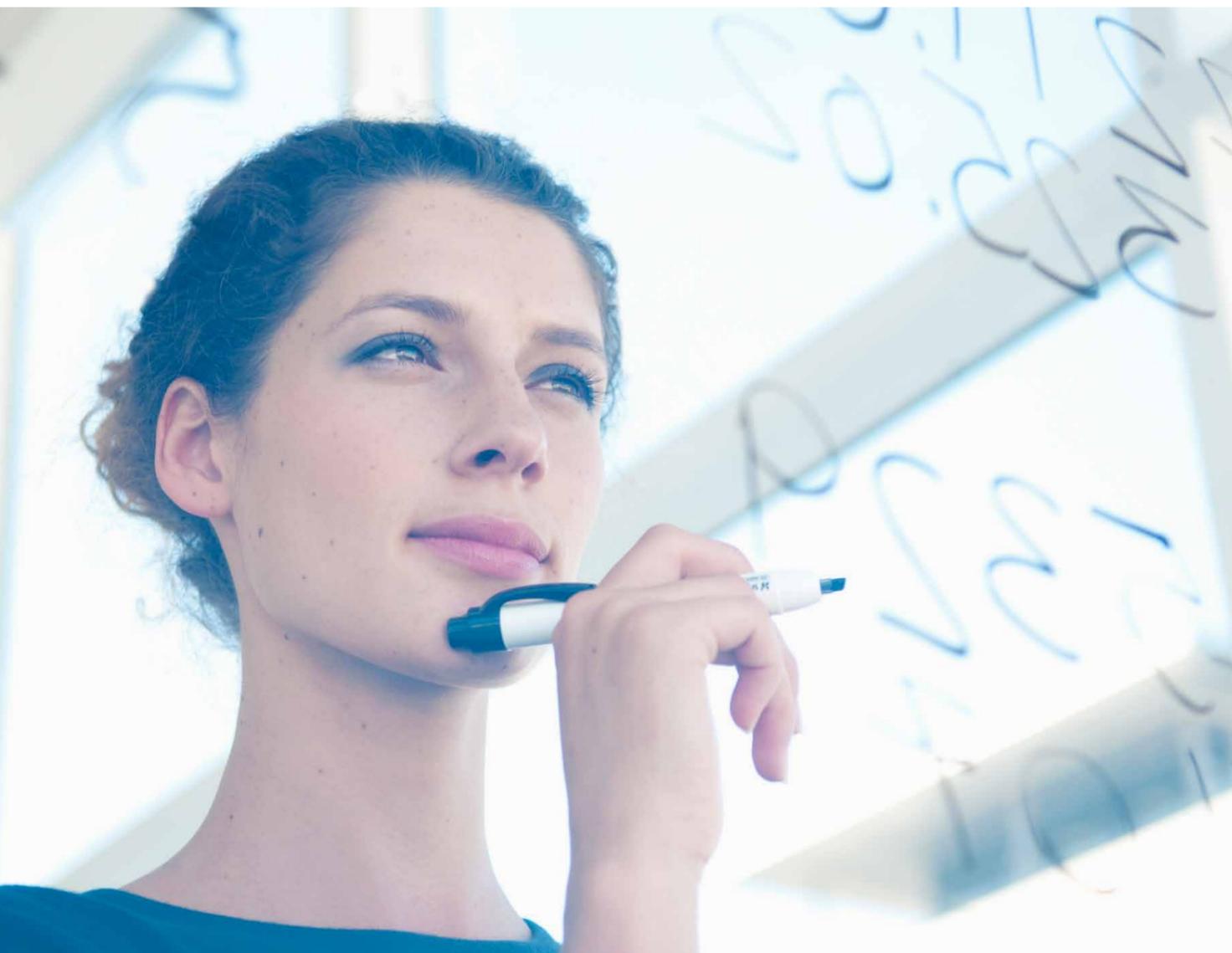
SEGMENT REPORTING

Reporting period 01.01. - 30.06.2016	Total	Capital Markets Brokerage	Prime Brokerage	Commercial Banking
	TEUR	TEUR	TEUR	TEUR
Interest income	2,545	-139	2,278	406
Interest expenses	1,652	6	1,643	3
Provisions income	17,741	398	16,916	427
Provisions expenses	12,021	237	11,727	57
Current income from shares	129		129	
Net results of the trading portfolio	3,936	2,201	1,688	47
Other operating income	927	423	297	207
Administrative expenses	8,359	3,485	3,214	1,661
Depreciation	1,227	419	730	78
Other operating expenses	172	72	1	99
Results of normal business activities	1,847	-1,334	3,992	-810

The first half of 2016 was characterized by very different business developments in the individual divisions. The Prime Brokerage division achieved noticeably positive results due to an increase in revenue compared with previous year, while the Capital Markets and Commercial Banking divisions recorded reduced income, as well as higher cost burdens leading to negative results. Based on the change in the allocation system, considerable variations with respect to the allocation of administrative costs and their depreciation were recorded as compared to the previous financial period. All income and expenses related to the entire bank and which cannot be directly attributed to one of the three business areas, in particular personnel costs and all costs related to needs of the middle and back offices, Supervisory Board, as well as the Board of Directors are divided through a distribution formula based on a determination of causality of the expense. The new allocation system is oriented on a business area per headcount basis. The following expenses are allocated according to the distribution formula: rent, insurance, IT costs of the entire Bank, expenses for capital market obligations, auditing costs, legal and consulting costs of the entire Bank, donations and deductions. All treasury components are shown in Prime Brokerage. Other operating income in each of the three business divisions has increased as compared to previous year's results, due to income differences resulting from interest income being reclassified to other operating income and recorded according to the per headcount basis.

Capital Markets Brokerage:

The significant reduction in profit in the Capital Markets Brokerage division in comparison to the first half of business year 2015 was mainly due to reduced trading volume which can be explained by the announcement in March 2016 of the intent to close this division in October 2016. Due to the distribution of penalty interest to the business divisions, a negative interest income in Capital Markets Brokerage was recorded. Administrative expenses increased through the distribution of the division's expenses of the Corporate Center. On average 8 employees were directly attributed to Capital Markets Brokerage. In addition, the higher administrative expenses were due to increased IT costs. Depreciation was generated primarily from one specific value adjustment of an IB requirement.



Prime Brokerage:

The significant increase in revenue in the Prime Brokerage division as compared to the first half of 2015 was mainly achieved through the asset class private equity. The real estate asset class contributed less to the overall results. The income resulting from commissions and interest income was achieved through transactions with institutional customers that mainly utilize international trading strategies. The high commissions expenses, mainly resulting from security lending fees were reimbursed by customers and recorded in commissions income. The remaining source of income for the Prime Brokerage division resulted from trading income from investments in connection with Varengold Investmentaktiengesellschaft mit Teilgesellschaftsvermögen. The high interest expenses resulted from daily and term deposit interest payable to investors are associated with the available assets in the Prime Brokerage division. The administrative expenses of this division increased noticeably, due mainly to the per headcount indirect cost allocation method. Prime Brokerage engaged 5 employees on average. The high depreciation was due mainly to depreciation of liquidity reserve securities which are offset by the high interest income.

Commercial Banking:

The income in the Commercial Banking division declined slightly in comparison to the previous half-year, which led to a decline in the overall results. The interest income resulted mainly from the credit business; the interest expenses were derived from the interest payable to investors in daily and term deposit accounts in the amount of the credit volume. The payment traffic, to a large extent with foreign customers, carried the division with high provisions income, which was accompanied by high provisions costs for one-time business closings in this division. The administrative costs increased dramatically due to the higher cost allocation despite a reduced number of employees (average number of employees 4).



CORPORATE INFORMATION

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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

- Investment business (§ 1 para. 1a sentence 2 no. 2 KWG)
- Deposit consulting (§ 1 para. 1a sentence 2 no. 1a KWG)
- Deposit placement (§ 1 para. 1a sentence 2 no. 1 KWG)
- Deposit management (§ 1 para. 1a sentence 2 no. 11 KWG)
- Deposit business (§ 1 para. 1 sentence 2 no. 5 KWG)
- Proprietary transactions (§32 para. 1a KWG)
- Proprietary trading (§ 1 para. 1a sentence 2 no. 4 KWG)
- Investment business (§ 1 para. 1 sentence 2 no. 1 KWG)
- Factoring (§ 1 para. 1a sentence 2 no. 9 KWG)
- Financial leasing (§ 1 A para. 1a sentence 2 no. 10 KWG)
- Financial commission 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

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Varengold Bank AG

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