
Interim Report

as at 30 June 2014



Varengold

BANK

Disclaimer:

This English version of the interim report 2014 is for information purposes only. Legally binding is solely the German version of the interim report 2014.

Key Information about Varengold Bank AG (HGB)

	30.06.2014	30.06.2013	Change
Key figures per share	in EUR	in EUR	in EUR
Trading earnings per share	-0.51	-0.25	-0.26
Equity per share	6.19	5.80	0.39
	01.01. to 30.06.2014	01.01. to 30.06.2013	Change
Profit and loss	in K EUR	in K EUR	in K EUR
Interest income	384	58	326
Commission income	673	1,781	-1,108
Net income from trading portfolio	2,915	2,198	717
Other operating income	-24	-28	4
Income from investments / securities	27	76	-49
Administrative expenses	4,870	4,118	752
Depreciation and value adjustments	438	495	-57
Income before tax	-1,333	-529	-804
Income/loss for the year	-906	-365	-541
	30.06.2014	30.06.2013	Change
Balance Sheet	in K EUR	in K EUR	in K EUR
Balance sheet assets without trust assets	157,273	11,539	145,734
Share equity	10,962	8,494	2,468
Equity ratio in%	25.20	25.60	-0.40
Employees	59	57	2

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Dear Shareholders,

In retrospect, our business activities in the first half of 2014 remained completely focused on the strategic orientation of the bank towards its role as a new deposit-taking institution. This involved making investments to expand the existing infrastructure, develop the product portfolio and attract suitable business partners. The substantial administrative expenses incurred by all of this overstretched the bank's finances. This eventful operating environment of Varengold Bank AG resulted in an annual deficit of -906 K EUR as at 30.06.2014 compared to 2013: -365 K EUR.

The global economy picked up again in the first half of 2014. This was particularly evident in Central and Eastern Europe. The Eurozone economy continued to experience subdued growth, supported by a less restrictive fiscal policy and abundant cash reserves. The European labour markets also showed signs of stabilisation, which led to a slight fall in the unemployment rate. As a result of this economic dynamism the international financial markets also showed signs of a gradual improvement. The euro fell against the British pound, the Japanese yen as well as the US dollar in the middle of the year. The ECB reduced the base rate again as part of a package of measures to prevent deflation. In a historic step, the ECB pushed the deposit interest below zero. As a result of these low interest rates it remains difficult for banks to profitably invest the assets that have to be entered on the liabilities side of the balance sheet.

The banking sector remained the target for numerous regulatory plans and measures. Experts believe that commercial lending and deposits in particular will benefit from increasing stabilisation in this sector. Fortunately, investors largely regained

confidence in the euro area. At the same time the banks themselves were more active and borrowed more funds than in the same extremely weak periods the years after the financial crisis. In addition, some banks improved their capitalisation by issuing new shares on the market. In the first quarter Varengold Bank AG also underpinned its strategic growth with a capital measure and a cash capital increase from the capital approved at the Extraordinary General Meeting of 15.01.2014 with the exclusion of the subscription right totalling 159,571 no-par value bearer shares. The new shares were placed with a business partner at an issue price of EUR 2.00 per share and led to a cash inflow of EUR 3,191,420.00.

Although the negative trend at the beginning of 2014 initially continued in the Asset Management Division, this sector was able to produce very satisfactory results as at 30.06.2014. On the one hand, the favourable capital market environment and higher stock prices shored up earnings from managing client funds and provided incentives for more investments in riskier, but potentially higher yielding asset classes. On the other hand, when markets are largely quiet, portfolio restructuring tends to be less frequent. This had the effect of reducing trade intensity and hence the amount of commission earned by banks. On a monthly basis, the Capital Markets Brokerage Division had to contend with extremely negative results owing to the prolonged volatile trading activities of our clients.

Net trading income rose compared to the first six months of 2013 by EUR 717m to a total of EUR 2,915m. Interest income increased EUR 384K, which was largely attributable to the activities in the new Commercial Banking Division.

In the Asset Management Division alternative investment solutions, arbitrage strategies, structuring agreements and market neutral share investments remained the basis of the product portfolio. In addition to advising institutional clients, the Capital Markets Brokerage Division primarily focuses on attracting new white label partners. The Commercial Banking / Investment Banking Division continues to establish business relationships with domestic and foreign corporate clients and to expand the product range for existing clients and new clients. For example, free instant access savings accounts with attractive interest rates were introduced for private clients in mid-March 2014. In August 2014 Varengold Bank AG was one of a few German banks which successfully issued the so-called CoCo bonds

(Contingent Convertible Bonds) totalling EUR 5m and all of them were placed with a business partner. The issued CoCo bonds are subordinate debt securities. Their earnings are essentially regarded as additional core capital (tier 1 capital).

We would like to take this opportunity to thank our staff, clients and co-operation partners for the trust they have placed in us and their commitment to supporting Varengold Bank AG on its current growth trajectory as a deposit-taking institution and providing the necessary impetus. Our most important character traits will continue to be responsiveness, flexibility and creativity as they also enable us to think outside the box.

Free and Hanseatic City of Hamburg, September 2014

The Board of Varengold Bank AG



Yasin Sebastian Qureshi



Steffen Fix



M. H. Dastmaltchi



Dr. Bernhard Fuhrmann



Frank Otten

The key figures contained in this half-yearly report and the half-yearly accounts – comprising the balance sheet, profit and loss statement as well as the explanatory notes attached and a management report – are not certified and have not been audited.

Varengold Bank AG is a private German bank based in Hamburg with branches in Dubai und London as well. Varengold offers its clients a wide range of products and services in its Asset Management, Capital Markets Brokerage, Commercial Banking and Investment Banking Divisions.

Varengold was founded in 1995 as an asset management boutique and has pursued the aim of providing individual and high-yield financial products since then. The outstanding success in asset management in 1998 accelerated the expansion of the related Capital Markets Brokerage Division; through Varengold Bank AG client obtain access to the worldwide renowned trading platform Meta Trader and are able to trade in Forex, CFDs and commodities on just one account. The Commercial Banking Division was established in 2013 when Varengold received its licence to operate as a deposit-taking institution, which created additional synergies with the two existing Divisions. In 2014 Varengold expanded its product portfolio for private and corporate clients and established the Investment Banking Division as a result.

Varengold Bank AG is registered with the Federal Financial Supervisory Authority (FFSA) under No. 109 520/100 and since 20 March 2007 it has been listed in the Entry Standard segment of the German Stock Market (Symbol VG8, ISIN DE0005479307, WKN 547930). Varengold Bank AG is a member of the Compensation Scheme of German Banks (EdB).

	Capital-Markets-Brokerage	Asset Management
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Brief Description

In its Capital Markets Brokerage Division, Varengold Bank AG offers online trading in Forex and CFDs for institutional and private clients. In addition to the advantages of account management by a German bank, the market leading trading platform has a fully automated, electronic trading terminal. The service is supplemented by a multilingual order and support desk, which is available 24 hours a day.

The asset management team at Varengold is primarily responsible for structured asset vehicles. Although the company has been increasingly withdrawing from the Managed Futures sector since 2012, we will nevertheless also observe this market in future and reactivate our infrastructure at short notice if suitable business opportunities arise. In the meantime, we are focusing on innovative and tailor-made alternative investment solutions for our institutional clientele as well as arbitrage strategies or structuring agreements for example.

Products

- Forex brokerage
- CFD brokerage
- White label solutions
- Brokerage for institutional clients
- Institutional accounts

- Structured asset vehicles

Competitive advantages

- Market-leading trading platform remains an integral part of our product portfolio
- Market-leading trading platform
- Maximum security for client capital
- Status of a German bank
- Interest paid on actively traded accounts
- Deposit protection maximum EUR 100,000 per creditor

- Long-standing expertise with exclusive focus on alternative investments
- In-depth understanding of the characteristics and market behaviour
- International network due to long-standing monitoring by Varengold
- Innovative product solutions embedded in German legal structures

Client Structure

- Private clients
- Small and medium-sized financial services providers
- Brokers
- Banks as white label clients

- Institutional investors and funds
- FINWIs/wealthy individuals

Earnings Components

- Commission per transaction
- Spreads
- Swaps for cross-day, outstanding transactions

- Asset management fees
- Profit sharing
- Consultancy fees

	Commercial Banking	Investment Banking
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Brief Description

In the Commercial Banking Division, Varengold Bank AG presents itself as a global partner that offers individualised products and solutions to sophisticated clients and investor. We do not regard giving our business partners the opportunity to conclude cross-border transactions and trading activities using our products and solutions as a demand made of us, but as a part of who we are.

Varengold combines its long-standing experience on global financial markets in the Investment Banking Division with innovative consultation methods that enable international business partners to build on past approaches and break new ground - the strategic business success of our clients is of paramount importance for us.

Products

- International payments
- Collateral loans
- Bank guarantees
- Deposit accounts
- Structured financing
- Trade Finance

- Equity Execution
- Equity and equity-linked transactions
- Corporate finance

The company's stock (WKN: 547930) has been listed in the Regulated Unofficial Market / Entry Standard segment of the Frankfurt Stock Exchange since 20 March 2007. The stock is also traded on the Stuttgart, Berlin and Düsseldorf Stock Exchanges as well as in the electronic trading system XETRA.

KEY DATA (AS AT 31.08.2014)

Stock	Varengold Bank AG
WKN	547930
ISIN	DE0005479307
Stock ticker symbol	VG8
Reuters symbol	VG8G.DE
Initial Public Offering	20 March 2007
Market segment	Regulated Unofficial Market
Transparency level	Entry standard
Type of stock (class)	No-par value bearer shares
Number of shares	1,771,405 shares
Amount of equity	EUR 1,771,405
Designated sponsor	Close Brother Seydler Bank AG

SHAREHOLDER STRUCTURE (AS AT 31.08.2014)

	Equity share
Institutional investors and business partners	Approx. 70 %
Private investors and diversified holdings	Approx. 30 %

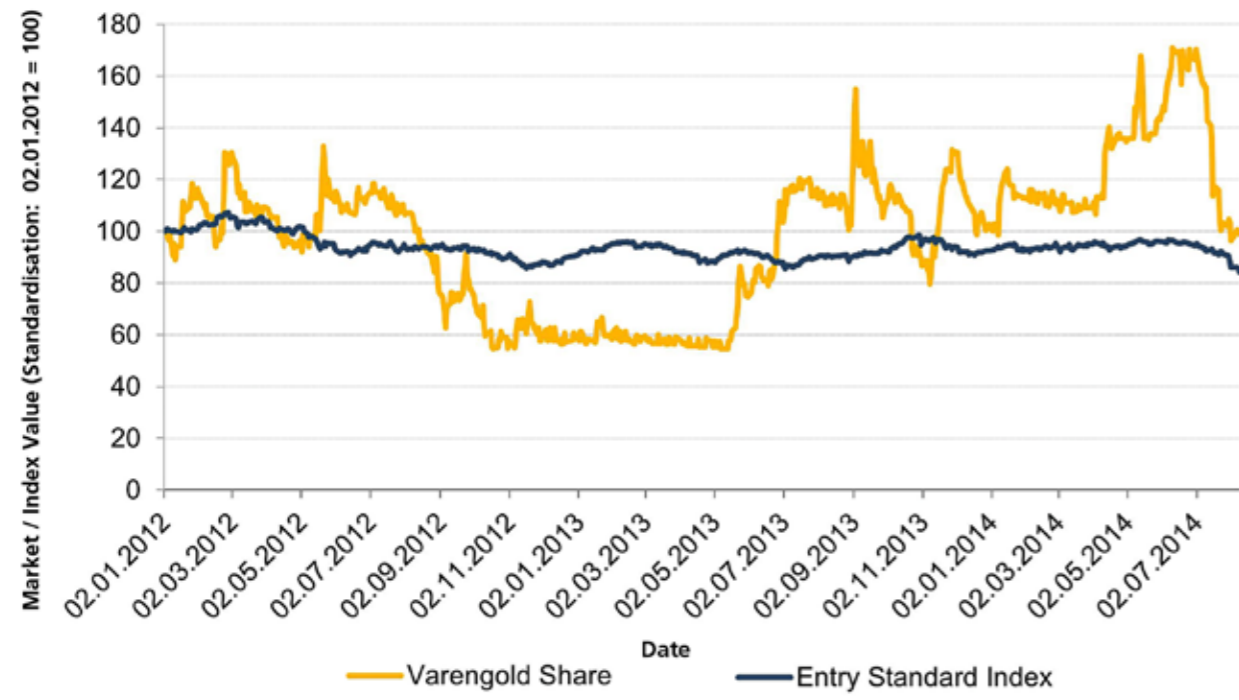
OPERATING ENVIRONMENT AND PERFORMANCE

Share prices rose again in the major industrial countries despite the already high price level. However, there were considerable fluctuations on the stock markets of the emerging and developing economies. Shares did particularly well in the second quarter 2014 in terms of issues, whereas trading volumes almost reached the level of the previous year. Despite the sustained upward trend on international markets with record highs for some leading indices, stocks markets generally only recorded slight gains in mid-2014. Investors remained focused on global economic performance as well as the interest policy of the world's central banks. Rising corporate profits as well as the high level of liquidity in the current low interest rate environment had a positive impact on performance. The Dow Jones rose by 2.2% in recent months and the DAX recorded an increase of around 2.4%, while the Japanese Nikkei also rose by 2.0%. The risk appetite of many investors should continue to increase in view of the commitments by major central banks to keeping interest rates low for the time being. However, in the second half of 2014 share markets are likely to be caught up in the tensions between the recovering economy and the first signs of a retreat by the central banks in the medium term from their hitherto ultra-loose monetary policy in the USA.

The share of Varengold Bank AG initially recorded an almost uninterrupted positive trend in the first half of 2014 with an increase of EUR 8.00 at the beginning of the year to EUR 14.48 on occasions in the middle of the year. Earnings per share fell from –EUR 0.25 in the same period of 2013 to - EUR 0.1 as at 30.06.2014. Equity per share rose compared to the previous year by EUR 0.39 to EUR 6.19 (30.06.2013: EUR 5.80). According to Xetra, there was a substantial increase in the average share price compared to the first half of 2013 from EUR 5.28 to EUR 10.38 with 248,282 traded shares in the first half of 2014 (30.06.2013: 102,326 shares). The average volume according to Xetra was 1.986 shares. The trough in the first six months of this year was EUR 8.00 on 02.01.2014, whereas the peak of EUR 14.48 on 11.06.2014 was significantly higher.

Meanwhile in July, the share slumped and within three weeks fell back to its value at the beginning of 2014. Since then the value of the Varengold share has virtually remained unchanged at between EUR 7.75 and EUR 8.30.

PRICE HISTORY OF THE VARENGOLD SHARE 2010 - 2014



pursuant to the Commercial Code (CC)

as at 30 June 2014

Varengold Bank AG
Grosse Elbstrasse 27
22767 Hamburg

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Varengold Bank AG, Hamburg

INTERIM BALANCE SHEET AS AT 30 JUNE 2014

Assets

	Financial Year	Prev. FYr
EUR	EUR	K EUR
1. Cash reserves		
a) Cash on hand	1,892.07	4.20
b) Balances at central banks	6,027,648.46	0.00
	6,029,540.53	4.20
- of which: at the German Federal Bank: EUR 6,027.6K (previous year: EUR 0.0)		
2. Loans and balances to banks		
a) repayable on demand	26,872,184.06	1,964.50
b) Other receivables	610,462.46	110.50
	27,482,646.52	2,075.00
3. Customer receivables	10,069,492.53	2,103.50
- of which: to companies in which an interest is held: 433,4.3K (previous year: EUR 853.3K)		
4. Notes and other fixed-interest securities	445,882.21	0.00
a) Bonds and debt securities		
aa) from other issuers	87,420,684.25	0.00
- of which: with the German Central Bank (Bundesbank): EUR 86,891.7 million (prior yr: EUR 0.0)		
b) self-generated industrial rights and similar rights and assets	1,500,000.00	0.00
	88,920,684.25	0.00
5. Shares and other variable-yield securities	858,299.25	445.90
5a. Trading portfolio	8,499,325.61	3,579.80
6. Shareholdings	450,537.53	356.20
7. Trust assets	77,615.18	26,429.00
8. Intangible assets		
a) Expenses for start-up of business operations	0.0	83.90
b) self-created industrial and similar rights and assets	143,903.06	332.20
c) licence fees for tangible assets	650,057.26	881.10
	793,960.32	1,297.20
9. Fixed assets	456,635.60	475.70
10. Other assets	6,772,031.16	87.10
11. Accruals and deferred income	3,896,611.04	89.70
12. Deferred tax assets	3,043,621.49	1,024.70
Total assets	157,351,001.01	37,968.00

Liabilities

	Financial Year	Prev. FYr
EUR	EUR	K EUR
1. Amounts owed to banks		
a) repayable on demand	3,052.57	0.00
2. Amounts owed to clients		
a) Other liabilities		
aa) repayable on demand	137,590,270.50	1,287.10
bb) with agreed maturity dates or periods of notice	5,005,112.85	0.00
	142,595,383.35	1,287.10
2b. Trading inventory	1,186,921.76	443.00
3. Trust liabilities	77,615.18	26,429.00
4. Other liabilities	900,280.79	547.70
5. Accruals and deferred income	72,292.50	0.00
6. Reserves		
a) other reserves	694,011.46	251.50
7. Fund for general banking risks	859,448.88	515.50
- of which: allocations pursuant to Section 340 e paragraph 4 Commercial Code EUR 0.00		
8. Share equity		
a) subscribed capital	1,771,405.00	1,465.40
b) capital reserves	15,554,868.80	9,170.50
c) retained earnings	18,400.00	18.40
d) tax loss carried forward	-5,476,210.60	-1,795.50
e) net loss	-906,468.68	-364.60
	10,961,994.52	8,494.20
Total liabilities	157,351,001.01	37,968.00
10. Other commitments		
a) Irrevocable loan commitments	761,611.34	175.00

Varengold Bank AG, Hamburg

PROFIT AND LOSS ACCOUNT

for the period from January 1, 2014, to June 30, 2014

	Financial Year		Prior Year		Fiscal year		Prior year
	EUR	EUR	K EUR		EUR	EUR	K EUR
1. Financial Year							
a) Credit and money market transactions	206,357.34		129.40				
b) fixed income securities and debt register claims	600,285.99		0.00				
	<u>806,643.33</u>		<u>129.40</u>				
2. Interest expense	<u>-422,573.18</u>	384,070.15	<u>-71.60</u>				
3. Current income from							
a) shares and other variable-yield securities		26,937.65	<u>75.90</u>				
4. Fee and commission income	737,466.17		1,797.70				
5. Fee and commission expense	<u>-64,463.38</u>		<u>-17.10</u>				
		673,002.79	<u>1,780.60</u>				
6. Net income or net expense in the trading portfolio							
a) trading income	4,873,458.88		4,631.50				
b) an expense in the trading portfolio	<u>-1,958,566.38</u>		<u>-2,433.70</u>				
of which: Allocations according to section 340e, paragraph 4 of the HGB EUR 0,0 K (previous year: EUR 0,0 K)		2,914,892.50	2,197.80				
7. Other operating income		60,675.35	<u>33.00</u>				
8. General and administrative expenses							
a) Staff costs							
aa) wages and salaries	-2,069,983.78		-1,798.20				
ab) Social security contributions and expenses for pensions and other employee benefits	-210,958.22		-210.90				
- including for pensions EUR 1.4 K (previous year: EUR 1.7 K)	-2,280,942.00		2,009.10				
b) Other administrative expenses	<u>-2,589,499.08</u>		<u>-2,108.70</u>				
		-4,870,441.08	<u>-4,117.80</u>				
9. Depreciation and amortization of intangible assets and property		-308,976.30	<u>-425.50</u>				
10. Other operating expenses		-84,226.99	<u>-61.10</u>				
11. Depreciation and value adjustments on receivables and certain securities and additions to provisions Lending business		-14,216.76	<u>-14.40</u>				
12. Depreciation and value adjustments on investments, shares in affiliated companies and traded securities					-148,496.49		-61.70
13. Income from write-ups of participating interests, shares in associated undertakings and securities treated as fixed assets					<u>33,714.91</u>		<u>6.60</u>
						-114,781.58	<u>-55.10</u>
14. Income from ordinary activities						-1,333,064.27	<u>-528.80</u>
15. Taxes on income and earnings					427,931.59		165.80
16. Other taxes					<u>-1,336.00</u>		<u>-1.60</u>
						426,595.59	<u>164.20</u>
17. Net loss						<u>-906,468.68</u>	<u>-364.60</u>

NOTES

Notes for the period from 1 January 2014 to 30 June 2014

1. General Information

The annual financial statements comply with the German Commercial Code (HGB), the Public Companies Act (AktG) and the Accounting Regulations for Banks (RechKredV).

2. Accounting and Valuation Methods

The accounting and valuation methods have remained unchanged from the previous year.

For a better overview, specific unused items in the balance sheet and the profit and loss account were shown separately in accordance with Section 265 paragraph 8 of the Commercial Code.

The option pursuant to Section 248 paragraph 2 of the Commercial Code was exercised and from 2010 to 2012 development costs were capitalised as internally generated intangible assets. There was no further capitalisation in financial year 2013 or in the current financial year 2014. The depreciation of all internally generated intangible assets (EUR 94K) is shown under "Depreciation and amortisation of intangible and tangible fixed assets". Internally generated intangible assets are amortised over four years. The asset conversion of these accounting aids is also subject to the distribution block.

The distribution, in accordance with Section 268 paragraph 8 of the Commercial Code, is structured as follows:

	Book value K EUR	Deferred tax liabilities K EUR	Blocked amount K EUR
Internally generated intangible assets	147	47	100
Deferred tax liabilities			3,091
Total			3,191

Deferred tax liabilities arose from the capitalization of internally generated intangible assets. This is offset by deferred tax assets of EUR 3,091K from tax losses carried over and write-downs made with non-permanent impairment. The deferred tax assets are subject to the distribution block. The Board expects the tax losses carried forward of EUR 9,487K for corporation tax and EUR 9,644K for local business tax to be fully utilised in the next five years. A tax rate of 32.275% was used to calculate the deferred taxes.

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

Loans and balances to banks and clients are basically recorded at nominal value. If necessary, potential counterparty risks were accounted for by creating individual valuation allowances. Bad debts are written off.

Bonds and other fixed-income securities as well as shares and other variable-yield securities are valued in accordance with the applicable rules for fixed assets at cost, less any value impairments at the lower fair value.

Pursuant to Section 340e paragraph 3 (1) of the Commercial Code, financial instruments held for trading are assessed at fair value less a risk discount. All open trading positions on the reference date are assessed and recorded at their market values on this basis (asset and liability).

Fair value, pursuant to Section 255 paragraph 4 (1) of the Commercial Code, is the market price of the financial instrument as there is an active market for all the positions of Varengold Bank AG.

The risk premium is determined using the Value at Risk method with a 99 % confidence level, a one-day holding period and an observation period of 260 days with a historical simulation. Calculation of the Value at Risk is identical to the method used for the internal purposes of risk monitoring in accordance with MaRisk. As at 30 June 2014, the risk premium was adjusted to EUR 99K and the amount of EUR 52K was recorded as expenditure in the trading result pursuant to Section 340c paragraph 1 of the Commercial Code.

Investments are valued in accordance with the applicable rules for acquisition costs, less any impairments at the lower fair value.

The evaluation of client funds resulting from fiduciary liabilities is based on the redemption amount, which is equivalent to the nominal value of the properties held as collateral, in particular with brokers and banks. Client funds are recorded in a separate account.

Purchased software is shown under intangible fixed assets and like tangible fixed assets are measured at amortised cost, allowing for amortisation. They are always based on the fiscal depreciation rates (depreciation of fixed assets).

Other assets are stated at their nominal value.

Prepayments and accrued income pursuant to Section 250 paragraph 1 of the Commercial Code are essentially a deferred premium due to the purchase of debt securities at a market value above their nominal value (EUR 3,440K).

Prepaid insurance policies, seminar, leases and subscriptions are shown as well.

Liabilities are carried at their settlement amount.

Accruals and deferred income (interest received in advance) are reported in accordance with Section 250 paragraph 2 of the Commercial Code.

Provisions are measured at the amount that is expected to become payable in accordance with reasonable commercial judgement. All provisions have a term of less than one year.

Pursuant to Section 340e paragraph 4 (1) of the Commercial Code, in each financial year an amount equivalent to at least ten per cent of the net income from the trading portfolio must be listed as a separate item "Fund for general banking risks" on the balance sheet pursuant to Section 340g of the Commercial Code. Pursuant to Section 340e paragraph 4 (2) 2 of the Commercial Code, the amount is listed as a separate item until it reaches 50 per cent of the average net income from the trading portfolio during the last five years (including the net income from the trading portfolio in the year under review) after adjusting for risk. Separate items are added to the balance sheet date at the end of the financial year.

Irrevocable loan commitments and other financial obligations are recognised at their nominal amount.

Income and expenses are accrued.

The amounts are expressed in thousands of euros.

3. Currency Conversions

The amounts under "Commission income", "Net trading income" and "Net expense on the trading portfolio" are largely due to foreign currencies: US dollar (USD), Swiss franc (SFR), British pound (GBP), Japanese yen (JPY), Arab dirham (AED) and the Canadian dollar (CAD). During the year paid income is entered in the profit and loss account at the respective exchange rates. The resulting foreign currency balances are converted into euros at the following closing rates pursuant to Section 256a of the Commercial Code:

1 EUR =	USD 1.3651
1 EUR =	SFR 1.2155
1 EUR =	GBP 0.8012
1 EUR =	JPY 138.36
1 EUR =	AED 5.0136
1 EUR =	CAD 1.4580

Losses or profits from the currency conversion are included in the profit and loss account and shown as interest income in accordance with Section 340h of the Commercial Code.

Balance Sheet Items	30.06.2014 K EUR	30.06.2013 K EUR
Loans and balances to banks	8,227	780
Loans and balances to clients	3,849	93
Shares and other variable-yield securities	0	153
Trust assets	28	7,557
Other assets	142	68
Prepayments and accrued income	332	20
Liabilities toward banks	3	0
Trust liabilities	28	7,557
Other liabilities	179	130
Accruals and deferred income	18	0
Reserves	159	0

Changes in the closing rate of converted trust assets are in the favour or to the detriment of the trustor.

4. Notes to the Balance Sheet

4.1 Overall Disclosures

4.1.1 Relationships with Companies in which an investment is held and with Shareholders

	30.06.2014 K EUR	30.06.2013 K EUR
Customer receivables	10,069	2,104
of which with companies, in which an investment is held	433	858
of which to shareholders	432	830
In positions which involve claims against Varengold Investment Corporation with its sub-fund (EUR 1K) and against the Hanseatic Brokerhouse Securities AG (EUR 432K).		
Other Liabilities	900	548
of which with companies in which an investment is held	182	0
of which to shareholders	0	0

These items are liabilities against Hanseatic Brokerhouse Financial Services GmbH, a wholly owned subsidiary of Hanseatic Brokerhouse Securities AG.

4.1.2 Breakdown by remaining maturity

	30.06.2014 K EUR	30.06.2013 K EUR
Loans and balances to banks	27,482	2,075
up to three months	27,482	2,075
Loans and balances to clients	10,069	2,104
up to three months	5,305	575
from three months to one year	3,094	169
from one year to five years	1,608	1,239
over five years	62	121
Liabilities toward banks	3	0
up to three months	3	0
Liabilities toward clients	142,595	1,287
up to three months	142,595	1,287

Except for loans and balances to clients of USD 3.3m from lending activities (maturity more than three months up to one year); all loans to clients that are denominated in foreign currency are due on demand.

4.2 Individual Disclosures

4.2.1 Loans and Advances to Clients

Loans to clients consist largely of commission and loans receivable. Liabilities are the corresponding deposits by clients at Varengold Bank AG.

4.2.2 Debt Securities and Other Fixed-Income Securities

	Purchase costs K EUR	Nominal value K EUR	Interest receivable K EUR	Premium K EUR
Sovereign bonds of different countries				
Spain	38,747	37,500	293	1,255
Italy	32,933	31,500	100	1,443
Slovenia	5,074	5,000	19	74
France	4,265	4,000	18	265
Ireland	8,530	8,000	69	530
Other debt securities	2,492	2,410	31	82
Total	92,041	88,410	529	3,649

On the reference date there are undisclosed reserves of EUR 726K.

4.2.3 Investments

Varengold Bank AG holds the following unlisted shareholdings:

Corporation	Ownership pct. %	Book value K EUR	Equity 31.12.2013 K EUR	Income 2013 K EUR
Hanseatic Brokerhouse Securities AG, Hamburg	100.00	59	14*)	-392**)
Varengold Investment Stock Company and Sub-Fund, Hamburg	48.99	190	320***)	-21****)
Lava Trading Ltd., Valletta, Malta	49.79	11	10	-10
Beiagio Ltd., RAK Free Trade Zone	65.00	156	4	-56
Goldfinch International BV, Baarn, Netherlands	5.00	35	-	-

*)Temporary equity as at 31 December 2013 **)provision loss as at 31 December 2013

***)Company assets as at 30 November 2013 (deviating financial year)

****)Income as at 30 November 2013 (deviating financial year)

The Varengold Investment Stock Company and Sub-Fund has issued the Varengold Enhanced Fund shares solely for the Sub-Fund. The capital of this Sub-Fund amounted to EUR 320K as at 30 November 2013. Varengold Bank AG can bring claims against this Sub-Fund.

Hanseatic Brokerhouse Securities AG owns a 2.94% share in Varengold Bank AG on the balance sheet date.

4.2.4 Statement of Gross Asset Additions and Disposals

	Acquisition Costs			Depreciation			Amortised Costs	
	01.01.2014	Accruals 2014 K EUR	Disposals/ Reclassific. 2014 K EUR	Accumulated K EUR	Accruals 2014 K EUR	Disposals 2014 K EUR	30.06.2014 K EUR	31.12.2013 K EUR
Notes and other fixed-income securities	19,188	69,732	0	0	0	0	88,921	19,188
Shares and other variable-yield securities	1,247	4	156	237	148	8	858	1,150
Investments	583	131	133	130	-34	133	451	286
Intangible investment values	4,282	117	0	3,596	235	0	803	921
Operating result	1,639	0	0	1,639	0	0	0	0
Self-generated industrial rights and similar rights and assets	759	0	0	612	94	0	147	241
Fees for permits, industrial property rights and similar rights and licences for such rights and assets	1,884	117	0	1,345	141	0	656	680

Property, plant and equipment	1,338	111	0	992	74	0	457	420
Total	26,638	70,095	289	4,955	423	141	91,489	21,965

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

The accruals in the first half of financial year 2014 mainly relate to investments in fixed-interest securities and in new holdings.

Depreciation of shares and other variable-interest securities rose compared to the same period of the previous year from EUR 34K to EUR 148K. By contrast, depreciation of intangible fixed assets fell from EUR 349K to EUR 235K.

4.2.5 Trading Inventory

The trading portfolio consists exclusively of derivative financial instruments.

Assets	30.06.2014 K EUR	30.06.2013 K EUR
Trading portfolio assets FX	1,497	1,567
Trading portfolio assets CFD	2,951	1,387
Trading portfolio swaps	0	700
Trading portfolio assets derivatives	1,999	0
Trading portfolio funds	2,151	0
Risk discount	-99	-74
Total	8,499	3,580

Liabilities	30.06.2014 K EUR	30.06.2013 K EUR
Trading portfolio liabilities FX	199	272
Trading portfolio liabilities CFD	988	171
Total	1,187	443

Pursuant to Section 340e paragraph 3 (1) of the Commercial Code, financial instruments held for trading are measured at fair value, less a risk discount. In this position (asset and liability) all open trading positions are measured and recognised at their fair value on the reference date.

Fair value, pursuant to Section 255 paragraph 4 (1) of the Commercial Code, is the market price of the financial instruments as there is an active market for all positions of Varengold Bank AG.

4.2.6 Trust Assets and Liabilities

Trust assets and liabilities include client funds that are held under the Commission Agreements.

Trustee administered client funds are held in the respective transactions in euros and US dollars, depending on the transactions concluded in each case.

The large reduction in the trust assets and trust liabilities was due to the licence to operate a deposit-taking institution that was granted in June 2013 and the related disclosure of client funds in the corresponding item Amounts due to clients.

Trust assets are divided into the following assets:

	30.06.2014 K EUR	30.06.2013 K EUR
Loans and balances to banks	78	26,429

Trust liabilities are divided into the following liabilities:

	30.06.2014 K EUR	30.06.2013 K EUR
Amounts due to clients	78	26,429

Trust assets and liabilities are solely attributable to the Capital Markets Brokerage Division.

4.2.7 Other Assets

The item includes receivables from the internal transfer of funds (EUR 5,209K), receivables from tax deductions (EUR 813K), receivables from detection agents (EUR 219K), receivables from clients in loyalty programmes (EUR 189K), interest received from fixed-interest securities (EUR 238K), receivables from securities paid (EUR 65K) as well as claims against personnel (EUR 19K) and a claim for payment into a test account with interactive brokers (EUR 20K).

4.2.8 Deferred Tax Liabilities

Deferred tax assets were recognised for the following items as at 30 June 2014:

	Trade balance EUR	Tax balance EUR	Difference EUR	Tax rate %	Deferred assets taxes EUR	Deferred liabilities taxes EUR
Loss carried forward						
- Corporate tax	0	9,486,532	-9,486,532	15,825	1,501,244	
- Trade tax	0	9,663,577	-9,663,577	16,450	1,589,658	
Self generated in tangible assets	146,794	0	146,794	32,275		47,378
Shares / securities	858,299	858,600	-301	32,275	97	
Active / passive deferred tax balance					3,090,999	47,378
						3,043,621

The tax rate of 32.275 % is composed of corporation tax (15.0 %), a solidarity surcharge (0.825 %) and trade tax (16.45 %), all combined.

The recognition of deferred tax assets is a business plan for a substantial capital increase based on tax losses that is expected within the forecasted period 2014-2018.

4.2.9 Other liabilities

This section essentially includes outstanding commission payments to partners for the provision of services in the amount of EUR 318K (30.06.2013: EUR 352K). Other liabilities all have a residual maturity of up to one year.

	30.06.2014 K EUR	30.06.2013 K EUR
Liabilities from the provision of services	567	471
Liabilities from bonus programmes	189	0
Internal transfer of funds	74	0
Other liabilities	3	4
Liabilities from wages and salaries	0	0
Payroll tax liabilities	64	66
Social security liabilities	1	2
Turnover tax liabilities in current year	2	5
Total	900	548

4.2.10 Other Provisions

This item is broken down as follows:

	30.06.2014 K EUR	30.06.2013 K EUR
Compensation Scheme of German Banks (EdB)	22	0
Accrued holiday pay	43	43
Outstanding invoices for IT services	36	22
Annual report and audit costs	26	19
General Meeting of Shareholders	32	50
Storage costs	3	3
Professional association fees	0	0
Reserves for the Federal Financial Supervisory Authority	37	19
DATEV costs	1	0
Prime brokerage fees	19	11
Legal and consulting fees	122	60
Goodwill payments	20	20

Commission	138	4
Trading charges	158	0
Interest charges	16	0
External services	15	0
Rents / Leasing	6	0
Total	694	251

4.2.11 Fund for General Banking Risks

Pursuant to Section 340e paragraph 4 (1) of the Commercial Code, in each financial year an amount equivalent to at least ten per cent of the net income from the trading portfolio must be listed as a separate item "Fund for general banking risks" on the balance sheet pursuant to Section 340g of the Commercial Code. Pursuant to Section 340e paragraph 4 (2) 2 of the Commercial Code, the amount is listed as a separate item until it reaches 50 per cent of the average net income from the trading portfolio during the last five years (including the net income from the trading portfolio in the year under review) after adjusting for risks. Separate items are added to the balance sheet date at the end of the financial year.

4.2.12 Equity

The fully paid-up share capital (EUR 1,771K) is divided into 1,771,405 no-par value registered shares. The capital reserve (EUR 5,555K) largely derives from the capital increase (EUR 5,371K) in the first half of 2012 and from the capital increases in the second half of 2013 (EUR 3,352K) and in the first half of 2014 (EUR 3,032K). In 2012, 133,100 new shares at a premium of EUR 40.35 per share were issued. In 2013, 146,397 new shares at a premium of EUR 22.90 per share were issued and in 2014, 159,571 new shares at a premium of EUR 19.00 per share were issued.

The Board of Directors was authorised in a resolution passed by the Annual General Meeting of 15 January 2014 to increase the company's share capital by 15 July 2014 with the approval of the Supervisory Board in one or more tranches to a maximum of EUR 161,183.00 by issuing a maximum of 161,183 new no-par value bearer shares with a pro rata amount of the share capital of EUR 1.00 each in return for cash or contributions or kind. On the basis of this resolution 159,571 par value bearer shares were issued in the first half of 2014, excluding the subscription rights of existing shareholders.

The Board of Directors was authorised in a resolution passed by the Annual General Meeting of 8 August 2012 by 7 August 2017 with the approval of the Supervisory Board to issue, in one or more tranches, convertible bonds, bonds with warrants, convertible participation rights, option rights, profit participation rights and/or participation bonds in bearer or registered form (hereinafter called "instruments") totalling EUR 5,000,000.00 with a maximum term of 15 years and grant the owners or holders of these financial instruments conversion or option rights to new no-par value bearer shares issued by the company with a pro rata amount of the share capital up to EUR 586,174.00 in accordance with the detailed provisions of the instruments. The instruments may be issued in exchange for cash and/or contributions in kind. In order to pay for the instruments, the share capital was conditionally increased by resolution of the Annual General Meeting of 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 share subscription rights (Conditional Capital 2012 I).

Pursuant to the resolution of the Annual General Meeting of 8 August 2012, Section 4 paragraph 8 of the company's Articles of Association provides for further Conditional Capital. The share capital was conditionally increased by up to EUR 140,000.00 by issuing up to 140,000 no-par value shares ("Conditional Capital 2012 II"). The increase of conditional capital will only be conducted if the holders of the share options issued by the company pursuant

to the resolution that was passed at the Annual General Meeting under the Share Option Scheme 2012 ("SOS 2012") in the period up to and including 8 August 2017 exercise their right to subscribe to the company's shares and the company does not exercise the subscription rights of its own share or a cash settlement is granted. The new shares will participate in the profits distribution from the beginning of the financial year in which they are created through the exercise of the subscription right. The SOS 2012 is used as a strong incentive (so-called incentivisation) for the participants in the scheme and should simultaneously have the effect of binding the participants to the company.

The SOS 2012 permits the issue of up to 95,000 share options to members of the Board of Directors of the company as well as an additional maximum 45,000 share options to selected managers and other key players in the company ("Scheme Participants"). Each share option grants the right to subscribe to one Varengold Bank AG share in return for payment of the strike price. The strike price

of a Varengold share, i.e. the price that is payable to acquire a share as a result of exercising a share option right, is equivalent to the arithmetic average of the closing prices of the Varengold share in the Xetra trading system during the preceding thirty trading days before the issue of the respective share option ("Strike Price").

The options are issued in at least three annual tranches, but no tranche may exceed 50% of the total volume. The acquisition period is 40 working days from receipt of the acquisition offer. The subscription rights to the share options may initially be exercised upon expiry of a waiting period of at least four years from their issue. Subscription rights may be exercised within seven years from the issue of the share option outside the blocking periods on condition that the price of the Varengold share in the Xetra trading system during the last 30 Trading days before the exercise of the subscription right exceeds the strike price by at least 30%.

Pursuant to the resolution passed by the Annual General Meeting, the Supervisory Board issued an entitlement offer to the current Board members Yasin Sebastian Qureshi, Steffen Fix, Mohammad Hans Dastmaltchi and Bernhard Fuhrmann as well as to managers Lukas Diehl and Sören Bech to subscribe to share options, which was also accepted. The Supervisory Board exercised its authority and decided to issue 12,000 share options to Mr. Qureshi, 9,500 share options to Mr. Fix, 9,500 share options to Mr. Dastmaltchi, 9,500 share options to Mr. Fuhrmann, 15,000 share options to Mr. Diehl and 7,500 share options to Mr. Bech. The share options are confirmed in certificates and held in safekeeping at Varengold Bank AG.

5. Notes to the Profit and Loss Account

5.1 Interest Income

Foreign exchange losses totalling EUR 3K (in the previous year: foreign exchange gains EUR 12K) are included in the net interest income.

Interest income consists almost exclusively of interest earned from fixed-rate securities as well as from loans granted and earnings from exchange rate differences Interest expenses essentially consist of interest expenses for client deposits as well as foreign exchange rate losses.

5.2 Current Income from Shares and Other Fixed-Interest Securities

Current income from shares and other fixed-interest securities consists of income from shares and funds.

5.3 Commission Receivable / Commission Payable

Commission payable consists of fees from the Capital Markets Brokerage Division and the deposit business as well as income from the Asset Management Division. Commission payable essentially consists of management fees from the Asset Management Division as well as commission from the deposit and lending business.

	30.06.2014 K EUR	30.06.2013 K EUR
Commission receivable	737	1,798
Commission payable	-64	-17
Commission surplus	673	1,781

5.4 Net Income / Expense from the Trading Portfolio

Pursuant to Section 340c paragraph 1 (1) of the Commercial Code, the following income and expenses are included in the net result of the trading portfolio: valuation losses and valuation gains from trading positions; commission receivable and commission payable related to trading positions (e.g. expenses for sales partners); risk premium; inclusion in the special item "Fund for General Banking Risks".

	30.06.2014 K EUR	30.06.2013 K EUR
Net income from the trading portfolio	4,874	4,631
Net expense from the trading portfolio	-1,959	-2,433
Net result of the trading portfolio	2,915	2,198

5.5 Other Operating Income

Other operating income was primarily from services to third parties.

5.6 Staff Costs

	30.06.2014 K EUR	30.06.2013 K EUR
Wages and salaries	2,070	1,798
Social security	210	209
Expenses for pensions and other benefits	1	2
Total	2,281	2,009

The rise in staff costs is mainly due to the modified staff structure as a result of the increased demands that are inherent in the award of the licence as a deposit-taking institution.

5.7 Other Administrative Expenses

	30.06.2014 K EUR	30.06.2013 K EUR
Cost of premises	329	217
Contributions and insurance	57	43
Vehicle expenses including leases (excluding road tax)	71	74
Advertising, entertainment, travel expenses	249	537
Maintenance of office equipment, hardware and software	618	470
Communications expenses	147	103
Office supplies, magazines, training	95	14
Consulting, accounting and auditing costs	445	611
Other administrative expenses	578	40
Total	2,589	2,109

6. Other Information

6.1 Executive Bodies

6.1.1 Supervisory Board

Mr. Hans J. M. Manteuffel Independent lawyer	Chairman
Prof. Peter Andree Professor at the Technical University Hamburg-Harburg	Vice Chairman (since 12. August 2014)
Mr. Willi Müller, tax adviser, chartered accountant	Vice Chairman (until 12 August 2014)

Mr. Manteuffel is also the Vice Chairman of the Supervisory Board of Volksbank Mönchengladbach e.G., Mönchengladbach. The other members of the Supervisory Board do not accept appointments on statutory supervisory boards or on comparable monitoring boards within the meaning of Section 125 paragraph 1 (3) of the Public Companies Act.

6.1.2 Board of Directors

Mr. Yasin Sebastian Qureshi Trading, Legal, Personnel, Strategy, Asset Management, IT and Organisation	Chairman
Mr. Steffen Fix Business Development	
Mr. Mohammad Hans Dastmaltchi Business Management, Sales and Marketing	
Dr. Bernhard Fuhrmann Risk Controlling, Finance, Back Office, Loan Processing Compliance, Financial Controlling and Internal Audit	
Mr. Frank Otten Private / Corporate Clients - Lending and Treasury	

Mr. Yasin Sebastian Qureshi and Mr. Steffen Fix are authorised to solely represent the company. Mr. Mohammad Hans Dastmaltchi, Dr. Bernhard Fuhrmann and Mr. Frank Otten are authorised to represent the company together with another member of the Board of Directors or an authorised signatory.

In addition to holding the office of CEO of Varengold Bank AG, Mr. Qureshi is a member of the Board of Directors of the Varengold Investment Stock Company and Sub-Fund, Hamburg, and holds a position as a member of the Supervisory Board of Hanseatic Brokerhouse Securities AG, Hamburg. Mr. Qureshi is also a member of the Supervisory Board of Public Picture AG (formerly Bettelfield AG) based in Hamburg. In addition to holding the office of member of the Board of Directors of Varengold Bank AG, Mr. Fix is a member of the Board of Varengold Investment Stock Company and Sub-Fund, Hamburg. In addition to holding the office of member of the Board of Directors of Varengold Bank AG, Mr. Dastmaltchi sits on the Supervisory Board of Varengold Investment Stock Company and Sub-Fund, Hamburg. In addition to holding the office of Chairman of Varengold Bank AG, Dr. Fuhrmann is Chairman of the Supervisory Board of Hanseatic Brokerhouse Securities AG, Hamburg. In addition to holding the office of member of the Board of Directors of Varengold Bank AG, Mr. Otten is also Chief Executive Officer (CEO) of the management consulting firm ArensburgConsult.

6.1.3 Remuneration and Loans of the Executive Bodies

In the period from 1 January 2014 to 30 June 2014 the remuneration paid to the Board of Directors totalled EUR 746K (30.06.2013: EUR 457K). It comprises EUR 746K (30.06.2013: EUR 457K) non-profit-related components and EUR 0K (30.06.2013: EUR 0K) profit-related components.

In the period from 1 January 2014 to 30 June 2014, the members of the Supervisory Board were paid a total of EUR 62K (30.06.2013: EUR 48K) for their work. It includes net pay totalling EUR 47K (30.06.2013: EUR 39K).

On the reporting date, the credit claims against the Board of Directors amounted to EUR 663K (30.06.2013: EUR 172K). Interest between 3.30% and 5.12% p.a. is payable on such claims. Repayments totalling EUR 14K were made in the period from 1 January 2014 to 30 June 2014.

Furthermore, on the reporting date the credit claims against the Supervisory Board amounted to EUR 41K (30.06.2013: EUR 40K). Interest of 5.12% p.a. is payable on such claims. No repayments were made in the period from 1 January 2014 to 30 June 2014.

6.2 Employees

The average number of staff employed as at 30 June 2014 totalled 59 (30.06.2013: 57), 21 of whom (30.06.2013:19) were permanent employees. All staff apart from eleven employees work in Germany.

6.3 Memberships

Varengold Bank AG has been a member of the Compensation Scheme of German Banks GmbH (EdB), Berlin since it was granted the licence as a deposit-taking institution in June 2013. Before it was awarded the licence Varengold Bank AG was a member of the Compensation Scheme of Securities Trading Companies (EdW), Berlin.

In June 2014 Varengold Bank AG also became a member of the Association of Foreign Banks in Germany, Frankfurt am Main.

6.4 Disclosure Report

Varengold Bank AG published a Disclosure Report as at 31 December 2013 pursuant to Section 26 a of the Banking Act, in conjunction with Sections 319 et seq. of the Solvency Regulations.

6.5 Irrevocable Loan Commitments and Other Financial Obligations

Irrevocable loan commitments as at 30 June 2014 amount to EUR 762K (30.06.2013: EUR 175K).

Other financial obligations of EUR 901K (30.06.2013:EUR 1.283K) primarily comprise obligations from rental and leasing contracts.

6.6 Corporate Governance Code

Varengold Bank AG (ISIN DE0005479307) has been listed in the Entry Standard segment of the German 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 of the Public Companies Act), as the company is not listed on the stock market within the meaning of Section 3 paragraph 2 of the Public Companies Act.

Free and Hanseatic City of Hamburg, September 2014

The Board of Directors of Varengold Bank AG



Yasin Sebastian Qureshi



Steffen Fix



M. H. Dastmaltchi



Dr. Bernhard Fuhrmann



Frank Otten



A. SITUATION OF THE COMPANY

1. FINANCIAL SITUATION

In the first half year of 2014 the balance sheet total rose, adjusted for the trust assets and trust liabilities, by 1,262.97% from EUR 11,539K (30 June 2013) to EUR 157,273K (30 June 2014). Trust assets fell by 99.70% from EUR 26,429K (30 June 2013) to EUR 78K (30 June 2014). The increase in the balance sheet total, excluding trust assets, is justified by the removal of client funds as well as by the almost complete reclassification of the trust assets as loans and advances to banks due to the award of the licence as a deposit-taking institution in the second half of 2013.

Asset and Capital Structure

The asset and capital structure, adjusted for the trust assets and trust liabilities, is presented as follows compared to the previous year:

<i>Assets</i>	30.06.2014	30.06.2013	Change
Short-term receivables (< 1 year)	40.77 %	65.89 %	-25.12
Medium-term receivables (> 1 year)	1.06 %	11.79 %	-10.73
Participations / shares in affiliated companies	0.29 %	3.09 %	2.80
Fixed assets	57.88 %	19.23 %	38.65

<i>Capital</i>	30.06.2014	30.06.2013	Change
Short-term debts (< 1 year)	92.48 %	21.92 %	70.56
Extraordinary items	0.55 %	4.47 %	-3.92
Equity	6.97 %	73.61 %	-66.64

The equity ratio is – allowing for the accounting of deferred tax assets of EUR 3.0m (30 June 2013: EUR 1.0m) – 7.11% (30 June 2013: 80.79%). The decrease is due to the new structure as a deposit-taking institution. In addition to the amounts due to clients (EUR 142,595K; 30 June 2013: EUR 1,287K), to which the company refers in subparagraph 4.2.1 of the Notes, there are still amounts due to banks (EUR 3K; 30 June 2013: EUR 0K) as well as other amounts due to our suppliers and business partners (EUR 900K; 30 June 2013: EUR 548K), which were virtually all transferred in the following month and reserves with a balance sheet item of EUR 694K (30 June 2013: EUR 252K). Short-term debts (liabilities and reserves) are higher than the short-term assets. Varengold Bank AG has a parent asset and capital structure.

Use was made of the option to convert deferred tax assets pursuant to Section 274 of the Commercial Code as tax losses are expected within the next 5 years. As a supportive measure to achieve sustainable profitability during this period, an equity increase of approx. EUR 3m is assumed for the financial year 2014.

Internally generated intangible assets totalling EUR 144K (30 June 2013: EUR 332K) are recognised and are amortised over 4 years. After deducting the deferred tax liabilities and attribution of the reported backlog of deferred tax assets, the block on distribution is EUR 3,191K (30 June 2013: EUR 1,441K).

2. Financial Position

The following cash flow statement provides an insight into the financial position in the first half of 2014, which was prepared in accordance with the German Association for Financial Analysis and Asset Management (DVFA) / Schmalenbach Gesellschaft für Betriebswirtschaft (SG):

Varengold Bank AG, Hamburg	30.06.2014	30.06.2013	Change
<i>Cash flow statement as at 30 June 2014</i>	in K EUR	in K EUR	in K EUR
Half-year result	-906	-365	-541
+/- Write-downs/write-ups of fixed assets	277	447	-170
= Cash flow pursuant to DVFA / SG	-629	82	-711
+/- Appropriation/dissolution of provision for risks portfolio	52	-98	150
+/- Appropriation/dissolution of provision for risks lending	0	0	0
+/- Appropriation/dissolution of the Fund for General Banking Risks	0	0	0
+/- Deferred income taxes, net	-427	-166	-261
= Cash flow adjusted for non-cash expenses/income	-1,004	-182	-822
-/+ Profit/loss from the disposal of fixed assets	0	0	0
+/- Increase/decrease in reserves	-323	-327	4
-/+ Increase/decrease in loans and advances to clients, other receivables and other assets	-12,509	-144	-12,365
+/- Increase/decrease in amounts due to clients, other payables and other liabilities	120,233	-276	120,509
+/- Change in net trading assets	-4,473	-1,047	-3,426
+/- Increase/decrease in shares and other variable-interest securities	292	34	258
+/- Increase/decrease in debt securities	-69,732	0	-69,732
+/- Increase/decrease in amounts due to banks	-17,596	0	-17,596
= Cash flow from operating activities	15,892	-1,760	17,652
Proceeds from disposals of fixed assets	0	0	0
- Payments for investments in property, plant and equipment	-111	-14	-97
- Payments for investments in intangible fixed assets	-117	-199	82
- Payments for investments in financial assets	-131	-156	25
= Cash flow from investment activities	-359	-369	10
Proceeds from equity injections (subscribed capital)	160	0	160
+ Proceeds from equity injections (capital reserve)	3,032	0	3,032
= Cash flow from financing activities	3,192	0	3,192
Net change in cash and cash equivalents	17,721	-2,311	20,032
+ Cash and cash equivalents at the start of the financial year	15,790	4,390	11,400
= Cash and cash equivalents at the end of the financial year	33,511	2,079	31,432
Composition of cash and cash equivalents at the end of the financial year:			
Cash reserve	6,029	4	6,025
Loans and advances to banks	27,482	2,075	25,407
Cash and cash equivalents at the end of the financial year	33,511	2,079	31,432

In the first half of 2014 cash flow from operating activities increased overall compared to the first half of 2013 by EUR 17.652K to EUR 15.89K. Cash inflow of EUR 3,192K from financing activities is the capital increase from the second quarter of 2014. 159,571 new shares were issued at EUR 20.00 per share. Cash flow from investment activities (EUR -359K) was negative because the company used cash for investments in intangible assets and financial assets as well as property, plant and equipment. The company recognised a net cash inflow of EUR 17,712K in the first half of 2014. Liquid assets increased from EUR 15,790K at the beginning of the year to EUR 33.511K at the end of the half year.

In addition to its loans and balances to banks of EUR 27,483K (30 June 2013: EUR 2.75K), the company operates accounts with brokers, which have to be reported as loans and balances to clients due to the legal definition of brokers under the Banking Act. On the balance sheet date the company has approx. EUR 268K (30 June 2013: EUR 0K) of liquid assets with two brokers.

3. Financial Position

Interest earned by the company increased from EUR 129K in the first half of 2013 to EUR 807K in the first half of 2014. Interest payable increased to EUR 423K and an interest surplus of EUR 384K was achieved.

In the first half of 2014 income from shares and other variable-interest securities of EUR 27K were achieved (30 June 2013: EUR 76).

Commission earned fell by 59.01% from EUR 1.798K in the first half of 2013 to EUR 737K in the first half of 2014. Commission payable increased by 276.47% from EUR 17K to EUR 64K. The commission result fell from EUR 1.781K to EUR 673K. The decrease in commission earned is essentially due to the reduced trading activity of clients in the Capital Markets Brokerage segment, although client deposits increased in the reporting period. This reduction was more or less offset by the increase in income from Forex and CFD trading. Income from the trading portfolio increased slightly. It increased from EUR 4,631K in the first half of 2013 to EUR 4,874K in the first half of 2014. A figure of EUR 1,959K (30 June 2013: EUR 2,434K) is shown as expenditure on the trading portfolio in the half-year financial statement. Net income from the trading portfolio rose from EUR 2,198K to EUR 2,915K.

Other operating income increased from EUR 33K to EUR 61K.

General and administrative expenses incurred by the company increased by EUR 752K (from EUR 4,118K to EUR 4,870K). This was caused by the increase in staff costs (from EUR 2,009K to EUR 2,281K), expenditure on maintaining office equipment, hardware and software (from EUR 470K to EUR 618K), costs of premises (from EUR 217K to EUR 329K), expenditure on office supplies, magazines and training (from EUR 14K to EUR 95K), expenditure on communication (from EUR 103K to EUR 147K), expenditure on subscriptions and insurance (from EUR 43K to EUR 57K) and other administrative expenses (from EUR 40K to EUR 578K). However, expenditure on advertising, entertainment and travel expenses (from EUR 537K to EUR 249K), advisory, accounting and auditing costs (from EUR 611K to EUR 445K) as well as motoring expenses (from EUR 74K to EUR 71K) fell compared to the first half of 2013.

Depreciation and impairment losses on intangible assets and property, plant and equipment fell from EUR 425K in the first half of 2013 to EUR 309K in the first half of 2014.

Other operating expenses increased significantly from EUR 61K as at 30 June 2013 to EUR 84K as at 30 June 2014 particularly as a result of the tax audit.

Expenses due to depreciation and impairment losses on receivables remained unchanged and amount to EUR 14K as at 30 June 2014.

Depreciation and impairment losses on investments increased – mainly due to the revaluation of a fund – from EUR 55K in the first half of 2013 to EUR 115K in the first half of 2014.

In total, earnings from the normal business activities of Varengold Bank AG amounted to EUR -1,333K (30 June 2013: EUR -529K), the annual net loss amounted to EUR -906K (30 June 2013: EUR -365K).

B. RISKS

In general, it is not possible to earn income without entering into risks in the banking business. Consequently, consciously dealing with risk, and the active and ongoing management, identification and monitoring of risk are core elements of the performance-based management of Varengold Bank AG's business.

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 negative events that occur contrary to the events that were expected. The risk management system is based on the classification of the main risks into counterparty risk, liquidity risk, market price risk, operational risk and other risks which include reputational risk, strategic risks and risk concentrations.

The Board of Directors is involved in all the important procedures that are fraught with risk. In addition to the asset protection criteria, the Board of Directors abides by the following principles:

- Fulfilment of or adherence to supervisory standards and compliance regulations
- Clear division of responsibilities for risk management
- Separation of risk management and risk controlling functions
- Transparency in the disclosure of risks
- Risk-aware behaviour

For the purposes of controlling these risks, the identified risks are continuously observed and assessed by the management system. The entire process comprises the following successive steps:

- Risk identification
- Risk assessment
- Risk control
- Risk reporting
- Risk management

The Board of Directors determines the extent of the permissible aggregate risk and its allocation to the individual types of risk. In this connection, the Board always ensures that the various business activities are covered by sufficient equity.

The Internal Audit Department at Varengold Bank AG is responsible for monitoring the risk strategy.

All risk reduction measures are generally conducted in a commercially viable manner, which makes reasonable allowances for the size of the institution and the specific business model.

Varengold Bank AG specifically uses its market opportunities for the purposes of its business activity and adopts a wholly responsible approach to the related risks. The basis for controlling and managing these risks is a system which indicates that the continued existence of the company is not in jeopardy according to the latest information.

C. OPPORTUNITIES

The euphoria surrounding the economic recovery that was initially expected at the beginning of 2014 as well as the recovery of the global financial markets was dampened at the end of the first half of 2014 due to heightened geopolitical uncertainties. In addition, the sovereign debt crisis in the European area is at present still far from a sustainable solution. Key economic policy data and corresponding economic forecasts nevertheless indicate a sustained recovery of the macroeconomic situation.

The predominantly one-off effect of the extensive development measures at all levels of Varengold Bank AG have placed a heavy additional economic burden on financial year 2014 to date. These essential investments have not yet produced sufficient returns, but we are able to detect a marked positive trend based on the current business opportunities for the remainder of the year and particularly for the coming financial year 2015.

We will continue systematically and implementing our strategic agenda on the basis of our improved capitalisation and sustainable business policy and face the future challenges with confidence. At the same time we will adhere to a strict risk policy and specifically optimise the equity again.

Freie und Hansestadt Hamburg, im September 2014

Der Vorstand der Varengold Bank AG



Yasin Sebastian Qureshi



Steffen Fix



Dr. Bernhard Fuhrmann



Frank Otten



Yasin Sebastian Qureshi

SEGMENT REPORTING

Reporting period 01.01. – 30.06.2014	Total	Capital- Markets- Brokerage	Asset Management	Private and company customers
	K EUR	K EUR	K EUR	K EUR
Interest income	807	96	10	701
Interest expense	423	133	0	290
Commission income	737	248	353	136
Fee and commission	64	0	14	50
Current income from shares, securities and investments	27	0	27	0
Net income in the trading portfolio	4,873	3,205	1,668	0
Net expense in the trading portfolio	1,959	1,959	0	0
Other operating income	61	33	28	0
Administrative expenses	4,870	3,402	789	679
Depreciation	438	285	151	2
Other operating expenses	84	67	17	0
Income from ordinary business activities	-1,333	-2,264	1,115	-184

The first half of 2014 was characterised by very different business developments in the individual divisions: Capital Markets Brokerage generated a marked negative result due to a fall in earnings, whereas Asset Management was able to generate a positive result on the basis of increased earnings. The Private and Corporate Client Lending business, which also shows the result generated by the Treasury of Varengold Bank AG, was again unable to cover costs and was slightly negative at the end of the half year.

The fall in earnings in Capital Markets Brokerage is largely attributable to the reduced trading activity by clients in this division. This effect was offset by increased client deposits. In addition to low earnings, net negative price spreads which are shown in the interest income and expenses play a part. Administrative expenditure remained virtually unchanged compared to the same period of the previous year and fell compared to the second half of 2013 by approx. EUR 500K. Reduced marketing expenditure made a significant contribution.

Asset Management was able to almost triple its earnings, which were largely generated from investments in funds of the Varengold Investment Stock Company and Sub-Fund, compared to the same period of the previous year, which was largely due to the increased number of transactions in the funds. Administrative expenditure doubled compared to the same period of the previous year due to increased staff capacities in this division.

The Private and Corporate Client Lending business more than quadrupled its gross earnings (interest and commission) compared to the second half of 2013, but the basis effect plays a major role in this context as the first half of 2014 are the first fully operational six months of this sector. The interest earned is basically attributable to investments in securities; the interest charges are attributable to the overnight interest rates payable to investors. The commission on payment transactions, mainly with foreign departments, contributed to the earnings generated by the division. Administrative expenditure in the Private and Corporate Client Lending business tripled compared to the previous half year, which is attributable to the strong growth of the division.

CORPORATE INFORMATION

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Steffen Fix
M.H. Dastmaltchi
Dr. Bernhard Fuhrmann
Frank Otten

Supervisory Board
Hans J.M. Manteuffel, lawyer (Chairman)
Prof. Peter Andree
Willi Müller, tax adviser

Register
Local Court Hamburg, Commercial Register No. HRB 73684

Supervisory Authority
Varengold Bank AG is registered with the Federal Financial Supervisory Authority under Number (109 520) 100 and its registration is published at www.bafin.de

Licensed Activities of Varengold Bank AG

Varengold Bank AG operates deposit banking business as defined in Section 1 paragraph 1 subparagraph 2 (1) of the Banking Act, a lending business pursuant to Section 1 paragraph 1 subparagraph 2 (2) of the Banking Act, acquisition and disposal of financial instruments in its own name for third-party accounts (financial commission business pursuant to Section 1 paragraph 1 subparagraph 2 (4) of the Banking Act, deposit business pursuant to Section 1 paragraph 1 subparagraph 2 (5) of the Banking Act and guarantee business pursuant to Section 1 paragraph 1 subparagraph 2 (8) of the Banking Act. Varengold Bank AG is also licensed as an investment and acquisition broker pursuant to Section 1 paragraph 1 a subparagraph 2 (1) and (2) of the Banking Act, investment consultancy pursuant to Section 1 paragraph 1a subparagraph 2 (1a) of the Banking Act, investment management pursuant to Section 1 paragraph 1a subparagraph 2 (11) of the Banking Act, financial portfolio management as defined in Section 1 paragraph 1a subparagraph 2 (3) of the Banking Act as well as proprietary trading pursuant to Section 1 paragraph 1a subparagraph 2 (4) of the Banking Act, proprietary transactions (Section 32 paragraph 1a of the Banking Act), factoring pursuant to Section 1 paragraph 1a subparagraph 2 (9) of the Banking Act and financial leasing as defined in Section 1 paragraph 1a subparagraph 2 (10) of the Banking Act.

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

Notes to content

This report was produced with the utmost care. Rounding, typographical and printing errors still cannot be excluded. With the addition of rounded amounts and percentages, rounding differences may occur. All names that were used only in the masculine form, shall apply mutatis mutandis in the feminine form. This report contains forward-looking statements. Forward-looking statements are statements that are not only historical facts, but they also include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections available to the Board of Varengold Bank AG at the time of preparation of this Annual Report. Forward-looking statements speak only as of the date on which they are made. We expressly point out that all of our forward-looking statements involve known or unknown risks and uncertainties, and are based on assumptions relating to future events beyond our control. We cannot accept any liability for the accuracy, completeness, or actual occurrence of the information. The Board assumes no obligation to update such statements to reflect new information or future events. A number of important factors could therefore cause actual results to differ materially from forward-looking statements. Such factors include a change in general economic conditions or the competitive environment, the threat of deterioration in earnings from special charges as well as the state of the financial markets, from which Varengold Bank AG achieves substantial portions of their income. This work is protected by copyright. All rights, especially the rights of distribution, reproduction, translation, reprinting and reproduction and storage in data processing systems are, even when only partially used, are reserved by Varengold Bank AG.

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