



## Summarised Annual Report 2016



**BERLINER EFFEKTEGESELLSCHAFT**  
AKTIENGESELLSCHAFT

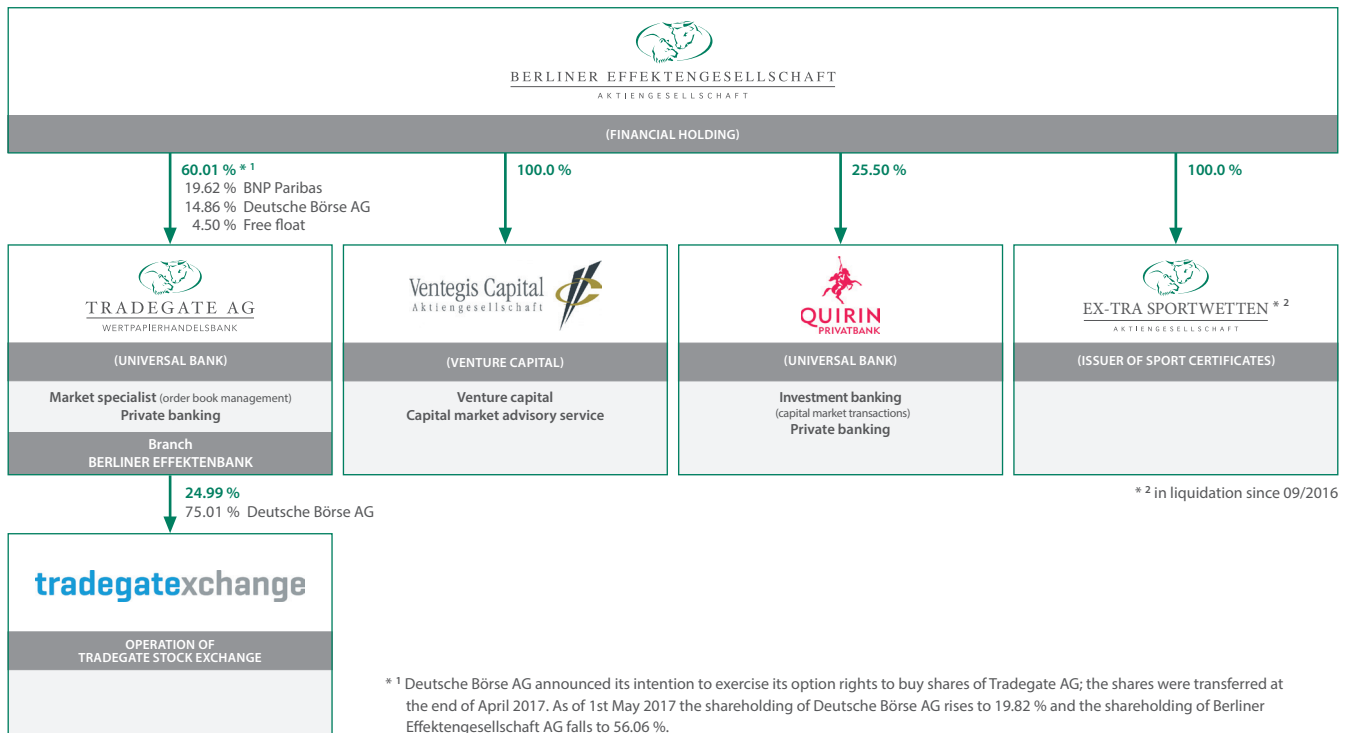


BERLINER EFFEKTENGESELLSCHAFT

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AKTIENGESELLSCHAFT

## GROUP STRUCTURE (31.12.2016)



## WKN 522 130, ISIN DE0005221303 (quoted in Entry Standard)

### SHAREHOLDERS' STRUCTURE AS AT 31 DECEMBER 2016

32.26 %	H.T.B. Unternehmensbeteiligungen GmbH
49.82 %	Holger Timm
17.92 %	Free float

### COMPANY DATA AS AT 31 DECEMBER 2016

Market capitalisation:	120,307,000 €
Number of shares:	13,749,337
Free float:	17.92 % = 2,463,283
Financial accounting:	HGB
Balance sheet total:	160,801,000 €
Number of employees:	124

### KEY FIGURES AS AT 31 DECEMBER 2016

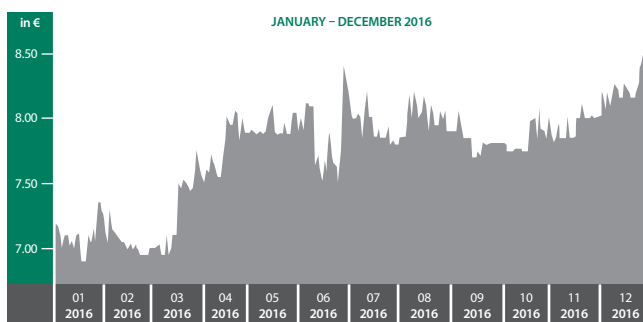
Result per share:	1.317 €
Dividend:	0.50 €
Interest surplus / gross profit:	1.2 %
Commission surplus / gross profit:	1.8 %
Trading result / gross profit:	96.9 %
Cost / Income-Ratio:	61.8 %
Equity ratio*1:	56.0 %

### KEY FIGURES AS AT 31 DECEMBER 2015

Result per share:	0.911 €
Dividend:	0.40 €
Interest surplus / gross profit:	2.7 %
Commission surplus / gross profit:	1.9 %
Trading result / gross profit:	95.4 %
Cost / Income-Ratio:	63.9 %
Equity ratio*1:	74.4 %

## SHARE PRICE DEVELOPMENT

BERLINER EFFEKTTENGESELLSCHAFT AG (WKN 522 130, ISIN DE0005221303)



## "NET-ASSET-VALUE"

OF THE LISTED GROUP COMPANIES AND HOLDINGS OF THE BERLINER EFFEKTTENGESELLSCHAFT AG AS AT 30 DECEMBER 2016

	Number of shares BEG holds	Share price in Frankfurt	Calculative value 30 · 12 · 2016
Tradegate AG	14,888,799	8.77 €	130,559,878 €
quirin bank AG	10,996,373	1.20 €	13,195,648 €
Ventegis Capital AG	3,569,270	2.70 € *2	9,637,029 €
Number of BEG shares as at 30.12.2016			13,749,337
Calculative value of the three listed group companies / holdings 30.12.2016			153,392,555 €
Calculative value of each BEG share 30.12.2016			11.16 €
Price of the BEG share on 30.12.2016			8.75 €

## MANAGING BOARD AND SUPERVISORY BOARD

As at: 01.05.2017

**Managing Board**  
Holger Timm, Chairman  
Karsten Haesen

**Supervisory Board**  
Prof. Dr. Jörg Franke, Chairman  
Frank-Uwe Fricke  
Andre Dujardin

## CALENDAR OF EVENTS

15 June 2017 | 2 pm

**Annual General Meeting in Berlin**

1 December 2017 | 5 pm

**Shareholders' Forum in Berlin**





BERLINER EFFEKTENGESELLSCHAFT  
AKTIENGESELLSCHAFT

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GROUP BALANCE SHEET: ASSETS BERLINER EFFEKTEGESELLSCHAFT AG, Berlin as at 31 December 2016	in €	in €	in €	in '000 € last year
1. Cash reserves				
a) cash balance		218,606.61		201
b) balance at Deutsche Bundesbank		20,224,183.90	20,442,790.51	10,128
2. Receivables from banks				
a) due daily		100,541,581.20		69,271
b) other receivables		0.00	100,541,581.20	2,070
3. Receivables from customers			3,049,839.03	1,108
<i>of which:</i>				
<i>secured by land charges € 0.00</i>				
<i>local authority loans € 0.00</i>				
<i>financial services institutions € 2,997.55</i>				(2)
4. Bonds and other fixed-interest securities				
a) bonds and debentures				
aa) from other issuers	264,349.33	264,349.33	264,349.33	247
<i>of which lendable at the Deutsche Bundesbank € 0.00</i>				
5. Shares and other non fixed-interest securities			18,400.00	25
a) Securities held for trading			7,587,272.39	7,195
6. Investments			2,136,307.58	3,824
<i>of which:</i>				
<i>in banks € 0.00</i>				
<i>in financial services institutions € 0.00</i>				



	in €	in €	in €	in '000 € last year
7. Investments in associates			12,721,164.48	11,873
<i>of which:</i>				
<i>in banks € 12,336,792.22</i>				(11,520)
<i>in financial services institutions € 0.00</i>				
8. Intangible assets			1,776,173.66	664
a) acquired concessions, industrial property rights and similar rights and assets, including licences for such rights and assets			1,660,970.00	436
b) goodwill			115,203.66	228
9. Tangible fixed assets			1,029,120.00	925
10. Other current assets			11,041,563.17	2,461
11. Prepaid and deferred expenses			61,455.41	58
12. Deferred tax assets			130,965.60	70
<b>Total assets</b>			<b>160,800,982.36</b>	<b>110,120</b>



GROUP BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY BERLINER EFFEKTTENGESELLSCHAFT AG, Berlin as at 31 December 2016	in €	in €	in €	in '000 € last year
1. Liabilities to banks				
a) due daily		1,073,488.53		1,431
b) with agreed maturity or period of notice		0.00	1,073,488.53	0
2. Liabilities to customers				
a) other liabilities				
aa) due daily	34,809,417.96			6,715
<i>of which:</i>				
<i>to financial services institutions € 7,367.86</i>				(8)
ab) with agreed maturity or period of notice	21,327,196.49	56,136,614.45	56,136,614.45	10,431
3. Securities held for trading			2,319,258.12	1,979
4. Other liabilities			3,189,895.06	2,846
5. Accruals and deferred income			977.40	0
6. Provisions and accruals				
a) tax provisions		1,141,200.00		1,757
b) other provisions		4,275,386.53	5,416,586.53	3,059
7. Fund for general banking risks			17,411,783.99	14,764
<i>of which: € 17,411,783.99 according to § 34e IV HGB</i>				(14,764)
8. Equity capital				
a) subscribed stock	13,749,337.00			13,872
own shares	- 57,303.00	13,692,034.00		- 142
b) capital reserves		31,742,094.52		31,604
c) consolidated retained earnings		10,877,837.01		6,118
d) adjustment item for minority interests		18,940,412.75	75,252,378.28	15,686
<b>Total liabilities and shareholders' equity</b>			<b>160,800,982.36</b>	<b>110,120</b>







GROUP INCOME STATEMENT BERLINER EFFEKTENGESELLSCHAFT AG, Berlin for the period from 1 January to 31 December 2016	in €	in €	in €	in €	in '000 € last year
1. Interest earnings					
a) credit and money market business	50,999.28				26.2
less negative interest from money market business	- 230,037.72	- 179,038.44			- 36.2
b) fixed-interest securities and					
government ledger bonds		2,772.45	- 176,265.99		7.3
2. Interest expenses			- 127,724.19	- 303,990.18	- 17.8
3. Current income from					
a) shares and other non fixed-interest securities			0.00	0.00	0.0
4. Result from associated companies				947,943.25	1,241.7
5. Commission earnings			1,170,599.99		1,077.2
6. Commission expenses			- 204,005.39	966,594.60	- 209.9
7. Net earnings from securities held for trading				50,810,227.90	43,736.5
8. Other operating profits				6,926,805.16	1,753.1
9. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		- 14,434,170.04			- 12,461.8
ab) social security payments and expenses for					
retirement provisions and for support		- 1,446,409.38	- 15,880,579.42		- 1,273.1
<i>of which: € 0.00 for retirement provisions</i>					0.1
b) other administration expenses			- 15,881,924.64	- 31,762,504.06	- 15,076.9
10. Write-offs and value adjustments on intangible					
assets and tangible fixed assets				- 610,166.81	- 474.6
11. Other operating expenses				- 230,903.47	- 46.1
12. Write-offs and value adjustments on receivables					
and certain securities as well as allocations to provisions					
for credit business				- 276,041.67	- 139.4
13. Earnings from write-ups to receivables and					
certain securities, as well as release of provisions in					
credit business				94,136.62	116.3



	in €	in €	in €	in €	in '000 € last year
14. Write-offs and value adjustments on investments, shares in affiliated companies and securities treated as fixed assets				- 1,687,789.48	0.0
<b>15. Result from ordinary business activities</b>				<b>24,874,311.86</b>	<b>18,222.5</b>
16. Allocation to fund for general banking risks				- 2,647,987.57	- 2,572.6
17. Taxes on income and profit				- 6,551,028.53	- 5,522.3
18. Other taxes not shown under 11				- 51,187.81	- 57.0
<b>19. Net income</b>				<b>15,624,107.95</b>	<b>10,070.6</b>
20. Associates' minority interest in net income				- 4,964,921.27	- 3,983.8



**MANAGEMENT REPORT OF  
THE BERLINER EFFEKTEGENESCHAFT AG GROUP  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Basic principles**

**1.1 Preamble**

The structure of the management report follows primarily the rules adopted by the German Accounting Standards Committee e.V. which are recorded in the German Accounting Standard 20.

**1.2 Organisation and business areas**

The Berliner Effektengesellschaft AG acts as a financial holding and/or investment company without its own operational business. Through the majority-held group subsidiaries and significant interests in other companies it offers a range of services around the capital markets, in particular banking and financial services.

The individual direct and indirect operational subsidiaries are:

- **Tradegate AG Wertpapierhandelsbank, Berlin; holding 56.1 %**, licensed as a deposit bank. The main business is securities trading, especially as market specialist on the TRADEGATE EXCHANGE and market specialist and order book manager on the Frankfurt and Berlin stock exchanges respectively. Tradegate AG Wertpapierhandelsbank in turn holds a stake of almost 25 % in the operating company of the TRADEGATE EXCHANGE, the Tradegate Exchange GmbH. The majority shareholder of this company is the Deutsche Börse AG,
- **Ventegis Capital AG, Berlin; holding 100 %**, venture capital business and general financial and structuring advice,
- **Ex-tra Sportwetten AG (in liquidation), Vienna, Austria, holding 100 %**, former issuer of sport certificates with a licence for sports betting.

Eco Investors Germany Management GmbH, Berlin, a subsidiary of Ventegis Capital AG was closed in 2016. In addition to the majority-held group companies, the company can also enter into minority holdings in national and foreign companies that supply banking or financial services, or in companies that offer support services for this field of business. The aim of such investments is the initiation, consolidation and enhancement of the business connections of the companies belonging to the Group. At the moment there are no other strategically relevant investments apart from the holding in the quirin bank AG.

The Berliner Effektengesellschaft AG's interest of 25.5 % in the quirin bank AG remains unchanged. According to HGB-regulations (German Commercial Code) the quirin bank AG is therefore an associated company of the BEG Group.

Where necessary, the company also supports its subsidiaries in the central business areas of personnel, administration, organisation, accounting and controlling.

The main office of the company is based in Berlin. The management comprises two board members (Mr. Karsten Haesen and Mr. Holger Timm) who work closely with one another in the areas of strategic planning, guidance of the operational subsidiaries and investment controlling. Although three subsidiaries operate as public companies and the independence of each management board is protected, a higher-level strategy and supervision is ensured through the overlap in the structure of the management bodies in all companies. Mr. Timm is responsible for accounting, controlling and business administration. The latter especially concerns the personnel administration of the subsidiaries and certain areas of the buying-in of material and services. Besides this, Mr. Timm is the Chairman of the Board of the Tradegate AG Wertpapierhandelsbank, Chairman of the Supervisory Board of the quirin bank AG and Member of the Supervisory Board of Ventegis Capital AG. Mr. Haesen coordinates the activities of the Group regarding capital market transactions and is responsible for its representation on the capital market. Furthermore, he is the Managing Director of Ventegis Capital AG and a member of the supervisory board of Tradegate AG Wertpapierhandelsbank.

**1.3 Competitive position**

As a financial holding the company combines, supports and optimises the activities of its individual subsidiaries. The competitive position is therefore largely dependent on the competitive position of the subsidiaries. Nevertheless, the comprehensive range of services offered by the Group can also contribute to the improvement of the competitive position of all individual companies, especially as there is no other structurally comparable competitor on the market.

The competitive position of the most important subsidiary, Tradegate AG Wertpapierhandelsbank, has continued to improve since the company's own trading system, TRADEGATE®, was established as a stock exchange called TRADEGATE EXCHANGE and the company entered into a strategic partnership with the Deutsche Börse AG. Following the strong growth rate of 37.72 % in the number of equity trades completed on the TRADEGATE EXCHANGE in 2015, just a small increase of 1.84 % with 11,433,464 single transactions was reported in 2016. All other relevant competitors, i.e. the seven German regional exchanges, reported significantly smaller growth in turnover for 2016, so TRADEGATE EXCHANGE'S market share in equity trading continued to grow, at times reaching up to 68 %. With regard to the market segment equity trading, TRADEGATE EXCHANGE has not only strengthened but also expanded its position as the leading trading platform for private investors in Germany.

**1.4 Development of general market conditions**

The general market conditions for securities trading companies, especially in trading with private investors, showed no sustained improvement in 2016. The number of shareholders in Germany remains very low. Last year the trading activity of private investors took a



downturn at times; on the other hand there were also days with record trading, for example following the Brexit vote and the American presidential election. There is still great increased pressure among the remaining securities trading firms and trading platforms/exchanges that are all competing for a dwindling number of trades. Happily, the average gross margin per trade for 2016 rose unexpectedly. This was probably due in part to the very volatile share markets and a shift in customers' interest to high-margin foreign securities. The urgently awaited market shakeout which would make long term profitable business possible for the remaining companies has yet to materialise. In fact the successful business model of the TRADEGATE EXCHANGE is now being widely copied by three other stock exchanges with the aim of trying to regain market share. Up to now these new platforms have not been able to achieve any significant turnover. The wide range of services offered by the TRADEGATE EXCHANGE with its many advantages for both banks and private investors is still on the whole unique and holds numerous competitive advantages with a secure future.

The business climate for private and business banking remains difficult due to the current phase of low interest rates. Apart from the challenging profit situation the imminent introduction of new regulations will make it necessary to make considerable investments, especially in IT-infrastructure.

## 2. Economic report

### 2.1 Business development

In 2015 the group subsidiary Tradegate AG Wertpapierhandelsbank reported a very good result in ordinary business activities of € 18,270,000. In the business year 2016 the result in ordinary business activities was improved once more to € 21,874,000. On the basis of this higher profit in trading the company was again obliged to pay a large sum (€ 2.65 million) into the fund for general banking risks. Meanwhile, a total of € 17,412,000 has been paid into the fund which means that this amount cannot be distributed to the shareholders as profit. The company achieved a very good net profit in spite of this and is therefore able to increase the dividend payment from last year's € 0.41 to € 0.52 per share.

The subsidiary Ex-tra Sportwetten AG in Vienna is now in liquidation. A loss of € - 40,000 was incurred due to general administrative expenses.

In 2016 Ventegis Capital AG recorded a loss for the year of € - 2,124,000 due to the write-off of an investment. The company will not, therefore, pay out a dividend for 2016.

The number of employees in the Group changed marginally, with twenty-one new-comers and eight leavers. At the end of the year there were 124 people employed in the Group. The age structure changed p.r.t. only slightly. The average age is about 42.2 (last year 42.5) with most people in the age group from 30 to 40. The average job tenure is 10.6 years (last year 11 years). More than half the employees have been with the company for ten years or more.

Each company in the Group attaches great importance to retaining well-trained and qualified employees even during less profitable times. The flexible increase or reduction of personnel according to the amount of business, e.g. by using temporary employees, is difficult in the industry and not desired. Through flexible remuneration models the group companies prefer to ensure that on the one hand no unacceptably high fixed salaries endanger them in difficult economic situations, and on the other that during successful periods the employees have a suitable share in the success of the business. Apart from their fixed monthly salary, the employees and board members receive variable remuneration from their respective company. The amount received by each employee or board member is calculated by means of several criteria, for example position in the company, length of service, special tasks etc. € 6,793,000 of the total remuneration of € 14,434,000 was paid in the form of variable remuneration to all employees who were employed during the reporting period.

In the past business year new investments were made to improve the clearing systems for existing customers and to extend or renew established IT-systems. The investments made in intangible assets were for trademark rights and customer relations. Software is usually developed and maintained by company employees. The personnel costs involved are not such that they can be capitalised. Occasionally individual contracts for work are outsourced and, depending on size, can be capitalised. In the areas of networks, data banks, word processing, etc. standard software from large providers is used.



## 2.2 Business outlook

### 2.2.1 Results of operations

The Berliner Effektengesellschaft AG Group reported a financial result of € 15,624,000 for the year 2016 (2015: € 10,071,000). The results of operations of the Group are influenced by the net earnings from securities held for trading, which include the significant amount of earnings coming from specialist activities. The performance-based remuneration on the Frankfurt Stock Exchange is shown in the commission income. The earnings from the private banking business are as yet too small to affect the interest and commission income. The investment business is currently being scaled down and is losing importance in the Group result.

The table below shows the development of important positions of the profit and loss statements of the past three years.

	in '000 € 2014	in '000 € 2015	in '000 € 2016
Interest income	73	- 21	- 304
<b>Result from associated companies</b>	<b>833</b>	<b>1,242</b>	<b>948</b>
Commission income	1,116	867	967
<b>Net earnings from securities held for trading</b>	<b>33,703</b>	<b>43,736</b>	<b>50,810</b>
General administrative expenses	- 23,982	- 28,812	- 31,763
<b>Result from ordinary business activities</b>	<b>17,057</b>	<b>18,222</b>	<b>24,874</b>
Allocation to fund for general banking risks	- 3,354	- 2,573	- 2,648
<b>Taxes on income and profit</b>	<b>- 3,895</b>	<b>- 5,522</b>	<b>- 6,551</b>
Net income / loss for the year	9,810	10,071	15,624

The interest income is the balance from interest earnings and interest expenses including current income from securities and investments. This has fallen compared with last year due to the negative interest rates for short-term investments. The results from shares in other companies which are included in the consolidated accounts at equity have also fallen this year. This is especially attributed to the development of results of the quirin bank AG. A significant part of the commission income comes from the remuneration for broker and specialist activities, which has dropped from € 699,000 to € 576,000 compared with last year. However, a positive development can be seen in the commission income in the business area private and business banking. The commission expenses included in the net earnings from securities held for trading have risen from € 10,233,000 to € 12,052,000. This was due to increased turnover and corresponding higher commission expenses. Despite these higher commission expenses an increase of 16.2 % was reported in the net earnings from securities held for trading thanks to last year's much improved results.

Since last year's results were very good the company was able to reward employees with a share in profits. These special payments and bonuses are the main reason for the € 2,146,000 increase in personnel costs. The other administrative expenses were influenced mainly by increased trading activity in the business area Securities Trading. The larger number of transactions led to corresponding higher costs for settlement.

Earnings from the deconsolidation of shares, especially following the sale of a further 5 % share to the Deutsche Börse AG, are reported under other operating profits.



The subsidiary Tradegate AG Wertpapierhandelsbank pays into the fund for general banking risks according to § 340e (4) Handelsgesetzbuch (German Commercial Code).

The taxes on income and profit increased due to the positive results compared with last year.

From the development of results the following operating figures can be derived:

- A turnover equivalent, expressed as the sum of interest earnings, current income, result from associated companies, commission earnings, net earnings from securities held for trading and other operating profits
- Cost income ratio (CIR), expressed as a percentage: the sum of general administrative expenses and write-offs on intangible and tangible assets divided by gross earnings
- Return on equity (ROE), expressed as a percentage: net profit for the year plus the amount allocated to the fund for general banking risks divided by equity capital
- Earnings per share (EpS), expressed as a percentage: net profit for the year plus the amount allocated to the fund for general banking risks divided by the number of shares at the balance sheet date

	2014	2015	2016
Turnover			
equivalent	41,753,000 €	47,806,000 €	59,686,000 €
CIR	68.6 %	63.9 %	61.8 %
RoE	23.56 %	19.75 %	27.22 %
EpS	0.949 €	0.911 €	1.317 €

The positive environment on the stock markets and the relative strength compared with competitors has led to another increase, especially in the net result from securities held for trading. The decision in Great Britain to leave the EU and the result of the presidential elections in America caused a particularly high level of trading with

the corresponding effect on turnover. The rise in the net result from securities held for trading also brought about an increase in the general administrative expenses. Along with the turnover-dependent expenses for the clearing and settlement of securities trades, profit-related special payments were made to employees thus increasing expenses for personnel. Since the increase in general administrative expenses was larger than the increase in profits the cost income ratio fell to 61.8 %.

The results of operations have developed very positively during the last business year and were much better than planned.

### 2.2.2 Financial position

The Group is financed primarily from its net assets and the fund for general banking risks. Based on the business of one of its subsidiaries and the ensuing net result in 2016 from securities held for trading, € 2,648,000 was paid into the fund. The fund now contains € 17,412,000.

In 2016 the Group companies continued to buy and sell own shares within the scope of trading activities. There was no new placement of those shares held directly by the parent company. Compared with last year the Group's equity ratio fell from 61.0 % to 46.8 %. As customer deposits in private banking have increased further the ratio of equity capital on the balance sheet decreased.

Significant investments were made in the computer system and in other intangible assets in connection with the take-over of the private and business banking of the Berliner Effektenbank. Capital was not borrowed for the investment.

The financial position of the company is in good order.

### 2.2.3 Liquidity

The liquidity position of the Group is marked by a good equity base and the investment of capital in bank accounts which mature daily. The assets are held ready for the purpose of processing extensive business. A part of the assets serves as a guarantee for underlying risks arising from uncompleted trades. In the course of business activities securities held for trading are transacted short-term and are also therefore classed as liquidity. The very positive development of results has led to a corresponding accrual of liquidity.

In private banking the account deposits are invested with matching maturities. The amounts are too small for a maturity transformation. Details of the regulatory reference figures for liquidity may be found in the risk report.



The investment business will not be developed further. The investment portfolio is currently being wound down, so there was no noteworthy impact on liquidity.

In the past business year the company's ability to meet financial obligations was given at all times.

#### 2.2.4 Net assets

This year the balance sheet total of the Group improved by € 50,681,000 compared with last year. On the assets side of the balance sheet the credit balance at the Bundesbank and other banks increased, as did the amount of other current assets. The credit balance at the Bundesbank and other banks increased due to the positive development of results and the accrual of customer deposits in private banking. The changes in such deposits drive the increase on the passive side of the balance sheet.

The company's net assets are in good order.

### 3. Risk report, outlook, opportunities

#### 3.1 Risk report

The risk report is geared towards internal risk controlling and based on information that is submitted regularly for the attention of the managing board and the supervisory board.

##### 3.1.1 Organisation of risk management

The Group is active in a field that is subject both to dramatic fluctuations regarding the amount of business and to changes in general conditions. In this environment it is necessary to continuously develop the means to manage, monitor and control the relevant risks. With the minimum requirements for risk management (MaRisk) a strict legal framework for monitoring and control mechanisms and their documentation is in place. For the Group the Tradegate AG Wertpapierhandelsbank is legally defined as the highest level company. It has the task of making sure the Group has an appropriate risk control system in place. In principle, risk is understood to be the negative difference between actual incidents and expected incidents. Damage is then the occurrence of a risk with negative consequences. With its subsidiary Tradegate AG Wertpapierhandelsbank the Group sees itself as a liquidity provider or, as the case may be, a market specialist and it is not company strategy to build up and assume securities positions in anticipation of a positive market price development. Rather the business activity is geared towards enabling as many dealings in securities as possible. In doing so, during the course of a day the subsidiary assumes an interim position as buyer or seller with the aim largely of continuing to trade these positions up to the close of trading. The number of positions that are held until the start of trading on the next day is small compared with

the trading volume. If any one position worthy of note is held open, then this happens strictly within the scope of investments in liquid assets. The development on the German and European stock exchanges is an important influencing factor for business activity and the connected technical development and surrounding conditions. Trends are monitored at an early stage for any possible impact on the company's field of business and for technical necessities. Above all, wrong decisions can lead to high costs, loss of earnings and delays.

The basis of the risk management system is the classification of risks into market price risk, operational risk, counterparty default risk and liquidity risk. The risk management system differentiates between the areas most exposed to risk, risk management in the narrower sense and risk controlling.

According to the responsibilities laid down by company law the highest level of risk management is the entire managing board of the Tradegate AG Wertpapierhandelsbank, whose members regularly discuss the general business conditions and the company's development. The operative business areas have freedom of action and leeway in decision-making based on the guidelines and risk strategy decided by the whole managing board. The risk control department reports to the Chairman of the Board and monitors the risk situation and supports risk management, in particular with information on assumed risks. Risk control is also largely responsible for the further development of the risk management system. The basis for the limit system is the expected result of the business year, taking into account the current total amount of capital and reserves and the effective result of the business year. An upper limit loss was decided for 2016 which remained unchanged for the whole year.

##### 3.1.2 Institutional supervision

Tradegate AG Wertpapierhandelsbank and consequently the Berliner Effektengesellschaft AG Group have a permit for banking and financial services, so they are subject to supervision by the Federal Financial Supervisory Authority and the German Federal Bank. Accordingly, an interim return and the calculations for the Liquidity Regulation are prepared monthly; calculations on solvency, debt and liquidity and reports on any large loans and loans in millions are submitted quarterly. If any unusual events occur, they are to be reported separately. By virtue of its authorisation to carry out certain types of banking business, the company is duty bound to support an internal audit according to the minimum requirements for risk management.

In accordance with part 8 of the directive (EU) 575/2013 of the European Parliament dated 26th June 2013, also known as the Capital Requirement Regulation (CRR), certain information must be disclosed. The Tradegate AG Wertpapierhandelsbank fulfils this disclosure requirement in a separate report.





The financial holding group Berliner Effektengesellschaft AG must adhere to the group-level regulations of the CRR which govern consolidated monthly reports. It must also observe the regulations on submitting information on financials and risk bearing ability according to the German Banking Act. The Tradegate AG Wertpapierhandelsbank is by law the highest-level company in the financial holding group. The regulatory group basically comprises all companies that are included in the group financial statements according to commercial law. Only group companies that fall under the category "other companies" and separate assets should not be incorporated in the reports in accordance with the German Banking Act. In the case of the financial holding group Berliner Effektengesellschaft AG, the company Ex-tra Sportwetten AG, Vienna, is included in the HGB (German Commercial Code) group accounts within the scope of a full consolidation and therefore not included in the report. No regulatory deduction of the book value is made in the report. The quirin bank AG and its subsidiaries are, according to commercial law, included in the HGB group accounts at equity. For the purpose of regulatory reporting the bank only represents a shareholding of the Berliner Effektengesellschaft AG. The quirin bank AG is an independent group and itself subject to reporting rules.

The capital resources of the financial holding group are made up of the subscribed stock of the Berliner Effektengesellschaft AG, its capital reserves and other reserves insofar as they are not reduced within the scope of a capital consolidation. Own shares, debit differences from the capital consolidation and intangible assets are deducted from this. The item "intangible assets" includes software and acquired assets. The group's capital resources consist exclusively of core capital. As at 31 December 2016 the capital requirement and capital resources were as follows:

	Amount in '000 €
<b>Capital requirements for</b>	
Counterparty default risks	36,900
Market price risks	17,499
Operational risks	46,953
Risk of a credit valuation adjustment	43
<b>Total</b>	<b>101,395</b>



Description	Amount in '000 €
Paid-in capital	13,749
Capital reserves	31,619
Own shares	- 442
Retained earnings	- 5,551
Special item for general banking risks	8,287
Minority interests	2,212
Temporary provisions for minority interests	5,914
Goodwill	- 145
Intangible assets	- 1,711
Other adjustments	- 1,595
<b>Core capital</b>	<b>52,337</b>
Non-core capital	400
<b>Capital resources</b>	<b>52,737</b>

The report for the financial holding group Berliner Effektengesellschaft AG is made according to the CRR. Between January and December 2016 the total capital ratio at group level lay between 48.39 and 52.01.

### 3.1.3 Market price risks

Market price risks are understood to be the negative differences of the expected market price development. Market prices are interest rates, stock prices and foreign exchange rates. Any change brings about changes in the value of the financial instruments within the portfolio, such as stocks, bonds or bank balances in foreign currency which in turn can lead to write-offs affecting results. Since one focal point of business activities lies in the trading and relaying of transactions of shares in foreign companies, especially US-American stocks, an indirect foreign currency risk also has an effect. For example, in an ideal market, changes in the US-\$ exchange rate bring about corresponding changes in the stock price in €. In the context of the risk management system of securities trading, the risk arising from securities transactions is considered to be implicit in the share price risk.

Last year the controlling limits were monitored in line with supervision requirements. On the basis of the expected results for 2016 and the capital resources, an absolute upper loss limit for all the company's transactions was set by the managing board. In addition, risk limits were allocated to other companies belonging to the Group in agreement with their management. One part of this upper loss limit was divided as a control limit between the individual trading areas. Using these control limits, pending losses from open positions were limited. The pending losses are calculated from the value of the open position and the current value on the basis of a reference price. This reference price is determined on an ongoing basis and entered into the control system. In 2016 the limit was mostly only marginally used and exceeded occasionally for a short period of time. In nearly all cases, the reason for exceeding the limit was that the monitoring system was provided with incorrect reference prices. If risk control notifies a limit exceedance, the cause is investigated and the board member responsible for controlling is informed accordingly. The board member responsible for controlling discusses the steps to be taken with the board member responsible for trading, and informs risk control of the result. If losses are actually incurred which exceed a certain threshold value, the limit concerned is lowered automatically. In a subsequent comparison of the actual and planned result of the company, a decision is made on the retention or change of the limit alignment. In 2016 no adjustment was made to the controlling limit.



In addition, a limit is set especially for the risks coming from potential assets in the liquidity reserve. The assessment of the amount of risk is handled analogue to the observation of trade securities. If the limit is exceeded, the managing board is informed immediately and then decides on the further handling of the securities in the liquidity reserve.

A further controlling limit exists for non-€ receivables and liabilities from banks, customers and suppliers. The risks at domestic banks from deposits in US dollars are to be noted in particular. No limits were exceeded here. If limits are exceeded during the business year the board members responsible for controlling and trading are informed. They then decide on any further steps to be taken.

#### 3.1.4 Operational risks

Operational risks are understood to be such risks arising out of inappropriate or faulty company operations or those caused by employees, systems or external occurrences, legal risks included.

The existing risk matrix was reassessed for risks, early warning indicators and possible counter measures. If there were any new values the early warning indicators in the risk matrix were renewed or adjusted. In order to create an overview of any damages occurring, employees were required to report to risk control the cases of damages that exceeded a defined minimum limit. The damages that arose consisted of increased workload and trading losses. They were taken into account and operational processes were adjusted accordingly. In the area of IT-operations a list of system changes, faults and failures is kept which is regularly checked against the incident database. Last year there were no significant faults which caused definable or noteworthy damages.

The management of operational risks is the responsibility of the respective manager or department head. They monitor the work processes and, if necessary, make interventions or adjustments. Part of the upper loss limit was reserved for operational risks based on the capital requirements according to the Capital Requirement Regulation.

#### 3.1.5 Other risks

The other risks include counterparty default risks and liquidity risks. The counterparty default risk is the danger that liabilities are fulfilled too late, incompletely or not at all. The Group has predominantly receivables from banks. The most important bank connections are with the quirin bank AG and the BNP Paribas S.A. Group. Because of its associated relationship to the Group the quirin bank AG is integrated into the monthly reports and Mr. Timm is a member of the supervisory board of the bank, so sufficient realtime information on the economic situation is always available. Apart from bank accounts that are used for payment transactions and cash deposits the company has receivables

from tax repayments and receivables from other brokers for securities transactions. The risks here are considered to be low as they are regulated by the stock exchange systems and the market participants are subject to supervision by the stock exchanges and the Federal Financial Supervisory Authority.

In order to minimise counterparty default, all transactions with addresses which do not have admission to a German, West European or American stock exchange are subject to separate supervision directly by the managing board. This applies mostly to East European trading addresses.

Liquidity risk is understood to be the danger that payment obligations might be made not at all, too late or incompletely, or that due to illiquid markets assets cannot be sold, or sold at the expected price. Control of solvency is decentralised in the individual companies. Among other things, payments received and payments outgoing are estimated for the following twelve months. The first quarter is reported on a monthly basis, thereafter reports are made on a quarterly basis. If there are any shortfalls, reports are made more often than usual. In the last year there were no shortfalls of these self-imposed limits. Additionally, the Tradedate AG Wertpapierhandelsbank is subject to the terms of the Liquidity Regulation, which sets certain minimum requirements with relation to capital and financial liabilities. Last year's reference numbers moved between 3.29 and 4.17, the minimum figure being 1. Financial institutions also have to fulfil a liquidity coverage ratio (LCR) and provide for a stable funding ratio. Within the requirements of the liquidity coverage ratio banks are required to hold liquid assets at least to an amount which covers the total value of liquidity outflow defined in the liquidity coverage ratio, less the inflow of liquidity under stress conditions also defined therein. The ratio of liquid assets to the net liquidity outflow was between 2.82 and 4.48 throughout the whole business year. Within the stable funding ratio financial institutions must make sure that long term liabilities are backed appropriately by stable funding. Due to the business structure and the available own assets the company's long term funding was guaranteed at all times. The market liquidity risk is controlled and monitored through the choice of where to trade, consideration of the current market situation when completing transactions and the limitation of open positions.

#### 3.1.6 Reporting

The whole managing board of the highest-level company in the Group receives a daily risk report which contains the realised results of the last day of trading, the current month and the current year, as well as information on limit adjustments and special issues, such as significant exceedance of limits and unusual transactions as regards business partners, volume or conditions. Information on other significant risks to the company is also included in the report. Data on cases of damage from operational risks, specific incidents and steps



undertaken are recorded in particular. This daily risk report is supplemented by a monthly economic development report and a quarterly report on the Group's risks.

### 3.2 Outlook and opportunities

At the moment the Group is not planning to make any significant changes to its business strategy. It will continue to operate as a financial holding without its own operative business and as an investment company. The outsourcing of various operative business areas with their different risks, different permit needs and different capital requirements, which from time to time can also be covered by the inclusion of new shareholders, has proved to be correct and practicable.

Even after the sale of a further 5 % share of Tradegate AG to the Deutsche Börse AG the company still remains the most important subsidiary within the Berliner Effektengesellschaft Group in the long term. In view of the unexpectedly high turnover in trading in June and November 2016, which was in both cases due to unusually surprising political events and election results, Tradegate AG does not for the time being expect a further rise in earnings for the business year 2017 but is aiming to stabilise turnover and earnings at the current high level. An overall drop in turnover cannot be ruled out but the company is confident that it can at least compensate for this by connecting new market participants to TRADEGATE EXCHANGE. How far our new competitors, whose services on and off exchange increasingly resemble those of TRADEGATE EXCHANGE, can establish themselves in the coming year remains to be seen. As a result of the undiminished pressure of competition a reduction of the gross margin per trade in the short or midterm is to be expected.

An unknown factor is the possible introduction of a European tax on financial transactions. Depending on its exact form such a tax could have very negative effects on the company's activities, especially in the business of trading with private investors. However, according to recent announcements the implementation of such a tax is becoming increasingly unlikely.

Following the squeeze-out in 2013, Ventegis Capital AG will not take up any new investments but will concentrate instead on developing its few remaining shareholdings. It should be possible at least to cover the already reduced general administration costs with income from the general advisory business. Depreciation potential on the remaining investment portfolio is not evident at the moment. In 2017 the company intends to sell investments where possible; in the case of luventa a sale was successfully completed in February 2017. Should

more financing rounds for existing investments come up in 2017, Ventegis Capital AG will participate as far as its financial resources allow in order to avoid further dilution. Aside from these potential sales the company is aiming at least for a balanced result.

The third significant investment of the Berliner Effektengesellschaft is the quirin bank AG. The bank was able to report a good net profit for the year 2016. Although in previous years the earnings were good, it was first necessary to balance the losses accumulated during the founding years. In 2017 the quirin bank is able to pay out a small dividend for the first time. Its innovative business model continues to present a challenge in view of the difficult situation on the capital markets and the strict business philosophy of not taking on any incalculable risks for its own business or its customers. This investment has enormous growth potential if the innovative business concept can be implemented successfully. The fintech arm of the quirin bank, "Quirion", a robo-advisor which provides online financial advice for private investors, is making good progress but has not yet reached the critical number of customers needed for a profitable business.

The subsidiary Ex-tra Sportwetten AG in Vienna has ceased to do business and is now in liquidation.

In the medium term the Berliner Effektengesellschaft does not need capital inflow in order to implement its strategic goals and therefore has no plans for a capital increase. The available liquidity and any possible inflow of liquidity shall be used in part to pay appropriate dividends and to finance further share buybacks at a favourable share price. Most of the liquidity will however be kept in the company as an investment reserve to allow freedom of action in the strategic development of the business.

With its subsidiaries and investments in the financial sector the Group remains to a large extent dependent on a positive capital markets environment. As long as the situation on the capital markets does not get any worse and without taking into account the effects of a possible financial transaction tax, a much lower Group result is expected for 2017 as profits from the sale of shareholdings within the Group on the same level as 2016 are not anticipated.

Berlin, 28 April 2017

Berliner Effektengesellschaft AG

*Holger Timm*

*Karsten Haesen*







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