

/ BAADER /



**Baader Bank AG**

# Enable Change in Banking.

Annual Report 2018

[www.baaderbank.de](http://www.baaderbank.de)

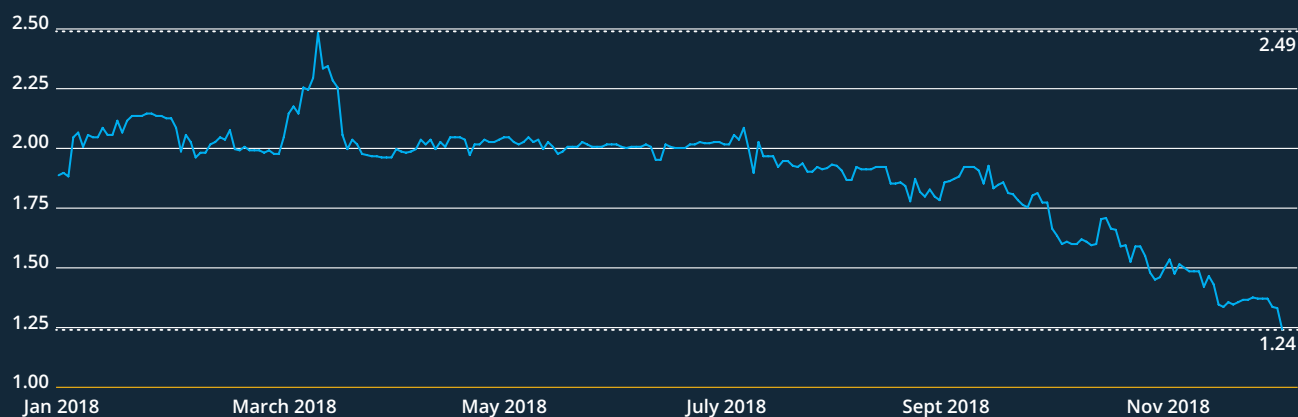
## Key figures Baader Bank Group

|   | 2018<br>EUR'000 | 2017<br>EUR'000 | Change to the previous year |               |
|---|-----------------|-----------------|-----------------------------|---------------|
|   |                 |                 | absolute<br>EUR'000         | relative<br>% |
| <b>Income</b>   | <b>98,121</b>   | <b>121,317</b>  | <b>-23,196</b>              | <b>-19.1</b>  |
| of which net interest income and current income               | 527             | 1,502           | -975                        | -64.9         |
| of which net commission income                                | 40,518          | 46,539          | -6,021                      | -12.9         |
| of which net trading income                                   | 40,976          | 57,683          | -16,707                     | -29.0         |
| of which revenue  | 13,095          | 12,135          | 960                         | 7.9           |
| of which other income   | 3,005           | 3,458           | -453                        | -13.1         |
| <b>Expenses</b>   | <b>-117,496</b> | <b>-117,058</b> | <b>-438</b>                 | <b>0.4</b>    |
| of which personnel expenses                                   | -54,686         | -54,702         | 16                          | ±0.0          |
| of which administrative expenses and other operating expenses | -45,385         | -42,586         | -2,799                      | 6.6           |
| of which amortisation and depreciation                        | -17,391         | -18,344         | 953                         | -5.2          |
| of which net income from interests in associates              | -34             | -1,426          | 1,392                       | -97.6         |
| <b>Earnings before taxes (EBT)</b>                            | <b>-19,375</b>  | <b>4,259</b>    | <b>-23,634</b>              | <b>-</b>      |
| <b>Operating result *</b>                                     | <b>-14,221</b>  | <b>7,650</b>    | <b>-21,871</b>              | <b>-</b>      |
| <b>Total assets</b>   | <b>713,190</b>  | <b>764,844</b>  | <b>-51,654</b>              | <b>-6.8</b>   |

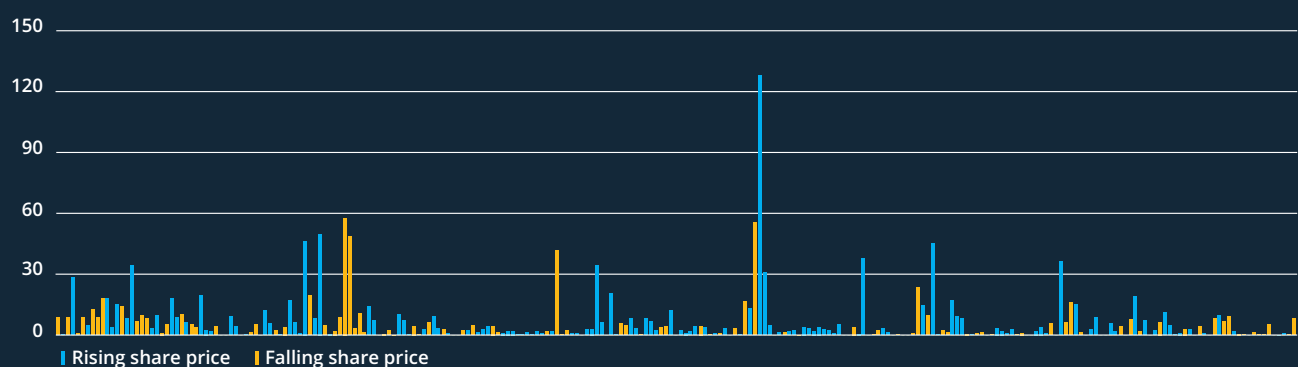
In accordance with the provisions of the German Commercial Code (HGB).

\* Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment

### Price in EUR



### Volume in thousand units



# Ready for the FUTURE? **#WeEnable**

## **#WeEnable** BUSINESS

We serve companies in both primary and secondary markets. We handle structuring and execution of equity and debt capital transactions. We provide companies with broad access to international investors.

## **#WeEnable** FINTECHS

We are the pioneer behind the pioneers. Numerous leading fintechs utilize our modern infrastructure that makes a fundamental contribution to their business model. Our banking platform complies with supervisory regulations and is highly efficient. This allows us to guarantee meeting the demands that will be made of banking in the future, from seamless custody account set-up through to break down.

## #WeEnable TRADING

We are one of the largest market makers on Europe's key stock exchanges as well as off-exchange. We are also one of the leading brokers for international investors in secondary business. We trade equities, bonds, funds, exchange-traded products and derivatives. We offer electronic market access, sales, trading and execution, as well as designated sponsoring and clearing services.

## #WeEnable INSIGHTS

We cover all major companies from key sectors focusing on European markets and stocks, especially Germany, Austria and Switzerland. We also offer specialized ETF research to assist our investment clients in deciding on asset allocation and investment strategies. Our research has won numerous awards and provides investors with high-quality access to companies.

## #WeEnable ASSET MANAGEMENT

We provide a supervisory-compliant and highly-efficient banking platform for asset managers, liability umbrella, family offices, foundations and fintechs. We are an outsourcing partner to capital management companies offering implementation of fund mandates. We free up resources and processes in asset management and portfolio management by handling all mandate-related supervisory and administrative tasks.

# Dear Shareholders, Business Partners and Employees,

The global sentiment in 2018 as well as the financial market sentiment was dominated by issues such as Brexit and the constant bad relations between the USA and Russia. Despite an increase in on- and off-exchange trading volumes in total, the trading volume on the trading platforms on which Baader Bank actively operates, and particularly on the Frankfurt Stock Exchange, fell sharply. Business volumes also decreased on other markets, e.g. the IPO market.

In addition, we are battling with challenges such as technological transformation, new pricing models due in part to MiFID II, and declining significance on submarkets that are important to us. Overall, this has meant that it has not been a good year for us. This is reflected in our earnings figures. For fiscal year 2018, we show an annual loss. The Board of Directors is of course not satisfied with this.

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***Nevertheless, there were also positives in the previous year and, despite a difficult environment, we have made progress in restructuring our bank.***

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High volatility, high sales and of course positive overall sentiment on the capital markets continue to be very important for us. Reducing this dependence and tapping into new, diversified sources of income that are more or less independent of the capital and securities markets is part of our roadmap for the "Vision 2022".

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***A strategy adjustment, a fundamental review and the development of meaningful – and in particular result-effective – measures therefore was and still is our highest priority.***

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For this reason, over the past year we have introduced and implemented additional consolidation measures because the Board of Directors has identified the need for action and adjustment in the Group's organisational and strategic alignment in a currently challenging market environment for Baader Bank.

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***In practice, this means that we are focussing on the core business.***

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To this end, we have also sold or are in the advanced process of selling equity investments and subsidiaries such as Skalis Asset Management AG. The focus and strategic adjustment are also reflected in an organisational consolidation of business operations and streamlining the organisation by downsizing the Board of Directors from four to three members. This change will continue as being at a standstill puts us at risk.

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***One of Baader Bank's greatest strengths has always been its versatility and ability to adapt to changing market conditions.***

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Baader Bank's core business consists of providing high-quality services in the Market Making, Capital Markets and Multi Asset Brokerage business lines. These core business lines are supplemented by the Banking Services, Asset Management Services and Research business lines, which cover complementary business needs of client groups from the respective core business lines.

This basic structure of six client- and product-focused business lines is the result of a redesign of all market-oriented sources of income carried out at the end of 2016 and continued over the course of 2017 in a structurally unchanged manner.

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*In 2018, the business lines were further developed for Vision 2022 and consolidated after a review.*

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The business lines will be driven forward and developed with a focused approach in 2019, while processes and responsibilities will be optimised and combined. Performance in the business lines will be boosted through specific development measures. However, they still do not guarantee sufficient stability in an economically challenging market environment. This is one of our goals for the coming fiscal year.

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*The restructuring or, for want of a better word, transformation is still not complete. There is still a lot to do in our bank.*

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There is still a lot to do in our bank. Not least due to the fact that the regulatory requirements for the banking industry are increasing. In the phase that lies ahead, the focus must clearly be on income and our profitability – without making sacrifices to our risk management and controls. We need to sustainably increase income. We must create opportunities to build investment capital and create distribution potential for our investors – you. We will continue working towards this, improving processes, utilising existing client potential more effectively and gaining new clients.



Responsibility: Market Making, Strategy, Legal, Treasury, Communication, Equity Capital Markets

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*Dear Shareholders, dear Business Partners, dear Employees, in the past year, we have achieved a great deal but equally less than expected.*

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We are working hard to make the Bank better, however, this requires cuts. And we will also not be able to pay any dividends.

The coming year 2019 will remain a challenging and fragile market environment. The above-mentioned restructuring measures initiated, in particular a more streamlined organisational structure and an adjustment of the strategic alignment of the entire Bank and its business activities, should, in the medium term, mean that Baader Bank can gradually regain its profitability in what remains a challenging market environment.

We will approach the goals set by us to get closer to our vision step by step. In doing so, the results of Baader Bank are expected to be less dependent on the securities markets, while simultaneously expanding our portfolio of existing independent clients, from which we are looking to generate constant income. At this point, on behalf of my colleagues on the Board of Directors, I would like to thank the employees in all areas of the Bank for their dedication and commitment. I would be delighted if you would continue to support Baader Bank on its road to success. I would like to invite you to our shareholders' meeting on 1 July 2019 in Munich and I look forward to seeing you there.

Best regards,



Nico Baader,  
Chairman of the Board, Baader Bank AG



**Dieter Brichmann** | Deputy Chairman of the Board of Directors

Responsibility: Finance, Human Resources, Credit, Operations



**Oliver Riedel** | Member of the Board of Directors

Responsibility: Brokerage, Banking Services,  
Asset Management Services, Research, Corporate Brokerage

# #We Enable



## Key data and other information

|                              |   |
|------------------------------|---|
| <b>WKN</b>                   | 508810  |
| <b>ISIN</b>                  | DE0005088108  |
| <b>Reuters</b>               | BLMG.MU   |
| <b>Bloomberg</b>             | BWB@GR  |
| <b>Ticker</b>                | BWB   |
| <b>Sector</b>                | Banks   |
| <b>Stock market listing</b>  | 1/8/1994  |
| <b>Admission segment</b>     | Outside market  |
| <b>Home stock exchange</b>   | Munich / m:access   |
| <b>Other stock exchanges</b> | Berlin<br>Dusseldorf<br>Frankfurt<br>Hamburg<br>Hanover<br>Stuttgart<br>XETRA |

## Board of Directors (as at 31/12/2018)

Nico Baader  
(Chairman)

Dieter Brichmann  
(Deputy Chairman)

Christian Bacherl

Oliver Riedel

## Supervisory Board (as at 31/12/2018)

Dr. Horst Schiessl  
(Chairman)

Helmut Schreyer  
(Deputy Chairman)

Ali Cavli

Prof. Dr. Georg Heni

Thomas Leidel

Nils Niermann

## Shareholder structure



- 31,29% free float
- 0,30% Uto Baader
- 5,43% Ubtrend GmbH & Co. KG
- 62,98% Baader Beteiligungs GmbH



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# Combined Management Report



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# 1. General information about the Baader Bank Group

## 1.1 Organisational and legal structure

Baader Bank Aktiengesellschaft (Baader Bank or Baader Bank AG) is one of the leading family-run investment banks in German-speaking countries. Baader Bank has a full banking licence, is a member of the Association of German Banks (Bundesverband deutscher Banken e.V.), and is part of its deposit protection scheme.

As at the reporting date, the Baader Bank Group comprised the parent company and seven fully consolidated companies – of these, four are subsidiaries and three are sub-subsidiaries. The Group is headquartered in Unterschleißheim near Munich, Germany. Further German offices of Baader Bank are located in Frankfurt am Main, Stuttgart and Düsseldorf.

The subsidiary Baader & Heins Capital Management AG (Baader & Heins AG), in which Baader Bank has a 75% interest, and its subsidiary SKALIS Asset Management AG (SKALIS AG), which was sold in its entirety in 2018, both have (or had) their headquarters in the same building as the Group's headquarters in Unterschleißheim. Conservative Concept Portfolio Management AG (CCPM AG), in which Baader Bank holds 66.07% of the shares, has its headquarters in Frankfurt am Main. Baader Helvea AG, the wholly-owned Swiss subsidiary of Baader Bank, has its headquarters in Zurich. Baader Helvea AG holds a 100% interest in Baader Helvea Ltd. which has its headquarters in London and Baader Helvea Inc. which has its headquarters in New York and maintains an office in Montreal. Together with Baader Bank, these companies form the Baader Helvea Group.

Baader Bank holds a 100% interest in Selan Holding GmbH, with its headquarters in Unterschleißheim. This company in turn holds a 100% interest in the Croatian wind farm operator Selan d.o.o. and in Vjetropark Vratarska d.o.o., which together with Selan Holding GmbH form the Selan Group. The company still intends to resell the interests in Vjetropark Vratarska d.o.o. once the company has achieved the status of a preferential power generator in Croatia and received authorisation to construct a further seven wind power plants. They are therefore not included in the consolidated financial statements.

Baader Bank also has further interests in Gulf Baader Capital Markets S.A.O.C., Muscat/Oman, and Ophirum ETP GmbH, Frankfurt am Main/Germany. There were no corporate law-related changes with regard to these interests in 2018. The operations of Ophirum ETP GmbH were discontinued in 2018.

At the end of 2018, a total of 442 staff members were employed at the Baader Bank Group and 397 employees at Baader Bank AG.

The composition of the Board of Directors of Baader Bank remained unchanged at the end of the reporting period. The Chairman of the Board of Directors is Nico Baader; other members at the end of fiscal year 2018 were Deputy Chairman Dieter Brichmann and further Board members Christian Bacherl and Oliver Riedel. At the time this report was compiled, Christian Bacherl was no longer a member of the Board of Directors of Baader Bank.

Baader Bank's shares are traded on the open market on the Munich stock exchange in the m:access market segment as well as on the open market on the Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Hanover and Stuttgart stock exchanges.

Baader Beteiligungs GmbH, Munich, holds a 62.98% interest in Baader Bank, Ubtrend GmbH & Co. KG (previously Baader Immobilienverwaltungs GmbH & Co. KG) holds 5.43%, 0.30% is directly owned by the company's founder and the former Chairman of the Board of Directors, Uto Baader, and the remaining 31.29% of the shares are held by free float shareholders.

## 1.2 Business model of the Baader Bank Group

Baader Bank's core business consists of providing high-quality services in the Market Making, Capital Markets and Multi Asset Brokerage business lines. These core business lines are supplemented by the Banking Services, Asset Management Services and Research business lines, which cover complementary business needs of client groups from the respective core business lines. This basic structure of six client and product-focused business lines continued over the course of fiscal year 2018 in a structurally unchanged manner.

### 1.2.1 Core business lines

#### 1.2.1.1 Market Making business line

As a market maker, Baader Bank undertakes intermediary activities on regulated exchanges, over-the-counter trading platforms and in over-the-counter securities trading.

Measured by the number of order books of different classes on German and foreign stock exchanges, Baader Bank is one of the leading market makers in German-speaking countries. Market making comprises all the business activities that are known as order book broker, specialist, and specialist or quality liquidity provider, depending on the organisation and terminology of the respective stock exchange. In its market making capacity, the Bank acts on regulated stock exchanges in Germany (Berlin Stock Exchange, Frankfurt Stock Exchange, Stuttgart Stock Exchange, Munich Stock Exchange and

Gettex, and Frankfurt Certificates Stock Exchange) and Austria (Vienna Stock Exchange). Depending on the respective market model, Baader Bank quotes prices and executes orders for exchange-traded domestic and foreign shares, bonds, funds, participation certificates, Exchange Traded Products (ETPs), and securitised derivatives. This service is provided on the basis of uniform internal standards, stock exchange regulations, and regulatory requirements. Baader Bank's objective is to continuously provide execution services at consistently high quality on all stock exchanges and in all classes of securities.

In OTC securities trading, Baader Bank cooperates with partner banks, mostly direct banks or online brokers, quotes prices on OTC trading platforms as a market maker during trading hours and enters into bilateral trading relationships as a counterparty. Trading partners' end clients, mainly private investors, generate trading revenue in equities, bonds, funds and ETPs.

### **1.2.1.2 Capital Markets business line**

The Capital Markets services portfolio comprises the provision of independent advice in capital market transactions and the structuring and execution of equity or debt transactions and hybrid financing alternatives. The independently offered Corporate Brokerage service package comprises the ongoing monitoring of the capital market presence of listed companies and their support within the framework of designated sponsoring. The special execution services offered include the performance of capital measures, capital increases and decreases, the support for takeover or acquisition offers in respect of listed companies as well as squeeze-out procedures, and the assumption of paying agent services.

### **1.2.1.3 Multi Asset Brokerage business line**

One of Baader Bank's core services in this area is sales and trading for institutional investors. Specifically, this involves brokerage, i.e. order execution in shares, bonds, ETPs and derivatives for clients on the national and international stock exchanges and OTC trading platforms to which Baader Bank is connected directly or connected via partner institutions. In its sales activity, Baader Bank actively addresses institutional end clients and sells research products and trading ideas. The aim is to generate client orders in financial instruments and to place primary market transactions. Sales trading comprises the acceptance and execution of client orders, support and advice e.g. in portfolio trading and the provision of trading-related services such as clearing services.

## **1.2.2 Complementary business lines**

### **1.2.2.1 Banking Services business line**

Baader Bank includes the deposit and custody business under Banking Services, whereby all original banking functions and services are provided exclusively within the framework of B2B2C cooperation agreements with traditional asset management clients or fintechs.

Asset managers benefit from the trading connection, the modern infrastructure and the complete mapping of asset management processes, taking into account regulatory expertise and banking law aspects.

As a full-service bank and full-service provider, Baader Bank follows an intermediary approach and acts as a partner for asset managers in account and custody account management, the systematic processing of order management and reporting processes in compliance with MiFID II requirements and the connection to a broad international trading network.

### **1.2.2.2 Asset Management Services business line**

In the Asset Management Services business line, Baader Bank provides financial portfolio management services as defined under the applicable regulatory requirements, and other services for institutional buyers. As a bank partner for portfolio management companies, it supports the portfolio management of fund products such as UCITS funds, special funds, offshore funds and derivatives overlay mandates. Baader Bank also assumes the buy-side trading desk function, numerous order management services and administrative pre- and post-trade processes.

### **1.2.2.3 Research business line**

Within the framework of a fundamental, technical and quantitative top-down approach, Baader Bank's Equity Research team develops index targets, analyses relevant macro topics, defines economic scenarios and makes statements on market timing (strategy research) and European sector trends.

At the individual value level, sector specialists from the Baader Bank Group or its cooperation partners regularly prepare detailed studies for investors and provide opinions and recommendations on sectors and individual stocks. The focus is on analysing companies in Germany, Switzerland and Austria (GSA region). Since the acquisition of the Swiss broker Helvea in 2013, the coverage has been developed under the Baader Helvea brand, and since the expansion in 2018 has successively grown to include a pan-European product range as part of the cooperation with French research provider AlphaValue.

In addition to equity research, Baader Bank's ETF research product supports institutional investors in making decisions on asset allocation and implementing active investment strategies.

The research product forms the interface between Baader Bank's two relevant client groups, corporate clients, most of whom come from the GSA region, and international institutional investors who generate investment ideas and derive investment decisions from analyses.

### 1.2.3 Subsidiaries' business lines

The Baader Bank Group's offering is rounded off by the range of products and services offered by its subsidiaries. These mainly comprise the research and brokerage activities involving products of the German-speaking capital markets for German-speaking and English-speaking investors, the brokerage of promissory note loans, registered securities and money market investments, as well as the management of clients' funds in traditional hybrid funds, and absolute return strategies. These services are provided by the domestic and foreign subsidiaries listed in Section 1.1. The Selan Group generates income from the supply of wind energy through the operation of Selan d.o.o. wind turbines located in Croatia.

## 1.3 Further development of the business lines

Baader Bank continued on its strategic course within the business lines in 2018. The core and complementary business lines are the Bank's main sources of income, with due regard to the respective markets and general conditions for the products and services offered. Superordinate sub-strategies, such as the risk, IT, personnel, remuneration and shareholding strategy, make it possible to carry out a continuous analysis and adjustment of business processes.

Taking into account the high quality standards for information technology in the stock market and banking world, the Board of Directors decided in November 2018 to structurally separate the IT and back office sectors. In connection with this, IT was brought within the scope of responsibility of the Chairman of the Board of Directors.

After the end of the reporting period, the restructuring measures that had been introduced in December 2018 continued, leading in February 2019 to a reduction in the number of areas of responsibility of the Board of Directors from four to three and a resulting redistribution of business units in the Capital Markets and Research business lines. The basic alignment of the six core and complementary business lines remains unchanged. They continue to be developed with an optimised, competitive focus, as set out in the forecast section.

## 2. Report on the economic position

### 2.1 Macroeconomic and sector-specific environment

#### 2.1.1 Macroeconomic environment in fiscal year 2018

The overall economic environment was characterised by a marked reversal in the course of 2018. Following the tax reform passed in the USA at the end of 2017 and the resulting hopes for a positive stimulus, confidence in further economic development was high at the start of the year. In the light of increasing evidence of a weaker growth dynamic than expected and a massive rise in political stress factors, however, a significantly more cautious assessment of the growth prospects of the global economy gradually asserted itself. In 2017 a synchronous global upturn was recorded for the first time in many years, and so development in 2018 was once again more selective. As a result, the growth of the global economy was unable to rise slightly as had been repeatedly forecast, but instead gradually weakened. The growth in global trade, which is an important stimulus for global economic growth, also saw a successive decline and was only slightly positive by late 2018, having been as high as 5% in the second half of 2017.

Economic momentum fell short of expectations, triggered by a number of factors. The continued reduction in monetary policy stimuli, a sharp rise in inflation, the broadening of protectionist measures and signs of declining growth in China left its mark in more sensitive areas of the global economy. Furthermore, this tendency towards a slowdown was strengthened by constantly increasing uncertainty regarding the wider overall economic environment. Concerns about an escalation of the trade conflict between the USA, China and the EU increased in the course of the year, which had a particularly detrimental effect. However, other political developments also created uncertainty. These included the sluggish progress of the Brexit negotiations, the budget dispute between Italy's new populist government and the EU, the historically protracted process of forming a government in Germany and latent geopolitical conflicts.



In the eurozone, the sharp fluctuations in the oil price were the central factor influencing the inflation trend, given that the core inflation rate remained at a very moderate level. While the rate of price increases was still falling slightly at the start of the year and was only 1.1% in February, it had doubled to around 2.2% by the autumn before clearly falling again at the end of the year.

In view of this, the ECB stuck to its policy of cautious stimulus reduction, reducing its monthly net bond purchase volume to EUR 30 billion in January from as much as EUR 60 billion in 2017. In June it then announced a further reduction to EUR 15 billion from October to December and a phasing out of net purchases from January 2019. In addition, the ECB provided extensive forward guidance by ruling out any increases in the base rate until Summer 2019. In contrast, robust growth and inflation data for the USA led the Fed to stick to its policy of gradual tightening and to increase the US base rate a further four times to between 2.25% and 2.5%. In the United Kingdom, the Bank of England also raised interest rates in August.

Against this backdrop, the trend on the financial markets was characterised by a clear paradigm shift. Although the expectation of strong economic growth and rising inflationary pressure continued to be the main driving forces at the start of the year, economic concerns and an increasing aversion to risk gained the upper hand over the course of the year. On the bond markets, this was initially reflected in rising capital market returns before descending into a clear downward trend once again in the spring. A similar picture could be seen in the euro exchange rate which the initial increases were unable to protect against. From the spring, it was the US dollar and Swiss franc that benefited significantly from the fading prospect of an interest rate increase by the ECB in the near future, as well as from the growing risk aversion of investors. The growing risk aversion of investors also led to a further increase in the risk premiums on bonds of debtors with poor creditworthiness.

The global share markets for the most part recorded double-digit price losses in 2018. These were primarily attributable to declining valuation ratios, but were also due in part to reductions in the company's profit estimations. The high dependence of the German economy on exports led to an above-average price drop for shares in German companies while the drop for US shares was below average owing to the significantly more robust profit trend. This spread in the profit trend also led to a very different pattern of development. While European shares peaked for the year as early as January and then continued on a downward trend, US shares reached new record highs in September before also embarking on a clear downward trend.

The above-mentioned macroeconomic conditions on German and international markets can be used to derive those exogenous factors which, with a view to Baader Bank's respective business lines, have varying degrees of influence on the success of a business period. For example, positive economic data and rising economic growth are basically resurgent sentiment indicators in the perception of those market participants whose investment behaviour and willingness to invest can increase earnings potential in securities trading as well as in the brokerage and capital market business. Prosperous share markets, persistently low interest rates, geopolitical changes and uncertainties, as well as the resulting or absent market volatility have had different effects on the respective business lines and exerted a greater or less significant influence on their earnings components. Details on the relevance of macroeconomic conditions for Baader Bank's performance and earnings drivers are provided in Section 2.2.

### **2.1.2 Baader Bank's handling of the possible impacts of Brexit**

Baader Bank is responding to the unpredictable situation associated with the United Kingdom's possible withdrawal from the European Union (EU) as part of a cross-sectoral project.

The Board of Directors considers that a "hard Brexit" without an agreement with the EU on 29 March 2019 is not out of the question. All business activities conducted within and from the UK are therefore being analysed to ensure that Baader Bank is able to act in accordance with the outcome of the decision, which is still open at the time of compiling this report.

As a European passport holder, Baader Bank is currently able to conduct its activities in other Member States of the European Economic Area (EEA) under freedom of services and establishment without requiring separate authorisation from the supervisory authority in the host country. Its London subsidiary, Baader Helvea Ltd., which predominantly serves British clients, currently also makes use of its European passport in order to serve European clients. As a result of the potential loss of this European passport, there may be changes in client service that could affect current contractual arrangements. Baader Bank will keep its clients informed of any such changes on a continuous basis.

If the British share markets are recognised as equivalent by the European Securities and Markets Authority (ESMA), Baader Bank will continue to be able to offer its services and securities trading without any restrictions. If the British share markets are not recognised, clients domiciled in the EU will only be able to trade in British shares on regulatorily compliant trading platforms.

Specified scenarios and the potential effects of changes in the economic and political framework will need to be absorbed and the necessary steps initiated in good time in order to best minimise the risk to Baader Bank from Brexit.

### **2.1.3 Industry, market position, and changes in competitive position**

Market makers keeping order books in German-speaking countries, which include Baader Bank, operate in a highly competitive and increasingly fragmented market environment. In addition to the market models of closed order books operated on German floor exchanges in which only one specialist is responsible for quoting securities orders at a time, so-called multi-market maker models are increasingly appearing. The latter create an open competitive situation within the management of an order book between several quoting brokers who are permanently valued with regard to speed and the narrowest possible spread of their quotes.

In the area of capital market services, the same competitive situation as in previous years continues to endure. Competition for capital market mandates that influence profits, driven by competition in prices and services, characterises the market landscape. The effects of Brexit cannot yet be conclusively evaluated at the time of compiling this report. It is not expected to lead to a fundamental change in competitor numbers and competing businesses. In combination with the anticipated general economic conditions, Baader Bank expects that the competitive situation will remain difficult.

In the view of Baader Bank, there is major potential in intensifying business relationships with asset managers, family offices and fintechs. With its high level of affinity for IT and its comprehensive banking service offering, from account and custody business through to trade connections, order management and reporting, Baader Bank is not in competition with, but supplements the range of services provided by asset managers, family offices and fintechs, a client group with sustained potential for market growth.

Investment management companies are tending to opt more often for outsourcing asset management functions and trading desk services due to the increasing regulatory requirements and the higher cost pressure. As one of a few full-service providers, Baader Bank can also benefit from this market development and sees a clear competitive advantage therein.

## **2.2 Business developments**

### **2.2.1 Development of the key performance and profit drivers**

The key performance and profit drivers of Baader Bank are net trading income and net commission income, which constitute the majority of the Bank's overall profits. These are determined by external developments on the relevant markets, the prevailing market sentiment and volatilities described below.

The noticeable upward trend on the German financial market in the first quarter of 2018 characterised by securities trading initially benefited Baader Bank. Despite a positive start at the beginning of the year, there was a collapse on the European markets at the beginning of the second quarter. Geopolitical uncertainties – such as the constant threat of escalation of the tariff and trade dispute between the USA, China and the EU, which has a dampening effect on export-dependent sectors – and the lack of impetus from the US stock market were the main reasons for this.

The stifled market sentiment led to declining sales in all asset classes and reduced Baader Bank's revenues, particularly in trading in shares, ETFs and funds. Due to persistent low volatilities in the second quarter of 2018, trading in securitised derivatives also had a lower result than expected. This trend continued into the second half of the year and, together with the relatively stable earnings components of commission income, led to a drastic collapse in operating earnings overall.

The order situation for capital market transactions was satisfactory in terms of the number and quality of transactions carried out in 2018, but fell short of expectations with regard to its contribution to total income.

The positive market response in Multi Asset Brokerage and the continuous development of trading-related services and Banking Services as complementary sources of income indicate the existence of growth potential, but did not compensate for the negative development of income.

## 2.2.2 Business development in the core business lines

### 2.2.2.1 Market Making business line

After the complete migration of trading in open order books via the Frankfurt Stock Exchange's Xetra trading platform to the new T7 system environment, the Market Making business line continued its gradual expansion of quoting in open order books in 2018.

In response to the significant shift in securities trading volumes to "best execution" trading platforms, Baader Bank accelerated the expansion of skills in ATF (Algorithmic Trading Facility) trade. Baader Bank believes that the investor-friendly fee models of these market platforms have significant potential, while also posing a challenge to traditional market making on German floor exchanges due to their contribution to the decline in sales there. Baader Bank felt this effect particularly strongly given that its business activities in Market Making continue to concentrate on trade in closed order books on German regional stock exchanges, which was reflected the substantial negative development of trading profits in 2018.

The need for mitigation measures to counteract this is clear, and is being dealt with as a priority on the basis of a long-term business line strategy (see 3.2.2.1).

The entry into force of MiFID II at the start of 2018 was associated with the introduction of numerous procedural and operational measures to meet the strict regulatory conditions and transparency requirements for securities trading.

The stringent technical and regulatory requirements led to a rise in competitive pressure in the course of fiscal year 2018, particularly in less well capitalised market makers in Germany, which were faced with continuing market consolidation.

In over-the-counter trading, slight sales growth was recorded in Germany in 2018. The objective of continuing to generate constant order flow volumes through existing partnerships with online brokers and direct banks participating in the quota, trading and settlement systems of Baader Bank is maintained. In the longer term, the aim is to extend OTC activity to non-German markets.

As expected, there was no market recovery in 2018 for bond trading, the development of which depends largely on European interest rate policy. Although the ECB did reduce its net bond purchases, it kept interest rates in the eurozone at a constantly low level. Meanwhile, the Fed and the Bank of England raised interest rates in the course of 2018, a total of four times in the case of the Fed. The anticipated normalising spill-over effect on European monetary policy did not materialise, and revenue growth in bond trading therefore remained absent in 2018.

In 2018, Baader Bank was mandated to act as a specialist for a total of nine IPOs in the Prime Standard business line of the Frankfurt Stock Exchange. It took on the order book management of Instone Real Estate AG, Siemens Healthineers AG, DWS Group, Godewind Immobilien AG, Home24 SE, Akasol, Knorr-Bremse AG, Westwing Group AG and Qingdao Haier Co., Ltd., with the majority of specialist mandates falling within the first half of 2018.

### 2.2.2.2 Capital Markets business line

In Equity Capital Markets (ECM), Baader Bank supported a total of ten transactions in 2018, with a total volume of approximately EUR 789 million. The increasingly volatile market environment over the course of the fiscal year kept some companies from carrying out the IPOs they had originally planned. With the IPO (Initial Public Offering) of NFON AG, a leading European provider of cloud-based high-end telephone solutions, Baader Bank nevertheless supported a successful transaction with a total volume of EUR 73 million as a joint bookrunner. In addition, in the first half of 2018 it completed the capital increase of Medigene AG, also in the role of joint bookrunner, as well as that of Paion AG. In the second half of 2018, the D share offering of Qingdao Haier Co., Ltd., of which Baader Bank was Co-Lead Manager, on its own comprised a placement volume of just under EUR 290 million. As well as this, Baader Bank, primarily in its capacity as Sole Global Coordinator and Sole Bookrunner, supported six capital increases with or without subscription rights, such as those of Deutsche Industrie REIT AG and DEMIRE AG. Baader Bank participated in the capital increase of Accentro Real Estate AG as Joint Global Coordinator and Joint Bookrunner, and also as a joint bookrunner in that of Consus Real Estate AG.

In the 2018 equity league tables, Baader Bank ranked third in Germany measured on placed volumes up to EUR 100 million (2017: 2nd). The institution ranked fifth for transaction volumes up to EUR 250 million (2017: 3rd). Including the entire GSA region, Baader Bank ranked 3rd in terms of volume up to EUR 100 million (2017: 6th).

Owing to the sustained demand for Special Execution services, which are far less dependent on market fluctuations than the ECM business, the Special Execution business line recorded a series of mandates in 2018, succeeding in achieving a slight increase on the record sales of the previous year. In the first half of 2018, Baader Bank concluded technically demanding transactions, such as the capital increase of H&R GmbH & Co. KGaA in the form of a scrip dividend or those of Softing AG or Wallstreet Online AG, in its capacity as Technical Lead Manager. Following these, it also supported the tender offer of PNE AG, that of Cargo Wise GmbH as part of the squeeze-out of Softship AG, the bond issue of Physible GmbH, a subsidiary of KGAL GmbH & Co. KG, and the capital increases of Voxeljet AG and Coreo AG.

The income level in the Special Execution business line was maintained relative to the previous year and even grew in terms of transaction volumes.

### 2.2.2.3 Multi Asset Brokerage business line

Distinctions in internationally recognised rankings of brokerage and research services serve as an indicator for Baader Bank of the international perception of its service quality. From a strategic point of view, these strengthen its position within the target group of institutional investors, which are geared towards the recognised assessment standards of awards and rankings.

Once again, Baader Bank's research and trading services were honoured with top rankings in the Extel Survey 2018. In the survey, the assessment was carried out on the client side by institutional investors, who rated Baader Bank number one for trading and execution in Germany. The Baader Helvea Swiss Equities Conference, which takes place annually in Bad Ragaz, Switzerland, was ranked as one of Europe's top five conferences.

Gaining market shares within the MiFID II regime proved difficult for Baader Bank as a securities broker. The sensitive price war due to falling transaction fees was an obstacle, as was the significant fall in demand for research services (see also 2.2.3.3). In spite of the special factors described above, trading volumes and the market share in the institutional client commission business increased.

## 2.2.3 Business development in the complementary business lines

### 2.2.3.1 Banking Services business line

The expansion of partnerships with conventional and digital asset managers in the German-speaking region continued to move forward in fiscal year 2018. With the special offer of banking and trading services for online asset managers and their end clients, Baader Bank operated as a market interface in a B2B2C context (bank – asset manager – end client) with a broad spectrum of complementary banking services for account and custody clients. Baader Bank gained two further reputable online asset managers in the form of Wevest and Smavesto. At the end of the fiscal year, Baader Bank managed a total of 20 digital financial services providers.

The increasing regulation in the financial services sector also led banking clients with focused business models to consider outsourcing reporting-intensive secondary processes such as securities trading and custody services. In the past fiscal year, some cooperation projects were finalised with contract brokers and banks, including Exporo, VTB Bank and Targobank, which see added value in the pooling of trading activities and account and custody account management.

As part of a cooperative project, Baader Bank developed a portal solution that can be used by asset managers as a white label onboarding tool and can be made available to their end clients in order to emphasise innovative and sales-oriented features in the light of the ongoing digitisation within the financial industry. A new platform for asset managers named "Vermögens-Fuchs", which was also developed on the initiative of Baader Bank, offers end clients a transparent search function for online asset managers with a direct onboarding option.

The number of client deposits at the end of fiscal year 2018 increased by approximately 69% to around 24,500 with a deposit volume of approximately EUR 3.5 billion (an increase of approximately 41% in comparison to the previous year).

### 2.2.3.2 Asset Management Services business line

In the course of business in 2018, the assets in Asset Management Services for which Baader Bank acted as financial portfolio manager on behalf of capital management companies recorded an increase of approximately 25% to EUR 7.62 billion (total volume at 31 December 2017: EUR 6.10 billion). The number of fund mandates rose from 55 to 60 compared to the previous year.

### 2.2.3.3 Research business line

As a result of the MiFID II Directive, which was introduced at the beginning of 2018 and provides for the dissociation of research offerings from other brokerage services, Baader Bank, as an analysis provider, is moving within an increasingly price-driven competitive environment. In order to exploit the potential opportunities that can be identified from this, the creation of new structural framework conditions has begun which include digital solutions for the provision of research content, client-friendly settlement via research payment accounts and adequate research controlling instruments.

In response to the changing market environment, a new and, for this business line, strategically valuable sales tool was developed from the cooperation with the independent French research provider AlphaValue. In September 2018, Baader Bank announced the launch of a joint platform under the product name "Baader Europe". With this platform, the in-house research focusing on companies in Germany, Austria and Switzerland will be expanded to include the European product range of the cooperation partner AlphaValue. The combined spectrum of Baader Europe products and the traditional Baader Helvea Equity Research thus involves coverage of approximately 600 equities.

In spite of this renewal in sales structure, the Research business line adheres to a fundamental, sector-oriented approach, which has a high degree of specialisation thanks to targeted selection and qualitative analysis of business models.

In the ranking of world-leading sell-side analysts published annually, the Thomson Reuters Analyst Awards 2018, Baader Helvea Equity Research achieved second place in the overall category "Top Brokers Germany" in June 2018. Baader Helvea's analysts also ranked first once and second four times in terms of stock and sector selection. In the cross-sector category, Baader Bank was among the top ten institutes.

### 2.2.4 Development of the business of the subsidiaries

The portfolio management income of the financial services provider **CCPM AG** is mainly determined by the assets under management (AuM), the agreed management fees, and the earned performance fees.

CCPM AG's overall business performance was somewhat more restrained than in the previous year, but closed the fiscal year with a slightly positive overall contribution to the Group. AuM initially declined slightly, before increasing significantly by the end of the fiscal year. On balance, a 28.1% increase in the level attained at the end of the previous year was recorded. No contribution to income was generated from performance fees earned.

The balance between income and expenses achieved in the previous year's business development was maintained or continued. A slight reduction in administrative expenses and other operating expenses was achieved, which, combined with the relatively slight decrease in commission income, allowed income to return to the positive levels seen in the previous year.

**Baader & Heins AG** is a financial services institution that specialises in acting as an intermediary between issuers and institutional investors for mainly illiquid, interest-bearing financial products. Its clients include major institutional investors in the insurance industry, the public sector as well as the banking industry in Germany and abroad. The business model of this subsidiary is primarily determined by commission income that depends on the number of transactions concluded and the volume brokered. In the reporting period, the company suffered losses of approximately 21% in the number of transactions concluded and approximately 16% in the brokered volume compared to the previous year.

In line with the forecast for fiscal year 2018, the commission income of Baader & Heins AG was significantly below the previous year's level, with a fall of 32%.

Nevertheless, the Board of Directors believes that this result should be regarded as satisfactory, given that the company provided a positive contribution to the consolidated net income that was once again higher than the previous year.

When a share purchase agreement concluded in November 2017 was implemented in June 2018, Baader & Heins AG first transferred 75.1% of its shares in **SKALIS AG** to a group of buyers. The remaining 24.9% of the shares were sold and transferred in October 2018. The consolidation of SKALIS AG by Baader Bank AG was finalised with effect from 30 June 2018.

With the acquisition of the Baader Helvea companies, which together form the **Baader Helvea Group**, Baader Bank became one of the largest local brokers in German, Austrian and Swiss shares. The Baader Helvea Group has had business connections with institutional investors worldwide for more than ten years, focusing on the United Kingdom, Switzerland, the USA and Canada. As the international arm of Baader Bank, the Baader Helvea Group is able to benefit from the pan-European product expansion taking place in the Research business line as part of a strategic cooperation (see 2.2.3.3).

In 2018, the Baader Helvea Group widened its market reach in Switzerland further through the SIX Stage Programme. This partnership with the Swiss Exchange, which has been in place since 2017, is a valuable strategic instrument to support corporate clients who ought to be able to profit from greater awareness and an appropriate valuation on the market. In this way, the Baader Helvea Group underpins its local expertise while maintaining a presence on international markets.

However, the factors described (see Section 2.2.1) in the area of capital market services have led to significantly lower commission income, particularly for the Baader Helvea Group, due to smaller placement volumes. This has prevented the Group from making a positive contribution to the consolidated overall result.

The main earnings drivers of the **Selan Group** are the feed-in tariffs for wind energy achieved by the wind farm operator Selan d.o.o., which depend to a large extent on wind conditions and the technical availability of the wind turbines in the course of a business period.

At 8.72 m/s, wind levels in the 2018 calendar year were consistent with the multi-year average over the past seven years. In fiscal year 2018, Selan d.o.o. recorded a productive value of 126.8 million kWh, the highest since the facilities were commissioned in 2010, which allowed it to surpass the assumptions from the 2012 expert appraisals by around 17%. The income generated in the past fiscal year exceeded expectations. The high technical standard, continuous maintenance and monitoring of the facilities and the fast response times of the service companies were key elements of the past year's success.

## 2.2.5 Comparison of actual business performance in 2018 with the forecasts published in the previous year

Contrary to the expectations at the start of fiscal year 2018, there was an increasing deterioration in general conditions on the international financial markets, which impacted on the operating business activities of the Baader Bank Group. In the Market Making business line, the geopolitical factors and economic slumps described in Section 2.1 gave rise to significant declines in trading volumes on the stock exchanges relevant to Baader Bank and thus to a strain on trading profits that increased over the course of the year, with a -29% drop to EUR 40,976 thousand both in the Baader Bank Group and in Baader Bank AG.

The commission income also fell short of the previous year's forecast, with a 13% drop to EUR 40,518 thousand at Group level (Baader Bank AG: virtually steady with a EUR -104 thousand drop to EUR 24,727 thousand).

Despite a relatively high number of mandate gains with corresponding transaction volumes in the Capital Markets business line, sales and income fell short of expectations.

There was also relatively restrained growth in brokerage and cash equity activities and in complementary banking services.

The gross profit of the Baader Bank Group therefore decreased by -19% to EUR 95,116 thousand, significantly below the 7% increase forecast in the previous year at Group level (Baader Bank AG: -19% drop to EUR 69,382 thousand).

In spite of the extraordinary effects, the expenses of the Baader Bank Group and those of Baader Bank AG remained virtually constant. Overall, the previous year's forecast of a positive result from normal business activities was missed by a significant margin.

## 2.3 Economic position of the Baader Bank Group

### 2.3.1 Net assets, financial position and results of operations

The net assets, financial position and results of operations of Baader Bank AG as the parent company of the Baader Bank Group essentially determine the overall financial performance of the Group in the past fiscal year. The statements made for the Baader Bank Group in principle also apply to Baader Bank AG. Accordingly, the management report of Baader Bank AG and that of the Baader Bank Group were combined pursuant to Section 315 (3) of the German Commercial Code (Handelsgesetzbuch: HGB). Where there might be significant differences between the annual financial statements of Baader Bank AG and the consolidated financial statements such that supplementing quantitative disclosures must be made, these are explained and presented in the subsequent passages of the report.

The annual financial statements and consolidated financial statements of Baader Bank AG were prepared in accordance with the provisions of the HGB and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute: RechKredV) as well as in compliance with the supplementary regulations of the German Stock Corporation Act (Aktengesetz: AktG) and audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, Germany. The annual financial statements for fiscal year 2018 will be published in the electronic Federal Gazette.

### 2.3.2 Results of operations

The results of operations of the Baader Bank Group in the past fiscal year was clearly negative with earnings before tax of EUR -19,375 thousand (previous year: EUR 4,259 thousand). This is also directly reflected in the performance and result indicators outlined for the operating areas, which were significantly worse. The results of operations of the Baader Bank Group as well as Baader Bank AG in fiscal year 2018 compared to the previous years 2016 and 2017 were as follows (see next page):

**Table 1: Indicators for the results of operations of the Baader Bank Group**

|  | 2016<br>EUR'000          | 2017<br>EUR'000 | 2018<br>EUR'000 | Change to the<br>previous year |                  |
|--|--------------------------|-----------------|-----------------|--------------------------------|------------------|
|  |                          |                 |                 | Absolute<br>EUR'000            | Relative<br>%    |
| <b>Income</b>  | <b>100,477</b>           | <b>121,317</b>  | <b>98,121</b>   | <b>-23,196</b>                 | <b>-19%</b>      |
| of which net interest income <sup>1</sup> and current income   | 3,227                    | 1,502           | 527             | -975                           | -65%             |
| including net interest income  | 2,087                    | -338            | -445            | -107                           | -32%             |
| including current income   | 1,140                    | 1,840           | 972             | -868                           | -47%             |
|  | <i>Share of income</i>   | <i>1%</i>       | <i>1%</i>       |                                |                  |
| of which net commission income <sup>1</sup>  | 40,747                   | 46,539          | 40,518          | -6,021                         | -13%             |
|  | <i>Share of income</i>   | <i>38%</i>      | <i>41%</i>      |                                |                  |
| of which net trading income <sup>1,2</sup>   | 52,809                   | 57,683          | 40,976          | -16,707                        | -29%             |
|  | <i>Share of income</i>   | <i>48%</i>      | <i>42%</i>      |                                |                  |
| of which revenue   | 0                        | 12,135          | 13,095          | 960                            | 8%               |
|  | <i>Share of income</i>   | <i>10%</i>      | <i>13%</i>      |                                |                  |
| of which other income  | 3,694                    | 3,458           | 3,005           | -453                           | -13%             |
| including other operating income   | 2,328                    | 3,458           | 3,005           | -453                           | -13%             |
| including income from write-ups <sup>3</sup> and income from the reversal<br>of provisions for credit transactions                 | 1,366                    | 0               | 0               | 0                              | 0%               |
|  | <i>Share of income</i>   | <i>3%</i>       | <i>3%</i>       |                                |                  |
| <b>Expenses</b>  | <b>102,610</b>           | <b>117,058</b>  | <b>117,496</b>  | <b>438</b>                     | <b>0%</b>        |
| of which personnel expenses  | 50,289                   | 54,702          | 54,686          | -16                            | 0%               |
|  | <i>Share of expenses</i> | <i>47%</i>      | <i>47%</i>      |                                |                  |
| of which administrative expenses and other operating expenses  | 41,344                   | 42,586          | 45,385          | 2,799                          | 7%               |
| including other administrative expenses  | 38,329                   | 41,386          | 43,735          | 2,349                          | 6%               |
| including other operating expenses   | 3,015                    | 1,200           | 1,650           | 450                            | 38%              |
|  | <i>Share of expenses</i> | <i>36%</i>      | <i>39%</i>      |                                |                  |
| of which amortisation and depreciation   | 9,943                    | 18,344          | 17,391          | -953                           | -5%              |
| including depreciation, amortisation and write-downs on<br>intangible assets and property, plant and equipment                     | 9,943                    | 14,121          | 10,916          | -3,205                         | -23%             |
| including other depreciation, amortisation and write-downs <sup>4</sup> well<br>as additions to provisions for credit transactions | 0                        | 4,223           | 6,475           | 2,252                          | 53%              |
|  | <i>Share of expenses</i> | <i>16%</i>      | <i>15%</i>      |                                |                  |
| of which additions to the fund for general banking risks   | 584                      | 0               | 0               | 0                              | 0%               |
|  | <i>Share of expenses</i> | <i>0%</i>       | <i>0%</i>       |                                |                  |
| of which net income from interests in associates   | 450                      | 1,426           | 34              | -1,392                         | -98%             |
|  | <i>Share of expenses</i> | <i>1%</i>       | <i>0%</i>       |                                |                  |
| <b>Earnings before taxes (EBT)</b>   | <b>-2,133</b>            | <b>4,259</b>    | <b>-19,375</b>  | <b>-</b>                       | <b>-</b>         |
| Taxes  | 1,486                    | 1,977           | 1,649           | -328                           | -17%             |
|  | <i>Tax ratio</i>         | <i>46%</i>      | <i>-9%</i>      |                                |                  |
| <b>Consolidated net profit before minority interests</b>   | <b>-3,619</b>            | <b>2,282</b>    | <b>-21,024</b>  | <b>-</b>                       | <b>-</b>         |
| <b>Minority interest in net income</b>   | <b>137</b>               | <b>120</b>      | <b>-286</b>     | <b>-</b>                       | <b>-</b>         |
| <b>Consolidated net profit for the year</b>  | <b>-3,482</b>            | <b>2,402</b>    | <b>-21,310</b>  | <b>-</b>                       | <b>-</b>         |
| <b>Net profit / loss of the parent company brought forward</b>   | <b>-6,546</b>            | <b>-6,642</b>   | <b>-11,036</b>  | <b>-4,394</b>                  | <b>-66%</b>      |
| <b>Transfers to / withdrawals from retained earnings</b>   | <b>3,386</b>             | <b>-6,796</b>   | <b>-1,298</b>   | <b>5,498</b>                   | <b>81%</b>       |
| <b>Consolidated net retained profit / loss</b>   | <b>-6,642</b>            | <b>-11,036</b>  | <b>-33,644</b>  | <b>-22,608</b>                 | <b>&gt;-100%</b> |
| <b>Key figures</b>   |                          |                 |                 |                                |                  |
| Gross profit (revenue) <sup>5</sup>  | 96,783                   | 117,859         | 95,116          | -22,743                        | -19%             |
| Operating result <sup>6</sup>  | -1,778                   | 7,650           | -14,221         | -                              | -                |
| Expense-income ratio   | 102%                     | 96%             | 120%            |                                |                  |
| Personnel expenses ratio <sup>7</sup>  | 52%                      | 46%             | 57%             |                                |                  |
| Administrative expenses ratio <sup>8</sup>   | 40%                      | 35%             | 46%             |                                |                  |
| Return on equity before taxes <sup>9</sup>   | -2%                      | 4%              | -25%            |                                |                  |

<sup>1</sup> Related income and expenses are shown as net | <sup>2</sup> Net income from the trading portfolio | <sup>3</sup> Write-ups of receivables and certain securities as well as equity investments and securities held as assets | <sup>4</sup> Depreciation, amortisation and write-downs on receivables and certain securities as well as equity investments, and securities held as assets | <sup>5</sup> Equivalent to the gross profit arising from the net interest income and current income, net commission income, net trading income and revenue | <sup>6</sup> Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment | <sup>7</sup> Personnel expenses as a % of revenue or gross profit | <sup>8</sup> Administrative expenses as a % of revenue or gross profit | <sup>9</sup> EBT as a % of equity



**Table 2: Indicators for the results of operations of Baader Bank AG**

|   | 2016<br>EUR'000 | 2017<br>EUR'000 | 2018<br>EUR'000 | Change to the<br>previous year |                  |
|---|-----------------|-----------------|-----------------|--------------------------------|------------------|
|   |                 |                 |                 | Absolute<br>EUR'000            | Relative<br>%    |
| <b>Income</b>   | <b>85,152</b>   | <b>92,199</b>   | <b>74,344</b>   | <b>-17,855</b>                 | <b>-19%</b>      |
| of which net interest income <sup>1</sup> and current income  | 4,201           | 3,488           | 3,679           | 191                            | 5%               |
| including net interest income   | 2,150           | 1,585           | 1,227           | -358                           | -23%             |
| including current income  | 2,051           | 1,903           | 2,452           | 549                            | 29%              |
| <i>Share of income</i>  | <i>5%</i>       | <i>4%</i>       | <i>5%</i>       |                                |                  |
| of which net commission income <sup>1</sup>   | 21,287          | 24,831          | 24,727          | -104                           | 0%               |
| <i>Share of income</i>  | <i>25%</i>      | <i>27%</i>      | <i>33%</i>      |                                |                  |
| of which net trading income <sup>1,2</sup>  | 52,809          | 57,683          | 40,976          | -16,707                        | -29%             |
| <i>Share of income</i>  | <i>62%</i>      | <i>63%</i>      | <i>55%</i>      |                                |                  |
| of which other income   | 6,855           | 6,197           | 4,962           | -1,235                         | -20%             |
| including other operating income  | 5,489           | 6,197           | 4,962           | -1,235                         | -20%             |
| including income from write-ups <sup>3</sup> and income from the reversal<br>of provisions for credit transactions                    | 1,366           | 0               | 0               | 0                              | 0%               |
| <i>Share of income</i>  | <i>8%</i>       | <i>7%</i>       | <i>7%</i>       |                                |                  |
| <b>Expenses</b>   | <b>85,148</b>   | <b>96,476</b>   | <b>96,805</b>   | <b>329</b>                     | <b>0%</b>        |
| of which personnel expenses   | 37,721          | 43,188          | 45,042          | 1,854                          | 4%               |
| <i>Share of expenses</i>  | <i>44%</i>      | <i>45%</i>      | <i>47%</i>      |                                |                  |
| of which administrative expenses and other operating expenses   | 38,049          | 36,146          | 39,424          | 3,278                          | 9%               |
| including other administrative expenses   | 35,055          | 35,039          | 38,474          | 3,435                          | 10%              |
| including other operating expenses  | 2,994           | 1,107           | 950             | -157                           | -14%             |
| <i>Share of expenses</i>  | <i>45%</i>      | <i>37%</i>      | <i>41%</i>      |                                |                  |
| of which amortisation and depreciation  | 8,752           | 17,142          | 12,339          | -4,803                         | -28%             |
| including depreciation, amortisation and write-downs on<br>intangible assets and property, plant and equipment                        | 8,752           | 8,793           | 5,673           | -3,120                         | -35%             |
| including other depreciation, amortisation and write-downs <sup>4</sup> as<br>well as additions to provisions for credit transactions | 0               | 8,349           | 6,666           | -1,683                         | -20%             |
| <i>Share of expenses</i>  | <i>10%</i>      | <i>18%</i>      | <i>13%</i>      |                                |                  |
| of which other expenses   | 626             | 0               | 0               | 0                              | 0%               |
| of which income from the addition of the fund for general<br>banking risks  | 626             | 0               | 0               | 0                              | 0%               |
| <i>Share of expenses</i>  | <i>1%</i>       | <i>0%</i>       | <i>0%</i>       |                                |                  |
| <b>Earnings before taxes (EBT)</b>  | <b>4</b>        | <b>-4,277</b>   | <b>-22,461</b>  | <b>-18,184</b>                 | <b>&gt;-100%</b> |
| Taxes   | 100             | 117             | 147             | 30                             | 26%              |
| <i>Tax ratio</i>  | <i>&gt;100%</i> | <i>3%</i>       | <i>1%</i>       |                                |                  |
| <b>Net profit (NP) / -loss for the year</b>   | <b>-96</b>      | <b>-4,394</b>   | <b>-22,608</b>  | <b>-18,214</b>                 | <b>&gt;-100%</b> |
| Retained earnings/losses from the previous year   | -6,546          | -6,642          | -11,036         | -4,394                         | -66%             |
| <b>Balance sheet profit / loss</b>  | <b>-6,642</b>   | <b>-11,036</b>  | <b>-33,644</b>  | <b>-22,608</b>                 | <b>&gt;-100%</b> |

**Key figures**

|  |        |        |         |         |        |
|--|--------|--------|---------|---------|--------|
| Gross profit (revenue) <sup>5</sup>        | 78,297 | 86,002 | 69,382  | -16,620 | -19%   |
| Operating result <sup>6</sup>              | -3,231 | -1,018 | -19,807 | -18,789 | >-100% |
| Expense-income ratio                       | 100%   | 105%   | 130%    |         |        |
| Personnel expenses ratio <sup>7</sup>      | 48%    | 50%    | 65%     |         |        |
| Administrative expenses ratio <sup>8</sup> | 45%    | 41%    | 55%     |         |        |
| Return on equity before taxes <sup>9</sup> | 0%     | -4%    | -31%    |         |        |

<sup>1</sup> Related income and expenses are shown as net | <sup>2</sup> Net income from the trading portfolio | <sup>3</sup> Write-ups of receivables and certain securities as well as interests in affiliated companies and securities held as assets | <sup>4</sup> Depreciation, amortisation and write-downs on receivables and certain securities as well as equity investments, and interests in affiliated companies and securities held as assets | <sup>5</sup> Equivalent to the gross profit arising from the net interest income and current income, net commission income and net trading income items | <sup>6</sup> Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment | <sup>7</sup> Personnel expenses as a % of revenue or gross profit | <sup>8</sup> Administrative expenses as a % of revenue or gross profit | <sup>9</sup> EBT as a % of equity

Due to lower dividend payments, current income was EUR 868 thousand lower than in the previous year, at EUR 972 thousand (Baader Bank AG: increase of EUR 549 thousand to EUR 2,452 thousand). This includes dividend payments to Baader Bank AG from the subsidiary Baader & Heins amounting to EUR 1,500 thousand. Interest income in the past fiscal year was once again negative at EUR 445 thousand. In Baader Bank AG's individual financial statements, net interest income also declined by EUR 358 thousand, but was positive overall at EUR 1,227 thousand. Net interest income was characterised by interest income from fixed-interest securities (EUR 6,294 thousand), correspondingly offset by interest expenses from the issue of own promissory note loans (EUR 5,197 thousand) and the refinancing of the Group headquarters in Unterschleissheim (Baader Bank AG: EUR 690 thousand). The main reasons for the negative overall contribution to income in the Group are interest expenses of EUR 1,424 thousand from the external financing of the wind farm at the wind farm operator Selan d.o.o. With an interest in total earnings amounting to 1% (Baader Bank AG: 5%), net interest income and current income – unchanged compared to the previous year – is of minor importance for the Group and Baader Bank AG's results of operations.

At EUR 40,518 thousand (Baader Bank AG: EUR 24,727 thousand), net commission income made a significant contribution, as in the previous year, and represents 41% of the Group's earnings (Baader Bank AG: 33%). Overall, the Group's net commission income was 13% or EUR 6,021 thousand lower than in the previous year (Baader Bank AG: under 1% or EUR 104 thousand). In addition to a EUR 749 thousand (Baader Bank AG: EUR –749 thousand) decrease in the brokerage and transaction result of EUR 10,754 thousand, the EUR 1,421 thousand decrease in commission income from capital market services to EUR 4,887 thousand (Baader Bank AG: EUR 708 thousand decrease to EUR 4,605 thousand) was also caused by a decline in placement volumes, a difficult market environment despite the intensification of existing client relations and an increase in the number of investors operating internationally.

Income from commercial agents' commissions (EUR –2,894 thousand) (Baader Bank AG: EUR –72 thousand) and income from management and performance fees (EUR –313 thousand) (Baader Bank AG: EUR +198 thousand) were also significantly more subdued. Settlement and exchange fees rose slightly by EUR 770 thousand (Baader Bank AG: EUR –774 thousand). On the other hand, revenue growth was achieved in the cash equity business, including the sale of Baader Bank AG research products. Overall, commission income from order routing and client commission business and other commission income saw a slight increase of EUR 126 thousand to EUR 30,073 thousand (Baader Bank AG: increase of EUR 2,001 thousand to EUR 22,449 thousand).

Trading profits at Group level in the past fiscal year decreased by EUR 16,707 thousand to EUR 40,976 thousand and resulted entirely from Baader Bank AG as a trading book institution. They contributed 42% to the Group's total income (Baader Bank AG: 55%). The significant fall in trading profits, caused by a decline in sales on the stock exchanges on which Baader Bank AG is active as a market maker, is attributable to the Market Making Equities and Market Making Funds/ETFs business lines.

The revenue item reported by the Selan Group is fully attributable to the feed-in remuneration for electricity generated by the wind park. In the past fiscal year, this rose by 8% or EUR 960 thousand to EUR 13,095 thousand. The amount of revenue in total income was 13%. This is offset by operating costs for the wind farm (EUR 2,791 thousand), refinancing costs (EUR 1,424 thousand) and depreciation of these amounting to EUR 3,507 thousand.

Other income decreased by EUR 453 thousand to EUR 3,005 thousand (Baader Bank AG: by EUR 1,235 thousand to EUR 4,962 thousand).

Despite the extraordinary effects described above, total expenses remained virtually constant, with only a slight increase of EUR 438 thousand to EUR 117,496 thousand (Baader Bank AG: increase of EUR 329 thousand to EUR 96,805 thousand). Personnel expenses at Group level came to a total of EUR 54,686 thousand, the same level as the previous year, while at the Baader Bank AG level they increased by 4% or EUR 1,854 thousand to EUR 45,042 thousand.

Other administrative expenses and other operating expenses rose by EUR 2,799 thousand to EUR 45,385 thousand (Baader Bank AG: an increase of EUR 3,278 thousand to EUR 39,424 thousand).

Alongside additions to pension provisions, the negative course of business led to the adoption of further cost-reducing measures which are reflected in personnel and other administrative expenses for Baader Bank AG as restructuring costs, and which account for the increase.

As a result of the above factors, gross profit fell by 19% or EUR 22,743 thousand to EUR 95,116 thousand (Baader Bank AG: by 19% or EUR 16,620 thousand to EUR 69,382 thousand). Operating profit before depreciation, amortisation and tax is markedly negative at both consolidated and individual financial statement levels, at EUR 14,221 thousand and EUR 19,807 thousand respectively.

Depreciation and amortisation in the Baader Bank Group decreased by EUR 953 thousand to EUR 17,391 thousand. Of this, EUR 10,916 thousand relates to depreciation and value adjustments on intangible assets and property, plant and equipment and EUR 6,475 thousand to amortisation and value adjustments on receivables and certain securities treated as assets. Of the amortisation and value adjustments on intangible assets and property, plant and equipment, EUR 5,888 thousand is attributable to property, plant and equipment (land and buildings EUR 1,950 thousand, operating and office equipment EUR 3,862 thousand and low-value assets EUR 76 thousand) and EUR 5,028 thousand to intangible assets (goodwill EUR 1,548 thousand, order books EUR 1,227 thousand, software EUR 2,142 thousand, licences and industrial property rights EUR 111 thousand). In addition, valuation and disposal losses of EUR 3,729 thousand and EUR 1,129 thousand in the non-trading book were reflected in write-downs and value adjustments on receivables and certain securities and thus contributed on a net basis to the total amount of EUR 5,275 thousand.

Depreciation and amortisation at Baader Bank AG fell by a total of EUR 4,803 thousand to EUR 12,339 thousand. In addition to depreciation on intangible assets and property, plant and equipment of EUR 5,673 thousand, EUR 3,120 thousand less than in the previous year owing primarily to the expiry of acquired order books, amortisation and value adjustments on receivables and certain securities and amortisation on equity investments, shares in affiliated companies and securities treated as assets also decreased by EUR 1,683 thousand overall to EUR 6,666 thousand.

The tax expense in the consolidated financial statements is mainly a result of the positive contributions to earnings made by subsidiaries that could not be netted against negative results for tax purposes. In addition, the Group exercised the option of not accounting for asset surpluses from deferred taxes.

As a result of the factors described above, consolidated net income after tax was markedly negative at EUR -21,310 thousand (previous year: EUR 2,402 thousand). Baader Bank AG reported a net loss for the year of EUR -22,608 thousand, down EUR 18,214 thousand on the previous year.

### 2.3.3 Financial position and net assets

As at the reporting date, total assets amounted to EUR 713,190 thousand and, with a decrease of EUR 51,564 thousand, are lower than the previous year's level (Baader Bank AG: increase of EUR 44,904 thousand to EUR 679,700 thousand). The balance sheet structure of the Baader Bank Group has undergone changes on both the assets and liabilities side. The changes in the assets are primarily due to a decrease, as at the reporting date, of EUR 33,454 thousand in debt securities and other fixed-interest securities to EUR 192,276 thousand, of EUR 8,413 thousand in credit balances with central banks to EUR 209,094 thousand, and of EUR 6,354 thousand in the trading portfolio to EUR 49,407 thousand. Accordingly, on the liabilities side, liabilities to clients and banks due to lower sight deposits, loan repayments associated with the refinancing of the wind farm and the office building of Baader Bank AG and time deposit transactions fell by EUR 40,493 thousand.

The net assets and balance sheet item changes of the Baader Bank Group and Baader Bank AG as at the reporting date are detailed as follows (see next page):

**Table 3: Indicators for the financial position and net assets of the Baader Bank Group**

|  | 2016<br>EUR'000 | 2017<br>EUR'000 | 2018<br>EUR'000 | Change to the previous<br>year |               |
|--|-----------------|-----------------|-----------------|--------------------------------|---------------|
|  |                 |                 |                 | Absolute<br>EUR'000            | Relative<br>% |
| <b>Current assets</b>  | <b>503,312</b>  | <b>645,750</b>  | <b>598,398</b>  | <b>-47,352</b>                 | <b>-7%</b>    |
| <i>Share of current assets in total assets</i>                           | <i>87%</i>      | <i>84%</i>      | <i>84%</i>      |                                |               |
| of which cash reserves   | 74,311          | 217,508         | 209,096         | -8,412                         | -4%           |
| of which loans and advances to banks                                     | 95,166          | 90,251          | 99,195          | 8,944                          | 10%           |
| including due on demand  | 74,328          | 79,763          | 89,748          | 9,985                          | 13%           |
| including other loans and advances                                       | 20,838          | 10,488          | 9,447           | -1,041                         | -10%          |
| of which loans and advances to clients                                   | 34,988          | 31,555          | 26,780          | -4,775                         | -15%          |
| of which debt securities and other fixed-income securities               | 204,902         | 225,730         | 192,276         | -33,454                        | -15%          |
| of which equities and other variable-income securities                   | 23,534          | 19,017          | 15,442          | -3,575                         | -19%          |
| of which trading portfolio   | 54,301          | 55,761          | 49,407          | -6,354                         | -11%          |
| of which other assets and prepaid expenses and deferred charges          | 16,110          | 5,928           | 6,202           | 274                            | 5%            |
| <b>Non-current assets</b>  | <b>75,224</b>   | <b>119,094</b>  | <b>114,792</b>  | <b>-4,302</b>                  | <b>-4%</b>    |
| <i>Share of non-current assets in total assets</i>                       | <i>13%</i>      | <i>16%</i>      | <i>16%</i>      |                                |               |
| of which equity investments and interests in associates                  | 5,518           | 4,092           | 7,986           | 3,894                          | 95%           |
| of which intangible assets   | 21,002          | 21,292          | 17,596          | -3,696                         | -17%          |
| of which property, plant and equipment                                   | 41,908          | 86,307          | 81,708          | -4,599                         | -5%           |
| of which excess of plan assets over pension liabilities                  | 6,796           | 7,403           | 7,502           | 99                             | 1%            |
| including pension obligations  | -10,132         | -10,542         | -11,127         | -585                           | -6%           |
| including fair value of plan assets <sup>1</sup>                         | 16,928          | 17,945          | 18,629          | 684                            | 4%            |
| <b>Total assets</b>  | <b>578,536</b>  | <b>764,844</b>  | <b>713,190</b>  | <b>-51,654</b>                 | <b>-7%</b>    |
| <b>External financing</b>  | <b>448,707</b>  | <b>633,404</b>  | <b>599,560</b>  | <b>-33,844</b>                 | <b>-5%</b>    |
| <i>External financing ratio as a % of total assets</i>                   | <i>78%</i>      | <i>83%</i>      | <i>84%</i>      |                                |               |
| of which bank loans and advances   | 61,174          | 115,660         | 98,814          | -16,846                        | -15%          |
| including due on demand  | 15,524          | 30,490          | 28,890          | -1,600                         | -5%           |
| including with agreed term or notice period                              | 45,650          | 85,170          | 69,924          | -15,246                        | -18%          |
| of which payables to clients   | 382,874         | 510,802         | 487,155         | -23,647                        | -5%           |
| including due on demand  | 182,893         | 349,369         | 333,847         | -15,522                        | -4%           |
| including with agreed term or notice period                              | 199,981         | 161,433         | 153,308         | -8,125                         | -5%           |
| of which other liabilities   | 4,659           | 6,942           | 13,591          | 6,649                          | 96%           |
| <b>Other refinancing funds</b>   | <b>33,814</b>   | <b>33,984</b>   | <b>37,601</b>   | <b>3,617</b>                   | <b>11%</b>    |
| <i>Other refinancing ratio</i>   | <i>6%</i>       | <i>4%</i>       | <i>5%</i>       |                                |               |
| of which trading portfolio   | 2,116           | 2,898           | 1,803           | -1,095                         | -38%          |
| of which deferred income   | 0               | 0               | 426             | 426                            | 100%          |
| of which provisions  | 9,578           | 8,966           | 13,252          | 4,286                          | 48%           |
| of which fund for general banking risks                                  | 22,120          | 22,120          | 22,120          | 0                              | 0%            |
| of which deferred income   | 0               | 0               | 0               | 0                              | 0%            |
| <b>Balance sheet equity</b>  | <b>96,015</b>   | <b>97,456</b>   | <b>76,029</b>   | <b>-21,427</b>                 | <b>-22%</b>   |
| <i>Balance sheet equity ratio</i>  | <i>17%</i>      | <i>13%</i>      | <i>11%</i>      |                                |               |
| of which subscribed capital  | 45,632          | 45,632          | 45,632          | 0                              | 0%            |
| of which capital reserve   | 31,431          | 31,431          | 31,431          | 0                              | 0%            |
| of which retained earnings   | 24,565          | 30,568          | 30,920          | 352                            | 1%            |
| of which minority interests  | 1,029           | 861             | 1,690           | 829                            | 96%           |
| of which balance sheet profit/loss                                       | -6,642          | -11,036         | -33,644         | -22,608                        | >-100%        |
| <b>Off-balance-sheet commitments</b>                                     | <b>25,452</b>   | <b>10,716</b>   | <b>7,792</b>    | <b>-2,924</b>                  | <b>-27%</b>   |
| of which contingent liabilities from guarantees and indemnity agreements | 13,255          | 208             | 208             | 0                              | 0%            |
| of which obligations from loan commitments                               | 12,197          | 10,508          | 7,584           | -2,924                         | -28%          |
| <b>Key figures</b>   |                 |                 |                 |                                |               |
| Liquid funds <sup>2</sup>  | 148,639         | 297,271         | 298,844         | 1,573                          | 1%            |
| Balance sheet liquidity surplus <sup>3</sup>                             | 247,037         | 224,610         | 191,763         | -32,847                        | -15%          |
| Modified equity ratio <sup>4</sup>                                       | 20%             | 16%             | 14%             |                                |               |

<sup>1</sup> The plan assets comprise the fair values of the following balance sheet items: Loans and advances to banks, shares and other variable-income securities, reinsurance from insurance policies | <sup>2</sup> By definition, liquid funds comprise the balance sheet items cash reserves and loans and advances to banks due on demand | <sup>3</sup> The balance sheet liquidity surplus is equivalent to the total of short-term receivables, available-for-sale securities and current liabilities | <sup>4</sup> Balance sheet equity ratio including the fund for general banking risks

**Table 4: Indicators for the financial position and net assets of Baader Bank AG**

|  | 2016<br>EUR'000 | 2017<br>EUR'000 | 2018<br>EUR'000 | Change to the previous<br>year |               |
|--|-----------------|-----------------|-----------------|--------------------------------|---------------|
|  |                 |                 |                 | Absolute<br>EUR'000            | Relative<br>% |
| <b>Current assets</b>  | <b>489,612</b>  | <b>633,726</b>  | <b>588,316</b>  | <b>-45,410</b>                 | <b>-7%</b>    |
| <i>Share of current assets in total assets</i>                           | <i>84%</i>      | <i>87%</i>      | <i>87%</i>      |                                |               |
| of which cash reserves   | 74,310          | 217,507         | 209,094         | -8,413                         | -4%           |
| of which loans and advances to banks                                     | 81,913          | 75,393          | 84,259          | 8,866                          | 12%           |
| including due on demand  | 63,644          | 67,122          | 75,988          | 8,866                          | 13%           |
| including other loans and advances                                       | 18,269          | 8,271           | 8,271           | 0                              | 0%            |
| of which loans and advances to clients                                   | 37,231          | 37,722          | 33,695          | -4,027                         | -11%          |
| of which debt securities and other fixed-income securities               | 204,902         | 225,730         | 192,276         | -33,454                        | -15%          |
| of which equities and other variable-income securities                   | 21,950          | 16,485          | 14,422          | -2,063                         | -13%          |
| of which trading portfolio   | 54,301          | 55,761          | 49,407          | -6,354                         | -11%          |
| of which other assets and prepaid expenses and deferred charges          | 15,005          | 5,128           | 5,163           | 35                             | 1%            |
| <b>Non-current assets</b>  | <b>92,527</b>   | <b>90,878</b>   | <b>91,384</b>   | <b>506</b>                     | <b>1%</b>     |
| <i>Share of non-current assets in total assets</i>                       | <i>16%</i>      | <i>13%</i>      | <i>13%</i>      |                                |               |
| of which equity investments and interests in affiliated companies        | 26,876          | 31,588          | 35,290          | 3,702                          | 12%           |
| of which intangible assets   | 17,257          | 12,358          | 10,307          | -2,051                         | -17%          |
| of which property, plant and equipment                                   | 41,598          | 39,529          | 38,285          | -1,244                         | -3%           |
| of which excess of plan assets over pension liabilities                  | 6,796           | 7,403           | 7,502           | 99                             | 1%            |
| including pension obligations  | -10,132         | -10,542         | -11,127         | -585                           | -6%           |
| including fair value of plan assets <sup>1</sup>                         | 16,928          | 17,945          | 18,629          | 684                            | 4%            |
| <b>Total assets</b>  | <b>582,139</b>  | <b>724,604</b>  | <b>679,700</b>  | <b>-44,904</b>                 | <b>-6%</b>    |
| <b>External financing</b>  | <b>450,758</b>  | <b>597,887</b>  | <b>571,641</b>  | <b>-26,246</b>                 | <b>-4%</b>    |
| <i>External financing ratio as a % of total assets</i>                   | <i>77%</i>      | <i>83%</i>      | <i>84%</i>      |                                |               |
| of which bank loans and advances   | 61,174          | 80,230          | 70,017          | -10,213                        | -13%          |
| including due on demand  | 15,524          | 30,490          | 28,888          | -1,602                         | -5%           |
| including with agreed term or notice period                              | 45,650          | 49,740          | 41,129          | -8,611                         | -17%          |
| of which payables to clients   | 385,585         | 512,872         | 489,528         | -23,344                        | -5%           |
| including due on demand  | 185,603         | 353,186         | 338,072         | -15,114                        | -4%           |
| including with agreed term or notice period                              | 199,982         | 159,686         | 151,456         | -8,230                         | -5%           |
| of which other liabilities   | 3,999           | 4,785           | 12,096          | 7,311                          | >100%         |
| <b>Other refinancing funds</b>   | <b>30,865</b>   | <b>30,595</b>   | <b>34,545</b>   | <b>3,950</b>                   | <b>13%</b>    |
| <i>Other refinancing ratio</i>   | <i>5%</i>       | <i>4%</i>       | <i>5%</i>       |                                |               |
| of which trading portfolio   | 2,116           | 2,898           | 1,803           | -1,095                         | -38%          |
| of which deferred income   | 0               | 0               | 426             | 426                            | 100%          |
| of which provisions  | 6,614           | 5,562           | 10,181          | 4,619                          | 83%           |
| of which fund for general banking risks                                  | 22,135          | 22,135          | 22,135          | 0                              | 0%            |
| <b>Balance sheet equity</b>  | <b>100,516</b>  | <b>96,122</b>   | <b>73,514</b>   | <b>-22,608</b>                 | <b>-24%</b>   |
| <i>Balance sheet equity ratio</i>  | <i>17%</i>      | <i>13%</i>      | <i>11%</i>      |                                |               |
| of which subscribed capital  | 45,632          | 45,632          | 45,632          | 0                              | 0%            |
| of which capital reserve   | 31,431          | 31,431          | 31,431          | 0                              | 0%            |
| of which retained earnings   | 30,095          | 30,095          | 30,095          | 0                              | 0%            |
| of which balance sheet profit/loss                                       | -6,642          | -11,036         | -33,644         | -22,608                        | >-100%        |
| <b>Off-balance-sheet commitments</b>                                     | <b>25,452</b>   | <b>10,716</b>   | <b>7,792</b>    | <b>-2,924</b>                  | <b>-27%</b>   |
| of which contingent liabilities from guarantees and indemnity agreements | 13,255          | 208             | 208             | 0                              | 0%            |
| of which obligations from loan commitments                               | 12,197          | 10,508          | 7,584           | -2,924                         | -28%          |
| <b>Key figures</b>   |                 |                 |                 |                                |               |
| Liquid funds <sup>2</sup>  | 137,954         | 284,629         | 285,082         | 453                            | 0%            |
| Balance sheet liquidity surplus <sup>3</sup>                             | 235,038         | 214,068         | 181,218         | -32,850                        | -15%          |
| Modified equity ratio <sup>4</sup>                                       | 21%             | 16%             | 14%             |                                |               |

<sup>1</sup> The plan assets comprise the fair values of the following balance sheet items: Loans and advances to banks, shares and other variable-income securities, reinsurance from insurance policies | <sup>2</sup> By definition, liquid funds comprise the balance sheet items cash reserves and loans and advances to banks due on demand | <sup>3</sup> The balance sheet liquidity surplus is equivalent to the total of short-term receivables, available-for-sale securities and current liabilities | <sup>4</sup> Balance sheet equity ratio including the fund for general banking risks

### 2.3.3.1 Current assets

The book value of loans and advances to banks rose by EUR 8,944 thousand to EUR 99,195 thousand (Baader Bank AG: by EUR 8,866 thousand to EUR 84,259 thousand), while cash reserves decreased by EUR 8,412 thousand to EUR 209,096 thousand (Baader Bank AG: by EUR 8,413 thousand to EUR 209,094 thousand). The decline in the portfolio of bonds and other fixed-interest securities resulted from a decrease in bonds issued by other issuers in the amount of EUR 46,209 thousand or 28%, contrasted by an increase from bonds issued by public issuers in the amount of EUR 12,755 thousand or 22%, against the backdrop of reducing risk positions and protecting and maintaining the liquidity coverage ratio (LCR). During the reporting year, the newly acquired shares and other variable-interest securities were allocated exclusively to the liquidity reserve. Total debt securities of EUR 192,276 thousand mainly comprised corporate bonds (as in previous years) of EUR 120,287 thousand. The trading portfolio decreased slightly by EUR 6,354 thousand or 11% to EUR 49,407 thousand on the reporting date.

After the considerable reduction, the securities portfolio contained a low level of bonds and debt securities (at market values) from issuers in the "GIIPS" countries (Greece, Italy, Ireland, Portugal and Spain) in the following amounts as at 31 December 2018. Of this, EUR 3,937 thousand is mainly attributable to Ireland (public issuers).

Other assets and prepaid expenses and deferred charges increased by EUR 274 thousand to EUR 6,202 thousand (Baader Bank AG: by EUR 35 thousand to EUR 5,163 thousand).

### 2.3.3.2 Equity investments and interests in associates/affiliated companies

The carrying value of equity investments and interests in associates increased by EUR 3,894 thousand during the reporting year to EUR 7,986 thousand. This was mainly due to the acquisition of a new equity investment through depositing in the fund of the venture capital investor, Earlybird. The pro rata carrying value of the equity investment is EUR 3,928 thousand. This was counteracted by the partially negative earnings development of associates.

Furthermore, due to the agreed cessation of business operations of another equity investment, an unplanned write-off of the equity investment was carried out. The value of the write-off was EUR 226 thousand.

### 2.3.3.3 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment decreased in the reporting year by a total of EUR 8,295 thousand to EUR 99,304 thousand.

The additions to intangible assets are primarily related to investments in computer software (EUR 1,275 thousand), almost completely attributable to Baader Bank AG's investment in the amount of EUR 1,269 thousand. In addition, intangible assets and property, plant and equipment were reduced by scheduled depreciation.

At Baader Bank AG, property, plant and equipment and intangible assets also declined by EUR 3,295 thousand to EUR 48,592 thousand. This is due to the scheduled depreciation of EUR 5,673 thousand in the fiscal year, which was offset by investments including reclassifications from prepayments made in the amount of EUR 2,401 thousand.

No further significant investments beyond the scope of normal business activities were planned either on the reporting date or at the time of reporting. With this in mind, intangible assets and property, plant and equipment will decrease by further scheduled depreciation in the future.

### 2.3.3.4 Excess of plan assets over pension liabilities

The excess of plan assets over pension liabilities increased slightly by EUR 99 thousand to a total of EUR 7,502 thousand. The reason for this was essentially the plan assets measured at fair value that increased to EUR 18,629 thousand. Plan assets consisted of EUR 11,479 thousand in loans and advances to banks and EUR 7,151 thousand in shares and other variable interest securities.

### 2.3.3.5 External financing

External financing comprised solely bank loans and advances and loans and advances to clients as well as other liabilities. On the whole, external financing was lower than the previous year (decrease of EUR 33,844 thousand) and amounted to EUR 599,560 thousand (Baader Bank AG: decrease of EUR 26,246 thousand to EUR 571,641 thousand) as at the reporting date. The decline was largely due to a decline in the liabilities to clients of EUR 23,647 thousand (Baader Bank AG: EUR 23,344 thousand) and liabilities to banks of EUR 16,846 thousand (Baader Bank AG: EUR 10,213 thousand).

As at the reporting date, other liabilities increased by EUR 6,649 thousand to EUR 13,591 thousand (Baader Bank AG: by EUR 7,311 thousand to EUR 12,096 thousand).

### 2.3.3.6 Other refinancing funds

Other refinancing funds increased by EUR 3,617 thousand to EUR 37,601 thousand (Baader Bank AG: increase of EUR 3,950 thousand to EUR 34,545 thousand) in the reporting year. The change resulted mostly from Baader Bank AG's lower trading portfolio liabilities on the reporting date (decrease of EUR 1,095 thousand) and increase in provisions of EUR 4,286 thousand to EUR 13,252 thousand (Baader Bank AG: increase of EUR 4,619 thousand to EUR 10,181 thousand). The special item for the fund for general banking risks amounted to EUR 22,120 thousand as at the reporting date, unchanged from the previous year (Baader Bank AG: EUR 22,135 thousand).

### 2.3.3.7 Balance sheet equity

In the current fiscal year 2018, there were no changes to the subscribed capital and capital reserves. The decrease in equity of EUR 21,427 thousand to EUR 76,029 thousand is primarily due to the consolidated net profit before minority interests (EUR -21,024 thousand), dividend payments (EUR -500 thousand) as well as effects from currency translation (EUR +299 thousand). Baader Bank AG's equity decreased by EUR 22,608 thousand to EUR 73,514 thousand due to the net loss for the year. The balance sheet equity ratio amounted to 11% (Baader Bank AG: 11%), and, taking into account the fund for general banking risks, the modified equity ratio amounted to 14% (Baader Bank AG: 14%). Baader Bank AG's total regulatory capital ratio is 14.33% (previous year: around 17%).

For disclosures in accordance with Section 315 (2) HGB in conjunction with Section 160 (1) No. 2 AktG, please refer to the notes to the consolidated financial statements of Baader Bank AG as the parent company for fiscal year 2018.

### 2.3.3.8 Off-balance-sheet commitments

Off-balance-sheet commitments as at the reporting date were a result of contingent liabilities (guarantees) in the amount of EUR 208 thousand as well as outstanding irrevocable loan commitments to clients in the amount of EUR 7,584 thousand.

### 2.3.3.9 Liquidity

Operational liquidity management, which involves the management of daily payments, the planning of expected cash flows, and the management of disposable liquidity, serves the purpose of ensuring the ability of the Baader Bank Group to satisfy all its payment obligations at all times.

The Group's cash position, which was already very solid in previous years, was also maintained at a consistently high level in the past fiscal year despite the negative business development. The accounting liquidity surplus decreased as at the reporting date by 15% or EUR 32,847 thousand to EUR 191,763 thousand (Baader Bank AG: decrease of 15% or EUR 32,850 thousand to EUR 181,218 thousand).

Baader Bank AG's liquidity coverage ratio (LCR) as at 31 December 2018 was 146.65% (previous year: 152.47%). The LCR requirement is met if the institution always has access to liquid assets (liquidity buffer) whose total value is at least equal to the liquid outflows less liquid inflows within the next 30 days under stress conditions. This implies a minimum LCR ratio of 100%.

Unutilised credit facility agreements with domestic banks were in effect as of the reporting date.

## 2.4 Non-financial performance indicators

### 2.4.1 Employees

During the reporting year, the number of staff employed by the Baader Bank Group decreased from 447 in the previous year to 442 as at the reporting date. There are 128 female employees and 314 male employees in the Group come from a total of 27 countries.

The number of employees at Baader Bank AG as at 31 December 2018 increased compared the previous year from 393 to 397. The 397 employees, 113 of whom are female and 284 are male, come from 21 nations.

The Baader Bank Group places particular emphasis on high levels of qualifications and on providing its staff with further training. In view of this, human resources (HR) activities in 2018 once again focused on supporting specialists and junior managers, as well as on measures to improve the work-life balance of the Bank's employees.

With its own provident fund, Baader Unterstutzungskasse e.V., the Group has an independent social institution that can provide company pension benefits.

### 2.4.2 Environmental report

Baader Bank and its subsidiaries do not carry out any business transactions that have a material impact on the environment. Within the Bank, great importance is placed on conserving resources when using production equipment, such as photocopiers, printers and other office equipment, and consumables. The head office in Unterschleissheim was constructed in accordance with state-of-the-art environmental principles, especially with regard to water, heating and air-conditioning, and is managed accordingly.

## 2.5 General assessment of the report on the economic position

Baader Bank Group's business development for the 2018 fiscal year was marked by significantly lower net trading income and commission income at the Group level, which, since the level of costs remained constant because of the one-off effects described, led to a significantly negative operating result before tax. Given that conditions had already started gradually worsening from the beginning of the second half of the year and there were no positive annual results in the third-quarter, an ad-hoc notice of the situation was given as early as October 2018.

For the above mentioned reasons, the Board of Directors of Baader Bank AG began in the past fiscal year to introduce further cost-reduction measures for the purpose of which appropriate allowances have been made in the form of provisions for restructuring costs. The result was also hindered by write-offs and write-downs on equity investments and securities treated as investments.

The summary presentation of results of the subsidiaries of Baader Bank AG for the fiscal year 2018 can be found in the Section 2.2.4.

Looking back, Baader Bank Group did not perform as planned in the fiscal year.

Despite the negative business developments, the net assets and financial position of the Baader Bank Group has for many years been such that the Bank's solvency was guaranteed at all times during the reporting period.

## 3. Forecast, opportunities and risk report

### 3.1 Risk report

The section below describes the risk situation of the Baader Bank Group and Baader Bank AG as at 31 December 2018. Since the first quarter of 2018, a separate limit system, including monitoring and reporting, has been in place at Baader Bank AG in addition to the Group's system. Because of the stated comparability of the existing risks, however, the following explanations continue to relate first and foremost to risk management within the Baader Bank Group. Baader Bank AG's key performance indicators are always provided in addition to those of the Group. Should there be any deviations in terms of content in the procedures and processes, a separate note is made.

#### 3.1.1 The risk management system of the Baader Bank Group

By their nature, the business activities of the Baader Bank Group are subject to risks. The Board of Directors has therefore established a comprehensive risk management system. It is designed to meet both the regulatory requirements as set out in the relevant guidelines of the national and international regulatory authorities, and the Bank's internal business requirements.

#### 3.1.2 Objectives of risk management

The overriding objective of risk management at the Baader Bank Group is to guarantee its capital adequacy at all times, thereby ensuring that the Group can continue to operate. Consequently, deliberate assumptions, and active management and continuous monitoring of risks constitute the core elements of business and risk management of the Baader Bank Group. The Group identifies, assesses and monitors the risks arising during the course of its business activities. This is the only way in which the Group can manage its business activities in a risk-sensitive manner, meaning that it assumes calculable risks with due regard to the Group's capital adequacy and categorically avoids existential risks. In order to satisfy this fundamental principle, the Board of Directors reviews a daily comprehensive summary of the nature of all significant risks and their limit usage by the Baader Bank Group. Capital adequacy is also taken into account in particular in the determination of the business and risk strategy.



### 3.1.3 Capital adequacy

The Group's capital adequacy is regularly reviewed by the Risk Management department of the parent company Baader Bank AG, which is responsible for risk management at Group level. In the second quarter of 2018, the capital adequacy calculation was adjusted to the recommendations of the new supervisory guideline on the realignment of internal banking capital adequacy concepts issued by BaFin (the German Federal Financial Supervisory Authority). It is now calculated with reference to "normative" and "economic" perspectives, with both perspectives being considered equally relevant for risk management.

In contrast to the former balance sheet-oriented going concern-based approach, the normative perspective should be understood as the totality of regulatory and supervisory requirements. In order to monitor capital adequacy, the equity capital available is compared to the regulatory requirements. The following compares the situation as at 31 December 2018 to the previous year:

**Table 5: Overview of equity capital and equity required**

| in EUR'000             | Baader Bank Group   |        | Baader Bank AG      |         |
|------------------------|---------------------|--------|---------------------|---------|
|                        | 2018                | 2017   | 2018                | 2017    |
| <b>Equity</b>          | 78,490              | 94,628 | 83,091              | 103,708 |
| <b>Equity required</b> | 58,213 <sup>1</sup> | 59,444 | 59,595 <sup>1</sup> | 59,782  |

<sup>1</sup> These figures take into account the equity required set by the CRR (including any SREP total capital requirements) and the combined capital buffer requirement.

The economic perspective, however, serves to protect creditors against losses from an economic point of view. Unlike the previous liquidation-based approach, the new economic approach instead also assumes the long-term protection of the economic substance of the institution. The risk coverage potential is determined using a calculation method similar to that of a present value. This refers to balance sheet items but in doing so also factors into the calculation, for example, the negative effects of hidden liabilities. In order to assess capital adequacy, the risk coverage potential available is compared to the unexpected losses (risk potential) calculated with a 99.9% quantile. The following table shows the capital adequacy of the Baader Bank Group and Baader Bank AG following the economic approach as of 31 December 2018:

**Table 6: Overview of capital adequacy in the economic perspective**

| in EUR'000                     | Baader Bank Group | Baader Bank AG |
|--------------------------------|-------------------|----------------|
| <b>Risk coverage potential</b> | 90,172            | 88,958         |
| <b>Risk potential</b>          | 31,292            | 32,442         |

Both the normative and economic approaches are relevant to risk management and limitation. For the normative approach, the Baader Bank Group uses a traffic-light system of ratios defined by the Board of Directors (equity required compared to the equity available), which helps to monitor compliance with the capital adequacy as per the normative perspective.

For the economic approach of calculating the capital adequacy, the existing limit system of the old going-concern basis approach has been adjusted upwards accordingly as a result of quantifying the risk potential using a 99.9% quantile instead of the 99.0% quantile used previously. The Baader Bank Group's total risk is limited by the available risk coverage potential. As a general rule, the Group's Board of Directors uses only part of the risk coverage potential available (risk capital) to permanently secure the Group's capital adequacy. This is then allocated to individual risk types and respective business lines using a top-down approach, and acts in a restrictive capacity as a risk limit. The risk coverage potential, the risk potential and the risk capital is tested at least quarterly.

In order to ensure that the risk coverage potential is sufficient to cover the losses being incurred, even in hypothetical crisis times (stress scenarios), the Risk Management department checks the greatest losses arising from the stress scenarios against the available risk coverage potential for all relevant risk types.

In summary, the Baader Bank Group's and Baader Bank AG's capital adequacy was not endangered at any time in fiscal year 2018 and their survival as going concerns would have been assured even if the worst-case stress scenario had occurred.

### 3.1.4 Risk inventory and risk strategy

The business strategy and goals for the Baader Bank Group's key business activities are defined at the Board of Directors' annual strategy meeting. Strategic considerations include external factors, the assumptions underlying these factors, and internal factors such as capital adequacy, results of operations, liquidity, etc.

Based on the business strategy, the Board of Directors adopts a risk strategy for the coming fiscal year that is consistent with the business strategy, with due consideration given to internal and external factors. For this purpose, it is necessary to carry out a risk inventory for the Baader Bank Group that takes the new aspects arising from the business strategy into account. At the Baader Bank Group it is performed by Baader Bank AG's Risk Management department at least once a year. In addition to the annual risk inventory, an extraordinary review may be conducted to account for changes in the significance of risks or the commencement of business activities in new products or new markets, for example. In order to ensure that the Risk Management department is immediately informed of such changes, this department is to be involved in all "new products and markets" processes and projects, and is to be informed immediately of any changes in the strategic orientation, equity interest structure, market expectations, etc. Changes identified in the risk profile are promptly taken into consideration and reported to Board of Directors. The risk strategy established as a result of this process is divided into sub-strategies according to the material risk types. The basic element of the risk policy strategy is that the Bank's capital adequacy is guaranteed at all times. Accordingly, a specific amount of the risk capital is made available by the Board of Directors for all material risk types; this amount represents the limit for losses in connection with a given type of risk.

### 3.1.5 Risk management structures and processes

In accordance with the Minimum Requirements for Risk Management (German MaRisk AT 4.3.2 para. 1), the risk management system of the Baader Bank Group comprises the identification, assessment, management, monitoring, and communication of material risks. These processes are as follows:

To ensure the **identification** of new risks, all risky transactions and/or the positions arising from such transactions are immediately entered into the portfolio management systems. As part of the "Activities in new products or on new markets" process, the Risk Management department is also informed promptly of any potential changes to the existing risk profile. In this process, the planned activities are reviewed and the corresponding risk content is identified. Existing activities are reviewed on a regular basis. Furthermore, Baader Bank AG's Risk Management department carries out a risk inventory for the Baader Bank Group and its individual institutions at least once a year.

The risk **assessment** is based on detailed analyses prepared by the Risk Management department, which has developed a concept for managing and monitoring these risks. Where possible, identified risks are quantified using a value-at-risk concept and are compared with the risk capital. This is always performed on the basis of a rolling 12-month horizon. This procedure is explained in detail in the section on Baader Bank Group risks.

Risks in the Baader Bank Group are **managed** using a system of limits to limit the respective material risks. The limits are set at least annually by means of a resolution passed by the Board of Directors based on the company's capital adequacy. Independently of the annual process, these limits can be adjusted whenever necessitated by the business activity and/or results of operations of the Baader Bank Group.

The permanent imputation of risks to limits enables the Risk Management department to conduct adequate **monitoring**. The Risk Management department immediately detects any limit overrun and recommends appropriate actions, such as position reduction or short-term limit increases, to the member of the Board of Directors responsible for markets and notifies the management responsible for monitoring. The Board of Directors then decides on a measure to be taken and informs the market area concerned as well as Risk Management. Subsequently, the Risk Management department monitors execution of the agreed action, and in the event that the measure is not implemented, initiates an escalation process. The Risk Management department has, in addition, installed an early risk identification system for monitoring purposes.

The Board of Directors is responsible for ensuring adequate and orderly business organisation and for the further development of that system. This responsibility includes all essential elements of risk management, including establishing the risk policy. To assist the Board of Directors in exercising this responsibility, the Risk Management department maintains a comprehensive reporting system to ensure the **communication** required by MaRisk in the form of daily and periodic reports and, if required, ad hoc reports to Group management.

In addition, the Risk Management department conducts **stress tests** for all significant risk types at least every quarter. As part of the stress tests, the Risk Management department defines various possible scenarios which are highly unlikely but plausible, and examines their impact on the existing portfolio. The scenario leading to the greatest loss is designated as the worst-case scenario. The results of the stress tests are presented to the Board of Directors in a stress test report and discussed with them, if necessary. Furthermore, due consideration is given to the results of the stress tests in the review of the Group's capital adequacy. As of 31 December 2018, the losses in the worst-case scenario amounted to:

**Table 7: Stress test results**

| in EUR'000                               | Baader Bank Group |        | Baader Bank AG |        |
|--|-------------------|--------|----------------|--------|
|  | 2018              | 2017   | 2018           | 2017   |
| <b>Stress test (worst case scenario)</b> | 59,321            | 36,162 | 65,880         | 36,148 |

The increased losses in stress tests compared to the previous year is inter alia due to the adjustment of the VaR quantile and the increase of the holding period in the Treasury portfolio.

The processes described ensure that material risks are identified at an early stage, captured fully, and managed and monitored in an appropriate manner. Furthermore, the processes are regularly reviewed and promptly adjusted to reflect changing conditions. The methods and procedures employed are also subject to a regular validation process which examines whether the procedures and the underlying assumptions are appropriate, and identifies whether any changes are necessary. The results of the validations are brought to the attention of the Board of Directors in the form of separate reports.

The technical resources comprising the risk monitoring and management systems are appropriate for the risk management system. Moreover, the Group takes care at all times to ensure that staff are appropriately qualified. Internal Audit reviews the risk management process at least once every year.

### 3.1.6 Significant changes compared with the previous year

The following major changes were made to the models employed by the Risk Management department in 2018:

#### Capital adequacy

As mentioned above, in the second quarter of 2018 the capital adequacy concept was reformulated to comply with the new guideline published by BaFin: "Supervisory assessment of internal capital adequacy concepts and their integration into firm-wide performance and risk management processes („ICAAP“) – realignment". Consequently, the quantile value used to calculate the Value at Risk (VaR) was increased from 99.0% to 99.9% in the quantification of all types of risk, and the expected losses included in the planning data under the old capital adequacy concept, were factored in.

#### Counterparty default risk

When calculating the VaR credit spread of items in Treasury portfolio, the duration used in the Gordy formula was adjusted to 250 trading days across the board. This represents the idea that the non-trading book has a long-term intended holding period, particularly with reference to the capital adequacy calculation.

In supplement, as part of the annual validations, the internal rating process models that are used to assess the counterparty default risk were reviewed and calibrated with the assistance of external credit ratings (S&P ratings) and external probabilities of default.

#### Market price risk

Various model validations were also carried out for the market price risk in the past fiscal year. Based on the results, the Risk Management department adjusted individual correction factors for the market price risk calculation, the holding periods of profit centres as well as the underlying allocation of the risk factors to the individual positions.

Since the first quarter of 2018, the market price risk of the Treasury non-trading book has been calculated using a method similar to that used to calculate the trading book in the central trading and monitoring system. In this context, the risk measurement method has changed from a historical to a Monte Carlo simulation. In addition, at the end of the year, the assumed holding period for the Treasury portfolio was increased from 10 to 250 days to take account of the effects of the longer-term intended holding period on the capital adequacy.

#### Operational risk

The database of historical loss events from operational risks, which constitutes the basis of the risk quantification, was expanded to include potential losses from IT risks, project risks and outsourcing risks. The determination is based on expert assessment.

#### Liquidity risk

At the end of the third quarter, the calculation of the so-called Survival Period (expected survival horizon) was implemented in the area of liquidity risk in accordance with regulatory requirements.

### 3.1.7 Risks of the Baader Bank Group

The significant risks identified in the past fiscal year were unchanged – market price risks, counterparty default risks, operational risks, liquidity risks and business risks. There were no risks directly jeopardising the company's existence.

These risk types are discussed and assessed in detail below, and quantified on a net basis, taking into account any risk-reducing effects. The steps taken to mitigate risk are also explained.

#### 3.1.7.1 Market price risk

In general, market price risks are regarded as all risks that result from the change in the market price of a financial instrument over a specified period of time. Depending on the parameter that changes, this may be equity price risk, interest rate risk or currency risk. Equity price risk refers to the risk of changes in the price of an equity instrument. Interest rate risk refers to the risk of a reduction in the present value of an interest rate-sensitive financial instrument due to changes in market interest rates. Exchange rate risk refers to the risk of losses resulting from exchange rate changes that have a negative effect on the Bank's own position. In addition, the market liquidity risk is taken into account in the market price risk through the model's relevant holding periods. The market liquidity risk can become more specific, particularly in the case of low-liquid securities. A low level of market liquidity in individual trading products means that transactions in these products are impaired.

In principle, the market price risks described are restricted to proprietary trading activities and do not arise from brokerage business. As a result, the trading portfolios of the Market Making entities, the Board of Directors and Treasury are particularly exposed to this risk. As at year end, the Bank had the following exposures to positions entailing market price risks:

**Table 8: Summary of Baader Bank Group / Baader Bank AG portfolios**

| in EUR'000  | Baader Bank Group |         | Baader Bank AG |         |
|---|-------------------|---------|----------------|---------|
|   | 2018              | 2017    | 2018           | 2017    |
| <b>Shares</b>   | 15,524            | 20,440  | 15,524         | 20,440  |
| <b>Bonds</b>  | 198,169           | 225,122 | 198,169        | 225,122 |
| <b>Securitized derivatives</b>                              | 13                | 122     | 13             | 122     |
| <b>Funds, index certificates and fund-like certificates</b> | 17,460            | 22,671  | 16,421         | 20,108  |
| <b>Options</b>  | 23                | 6       | 23             | 6       |
| <b>Futures</b>  | -2,288            | -216    | -2,288         | -216    |

Overall, a decline in the portfolios compared to the previous year should be noted for both the Baader Bank Group and Baader Bank AG. The differences between the Baader Bank Group and Baader Bank AG in the "Funds, index certificates and fund-like certificates" item are due to the subsidiaries' own holdings.

Equity price risks are measured in the Baader Bank Group central trading and monitoring system using a value-at-risk (VaR) model based on Monte Carlo simulations. The VaR is calculated with a chosen confidence level of 99.9% for the expected holding period. On 31 December 2018, the risk situation was as follows:

**Table 9: Market price risk**

| in EUR'000           | Baader Bank Group |        | Baader Bank AG |       |
|----------------------|-------------------|--------|----------------|-------|
|                      | 2018              | 2017   | 2018           | 2017  |
| <b>Value at Risk</b> | 4,478             | 1,487  | 4,351          | 1,471 |
| <b>Limit usage</b>   | 56.93%            | 36.40% | 57.90%         | -     |

The increase in the market price risk compared to the previous year despite a decrease in exposure can be explained entirely by the increase of the quantile value to 99.9% as part of implementing the capital adequacy concept and the extension of the Treasury portfolio holding period from 10 to 250 days.

The quality of the VaR model is regularly verified by means of backtesting (clean backtesting) with reference to the relation between the VaR values and the market value changes of a position on the basis of actual price changes. If the number of outliers from backtesting exceeds the limit defined as critical, the Risk Management department makes corresponding adjustments to the VaR model. This achieves a better representation of the actual losses through the value-at-risk analysis, and thus over time further reduces the number of outliers.

To limit market price risks, the Baader Bank Group installed a comprehensive limit system in the central trading and monitoring system. In this system, all positions entered into by the profit centres are allocated to the relevant limits on an ongoing basis. Within each business line, it is up to the Board member responsible for trading to allocate the limit across the individual profit centres.

Limit overruns are immediately flagged in the monitoring system. The Risk Management department then reports this overrun to the relevant Board member responsible for the business line without delay, as well as to the Board of Directors in the daily reporting. The action to be taken is communicated to the Risk Management department and its implementation is monitored.

In the last fiscal year there was a significant increase in the market price risk, which can be explained by both of the aspects already mentioned (increase of the quantile and extension of the Treasury portfolio holding period). Overall, there was, however, a reduction of the positions compared to the previous year. Taking into account the available risk coverage equity and its utilisation by the risk potential, the market price risk can, now as previously, be considered appropriate.

### 3.1.7.2 Counterparty default risk

Counterparty default risk refers in general to the risk that a borrower or counterparty cannot repay, or repay in full, the amount owed because of insolvency-related default. Default risk also includes the risk of deterioration of the debtor's credit rating and is included in the form of credit spread risk.

To limit counterparty default risks, the total counterparty default risk is limited and monitored with reference to the risk capital allocated by the Board of Directors. If a market area intends to incur a counterparty default risk in connection with a borrower unit that is not yet known to the Group, it must present a written proposal to the Risk Management department. The Risk Management department then determines a credit rating for the new borrower unit on the basis of an internal rating system. If the counterparty default risk limit is exceeded on a given trading day, the Risk Management department reports the limit overrun to the Board of Directors' member responsible for markets and the Board of Directors member in charge of monitoring and recommends an appropriate action. The Board of Directors then resolves an action to be taken and informs the market area and the Risk Management department of the resolved action.

The Risk Management department then monitors the implementation of the resolved action. In addition, overruns of the counterparty default risk limit are reported to the Board of Directors as part of the Group reporting system.

Every internal credit rating category is allocated to an external rating category, and hence to a corresponding probability of default (PD) for expected losses. Based on the internal rating-based approach (IRBA) as set out in Regulation (EU) No. 575/2013 (Article 142 et seq.), IRBA risk weightings are determined in accordance with the Bank's internal procedures for each of these credit rating categories. The Herfindahl-Hirschman index that measures portfolio granularity and thus risk concentrations is taken into account. This risk weighting can be used as the basis to calculate the expected and unexpected loss for each borrower unit, which is comparable to the value-at-risk. The loss rate for the default of the respective borrower unit (LGD = loss given default) as well as the actual remaining term of the position are taken into account. The total risk across all borrower units is derived from the sum of all individual risks. The total risk may not exceed the risk capital provided by the Board of Directors for counterparty default risks. The limit for the counterparty default risk is set at least annually as part of the resolution to determine the risk elements and capital adequacy.

When considering the counterparty default risk, the Baader Bank Group makes a distinction between credit risk, counterparty risk, issuer risk and equity investment risk, as will be explained in more detail below.

### Credit risk

As part of the client credit business as defined in Section 1 (1) No. 2 of the German Banking Act (Kreditwesengesetz: KWG), private and corporate clients are granted Lombard loans against collateral. This collateral generally consists either of listed securities whose collateral value is determined using a conservative measurement procedure, or of bank guarantees. A risk arises here from unsecured overdrafts or unsecured loans as of the reporting date. Furthermore, as part of the lending business the Treasury department only makes money market investments with banks.

### Counterparty risk

For the Baader Bank Group, a counterparty risk in the form of a replacement risk is incurred in the settlement of trading transactions. Replacement risk is the risk of default by the counterparty concerned, leading to non-performance of the transactions concluded. Under MaRisk, stock exchange transactions and spot transactions where an amount equivalent to the transaction value has been acquired or is to be acquired on a delivery-versus-payment basis, or for which suitable cover is available, are excluded for the purposes of counterparty risk. Therefore, only over-the-counter derivative transactions are relevant for the replacement risk. Baader Bank only trades in derivatives on derivatives exchanges. However, as the Bank is not a clearing member of these

exchanges, transactions between Baader Bank and the clearing member concerned must be settled and are therefore classified as OTC transactions. Accordingly, a counterparty default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk for our own or client transactions undertaken.

### Issuer risk

Issuer risk means the risk of a downgrade in the creditworthiness of an issuer, or default of an issuer. A loss from an issuer risk results in a depreciation of the respective securities of this issuer. Treasury portfolio bond holdings for which there is a longer-term intended holding period, are taken into consideration as part of the issuer risk.

### Equity investment risk

The term 'equity investments' refers to equity investments pursuant to Section 19 (1) Sentence 1 No. 7 and No. 8 of the KWG (affiliated companies). In the case of equity investments, a counterparty default risk arises from a long-term downgrade in the creditworthiness of the company in which an interest is held, or a default by that company, and results in a corresponding impairment.

The table below shows the risk situation in the counterparty default risk as at 31 December 2018 compared to the previous year:

**Table 10: Counterparty default risk of the Baader Bank Group / Baader Bank AG**

| in EUR'000                              | Baader Bank Group |              | Baader Bank AG |              |
|---|-------------------|--------------|----------------|--------------|
|   | 2018              | 2017         | 2018           | 2017         |
| <b>Credit risk KU</b>                   | 105               | 87           | 1,433          | 285          |
| <b>Credit risk KI</b>                   | 9,029             | 1,797        | 8,351          | 1,489        |
| <b>Counterparty risk</b>                | 2,039             | 167          | 2,039          | 167          |
| <b>Issuer risk</b>                      | 8,876             | 3,733        | 8,876          | 3,733        |
| <b>Equity investment risk</b>           | 1,748             | 460          | 2,810          | 1,708        |
| <b>Total</b>                            | <b>21,797</b>     | <b>6,244</b> | <b>23,509</b>  | <b>7,382</b> |
| <b>Limit usage</b>                      | 90.82%            | 62.44%       | 94.03%         | -            |
| <b>Risk provisions for client loans</b> | 97                | 115          | 97             | 115          |

As part of managing counterparty default risk, there also are limits in place on individual counterparties, credit-ratings, industries and countries to avoid concentration risks. These are monitored daily and reported to the Board of Directors as part of the daily risk report.

In 2018, the counterparty default risk of the Baader Bank Group and of Baader Bank AG increased significantly due to the adjustments already mentioned relating to the holding period, consideration of expected losses and the switch to the 99.9% quantile. The exposure to risk positions, on the other hand, remained almost unchanged. Taking into account the available risk coverage equity and its capacity utilisation by the risk potential, the counterparty default risk can, now as previously, be considered appropriate.

### 3.1.7.3 Operational risk

Operational risk is the risk of losses which result if internal control procedures, people or systems are inadequate or fail, result if external events occur.

Baader Bank Group's Security Plan (Baader-Bank-Sicherheitskonzept or "BSK") is based on three pillars: disaster management; IT security protection; and management of operational risk. The BSK Security Committee acts as the organisational and thematic body responsible for all security-related issues and discusses relevant issues in regular meetings. It has a right to make suggestions and recommendations to the Board of Directors regarding Treasury issues which are relevant to decisions.

The evaluation of risk potential, i.e. the identification and assessment of operational risks across the Group, is carried out each year by Baader Bank AG's Risk Management department. This is done using questionnaires to be completed by operational risk managers, or in the form of special self-assessments. The results of these questionnaires are presented to the BSK Security Committee for discussion. In addition, operational risk managers can also report at any time any new risk potentials identified. The Security Committee examines the steps proposed by the Risk Management department and considers whether any other measures are necessary and makes its recommendation to the Board of Directors. The Board makes the ultimate decision as to whether or not any such steps will be carried out and, where necessary, instructs the Security Committee to implement them. The results from the questionnaires are presented to the Board of Directors and the Supervisory Board of Baader Bank AG in a quarterly MaRisk report.

In addition to participating in the surveys on risk potential, the operational risk managers are responsible for reporting any losses sustained as a result of operational risks. To this end, they enter all losses of EUR 1 thousand or more into an application. A loss is defined here as a financial loss that is directly connected with the operational risk. The causes of significant losses are analysed immediately.

Unexpected losses from operational risks are quantified each quarter on the basis of losses recorded historically, supplemented by potential losses in the Baader Bank Group. The procedure is based on the loss distribution approach, whereby the parameters of severity distribution and frequency distribution are estimated in accordance with the maximum likelihood method to determine a total loss per year. This approach assumes that loss amounts have a log-normal distribution, that the number of losses follows a Poisson distribution and that losses are independently and identically distributed. The aggregate loss distribution is estimated using statistical software based on the Monte Carlo simulation. For unexpected losses, the 99.9% quantile is used to determine the amount that must be covered by risk capital. On 31 December 2018, the risk situation was as follows:

Table 11: Operational risk

| in EUR'000          | Baader Bank Group |        | Baader Bank AG |       |
|---------------------|-------------------|--------|----------------|-------|
|                     | 2018              | 2017   | 2018           | 2017  |
| Value at Risk       | 5,018             | 1,292  | 4,582          | 1,151 |
| Limit usage         | 71.68%            | 86.16% | 65.45%         | -     |
| Total loss per year | 1,067             | 811    | 1,067          | 811   |

The Board of Directors also makes a specific amount of risk capital available to limit operational risks. The Risk Management department carries out daily reviews to ensure that the risk capital provided (maximum loss limit) is sufficient to cover unexpected losses from operational risks; this monitoring is part of the daily report to the Board of Directors.

In fiscal year 2018, there was a slight increase in losses from operational risks relating particularly to two loss events in the category "execution, delivery and process management". The loss events were discussed in detail in the Security Committee and the necessary measures to prevent such loss events were implemented or initiated. For this reason, the Risk Management department regards the operational risk as not critical. In addition, the risk capital provided was sufficient at all times. The technical equipment used for risk systems was deemed to be appropriate throughout the past fiscal year.

### 3.1.7.4 Liquidity risk

With respect to liquidity risk, the bank must ensure that it can fulfil its payment obligations at all times. Liquidity risk is fundamentally sub-divided into dispositive risk and structural liquidity risk.

The dispositive (short-term) liquidity risk refers to the risk that credit commitments could be drawn down unexpectedly or deposits could be withdrawn unexpectedly (call risk). Besides unexpected outflows, payment receipts could be delayed, thus leading to an unplanned lengthening of the capital commitment period for lending transactions (maturity risk). This can have an effect on the Bank's ability to meet its own payment obligations. The Treasury department is responsible for ensuring that the Bank's payment obligations can be met. The market business lines work closely with the Treasury and Payments departments to ensure the coordination of daily cash flows between these areas. Unusual liquidity streams from other areas of the bank are promptly reported to Treasury and Payments. Various credit lines and participation in the GC pooling market are used to ensure that short-term liquidity requirements are met at the Baader Bank Group.

Risk Management is responsible for monitoring dispositive liquidity risk in the Baader Bank Group. Various monitoring mechanisms have been installed to properly exercise this function and promptly initiate countermeasures. For the purpose of managing and monitoring the Liquidity Coverage Ratio key performance indicator (KPI) or LCR, a limit system was installed for the marked areas.

This system sets limits on all netted inflows and outflows, on the one hand, and limits on the total committed capital per value date and profit centre on the other hand. These liquidity limits enable the Treasury department to manage liquidity and thus also the LCR KPI on an intraday basis. In addition, observance of the LCR KPI is monitored daily as part of the Group Risk Report to the Board of Directors. Furthermore, the Treasury department submits a daily liquidity report detailing the current liquidity situation to the Risk Management department, which subjects it to a plausibility check and reviews it. If an imminent liquidity shortage is identified, the relevant decision-makers are informed immediately. Due to the nature of the dispositive liquidity risk, it is not possible to limit this risk by means of the risk coverage potential and therefore quantification is ineffective (MaRisk AT 4.1 para. 4). In this area, increased attention is given to the quality of the risk management process.

Structural liquidity risk (refinancing risk) refers to the risk that refinancing costs could rise on account of a possible increase in spreads for the individual institution. A deterioration in the credit rating could mean that the bank would only be able to conduct borrowing transactions on less favourable terms. In addition, market-induced changes could also have a major effect. If the market interest rate rises, refinancing tends to become more expensive. These liabilities are managed at an operational level by issuing promissory note loans on the capital markets. The liquidity obtained in this way is mainly invested in bonds eligible as collateral at the ECB, which in turn may be deposited at the Deutsche Bundesbank as refinancing facilities under the open market policy, or on the GC pooling market.

Possible refinancing losses are quantified through the preparation of liquidity progress reports and the calculation of potential liquidity shortfalls. A comparison is made each quarter between refinancing under current market conditions and the refinancing position if the unexpected were to occur. A scenario involving considerably more costly funding as well as unexpected cash outflows is applied to this. The resulting difference represents the refinancing loss; this difference is taken into account in determining capital adequacy for the Baader Bank Group and, if necessary, covered with risk capital. The Risk Management department carries out daily reviews to ensure that the risk capital provided is sufficient to cover unexpected losses arising from liquidity risks. The risk situation as of 31 December 2018 was as follows:

**Table 12: Liquidity risk**

| in EUR'000           | Baader Bank Group |      | Baader Bank AG |      |
|----------------------|-------------------|------|----------------|------|
|                      | 2018              | 2017 | 2018           | 2017 |
| <b>Value at Risk</b> | 0                 | 0    | 0              | 0    |
| <b>Limit usage</b>   | 0%                | 0%   | 0%             | 0%   |

In the fiscal year 2018 – as in the previous year – there was no risk potential as there were no liquidity gaps. For this reason, the Risk Management department regards the liquidity risk as not critical.

### 3.1.7.5 Business risk

Business risk describes the risk of unexpected losses resulting from management decisions on the business policy and positioning of the Baader Bank Group. Furthermore, risks result from unexpected changes in market and general economic conditions with adverse effects on the results of operations. Consequently, unexpected decreases in earnings and negative budget variances where the causes do not fall into other defined risk categories, are also taken into consideration here. Since the business activities of the Baader Bank Group are dependent in particular on the development of the general market environment on the exchanges, this type of risk is classified as material. Factors that are deemed to be significant and which affect the environment on the exchanges include, for example, trading volumes, the performance of the equity indices and their volatilities, and interest rate levels.

However, it is not considered useful to quantify business risk on the basis of complex mathematical models. At the Baader Bank Group, the focus is on the qualitative management of this type of risk and the introduction of appropriate management measures.

As part of implementing the capital adequacy concept in line with BaFin guidelines, the way business risks are factored in was adapted, analogous to the new requirements for calculating capital adequacy. Baader Bank Group's business risk, which is expressed for example in some stress tests in the economic perspective, is incorporated into the normative perspective as part of capital planning in an adverse scenario. Here, a scenario is selected which takes into consideration institution-specific economic aspects and is sufficiently cautious and conservative. The adverse scenario is worked through once per year in the course of the planning process and was adopted by the Board of Directors at the beginning of December.

In taking into account the business risk in the economic perspective, the lower of the results from the previous year and the results in the current year was deducted from the risk coverage potential at 31 December 2018. This represents an extremely conservative approach, as it took into account losses already incurred within the relevant quarterly report.

In view of the losses in the past fiscal year, which once again make clear the dependence of the Baader Bank Group on the stock market environment, the importance of the business risk to the Bank became clearly recognisable. The Bank's efforts to diversify its sources of income in order to avoid risk concentrations on the income side is a major factor for success here. As the market environment continues to be challenging, the Board of Directors of Baader Bank developed restructuring measures in

order to appropriately respond to the difficult economic situation. However, since the implementation and the effects of these measures will only take full effect from fiscal year 2020, the business risk is currently considered critical.

### 3.1.8 Summary of the Baader Bank Group's risk position

The Baader Bank Group manages material risks through a meticulous risk management and control process and with the help of effective risk management tools. Our proactive approach in identifying risks and evaluating the consequences of the risks associated with our business activities aims to recognise and, with the help of appropriate measures, to mitigate the negative impact of such risks on our financial results and long-term strategic objectives at an early stage. The central Risk Management unit, which quantifies and monitors all risks within the Baader Bank Group, ensures at all times that interdependencies between the different types of risk can be identified and that countermeasures can be implemented immediately.

As part of our risk strategy, the Board of Directors of the Baader Bank Group allocated only part of the available risk capital to cover unexpected losses in fiscal year 2018, as in previous years. The breakdown and intra-year reallocation of risk capital to individual types of risk takes particular account of the current risk potential which exists within each risk category, the business strategy for the coming years and market expectations. The capital adequacy of Baader Bank was always assured in the past fiscal year, even when taking into account the worst-case scenarios from the stress tests in the economic perspective. In the normative perspective, the regulatory objectives for equity required were always complied with during the past fiscal year. In the course of capital planning, the Bank introduced measures to ensure long-term compliance with the regulatory equity required, even under adverse conditions.

Due to the Baader Bank Group's dependency on the market environment, which is expected to represent a major challenge for the Bank in the coming fiscal year, the implementation of the restructuring measures is an important factor for the long-term success of the bank.

## 3.2 Forecast and opportunities report

### 3.2.1 Expected development of the general economic conditions and conditions for the financial industry

According to current consensus, a slowdown of the world economy is expected to be moderate and temporary, despite demonstrable weakening tendencies in many regions. In view of a large number of still unresolved political uncertainties – trade disputes, US budget dispute, Brexit, further increases in government debt, an ongoing economic slowdown in China – and the expiry of the positive stimulus brought about by the reduction of taxes in the US, there remains, however, a risk that the period of disappointing growth that began in 2018 will continue. In this context, it is expected that in 2019 the outlook for the global economy will be subject to further downward revisions.

It is, however, realistic to hope that going into spring, an easing of some of the currently unresolved political areas of conflict will permit a temporary stabilisation of the economic mood indicators. Due to the number of stress factors that have come to light, there is clearly a risk that the general economic improvement expected by consensus will not transpire as hoped.

In this environment, the performance of the corporate sector is of central significance. If the concerns regarding the sustainability of global economic growth should continue to grow (e.g. because the political uncertainties continue even longer or the economic weakness impacts on other regions currently showing robust growth), the company may ultimately be required to make a significant adjustment to its inventories and capacity planning. A further worsening of financing conditions as a result of capital markets continuing to become more volatile could also have an impact. A significantly more cautious corporate sector could therefore worsen the current weakening of growth.

In this context, a mixed environment is to be expected in this year for the equity indices. While the recovery that has been taking place since the end of 2018 is likely to continue into spring, new stresses are expected to emerge from early summer at the latest. If the early economic indicators continue to weaken as expected, the probably overly-ambitious earnings forecasts for 2019 (consensus: +8% compared to the previous year in Europe) will increasingly be called into question. Against this background, a seasonally difficult environment is once again expected in the autumn. Considering the annual high reached in spring, it is definitely realistic to expect a decline of 10% to 15% on the equity markets in the second half of the year. Overall, the 2019 annual balance on the equity markets may therefore once again be negative.



On the bond markets, it is expected that the trends established in 2018 will continue. Whilst the risk premiums of debtors with lower credit ratings (corporate bonds, bonds on peripheral and emerging markets, high yield) are likely to rise again, the interest rates on bonds issued by core states (German Federal bonds, US Treasuries) are expected to drop further. The yield on 10-year German government bonds is likely to be negative again and could even achieve a new record low. This development is expected to contribute to declining inflation expectations, selective support measures by the ECB (further LTROs, continuation of the full allotment principle in bank refinancing) and increasing signs of an interest rate reduction cycle by the Fed beginning as soon as summer 2019.

## 3.2.2 Outlook for the core business lines

### 3.2.2.1 Market Making business line

In 2019, the financial performance of the Market Making business line will be influenced mainly by market developments, trading volumes in the various securities classes and market volatility.

It is reacting with structural and business strategic measures to the shifts we are seeing of securities volumes to alternative trading platforms where market actors are asserting their increasingly dominant competitive position in the context of a significant decrease in sales on floor trading systems, and in which Baader Bank holds no, or only limited, market shares. Whilst intending to maintain its core competences and make use of its comparably large market shares as a Market Maker on the German floor trading systems, it also intends to use increased automation and other cost-reduction measures in particular to increase its profitability. In addition, the expansion of competences into new trading practices is expected to continue and, in the long term, to lead to an increased revenue participation in the Best Execution trading venues.

In the subsequent years, and with the rollout phases planned for 2019, Deutsche Börse AG also intends to technically consolidate its trade in closed order books within the T7 system environment. Baader Bank must therefore introduce further technical and process-based innovations, in line with which its specialist activities on the traditional spot market will as ever represent a major interest in trading activities.

In comparison to the past fiscal year, in 2019 comparable or even more volatile fluctuations in the securities trade are to be expected, which may result in positive impacts on the trade in securitised derivatives, but severely negative impacts on other classes, the latter also being affected by the temporarily extremely cautious mood on the investment market. In this regard, it should be emphasised that these profit drivers are mainly determined by external, global economic and monetary policy developments which cannot be influenced by Baader Bank, making it very difficult to forecast the expected development of general economic conditions and the effect of those conditions on the trading income.

Given the increasing technical and regulatory requirements, market makers on German stock exchanges continue to be in a consolidation phase which could result in a new competitive landscape and which puts at risk the continued existence of smaller, less well capitalised market players. Nevertheless, Baader Bank maintains its medium- and long-term strategic objective for the Market Making business line of ensuring its current market position on German-speaking stock exchanges and expanding its presence in over-the-counter trading platforms.

Further expansion outside of Germany might not be realisable to the expected extent for over-the-counter trading. The Bank would thus remain dependent on the German market.

A short-term revival in the bond trading market cannot be guaranteed in view of the ongoing low interest rate conditions on the European money market.

### 3.2.2.2 Capital Markets business line

The significant drivers for the order situation in the Capital Markets business line are the general developments on the share market in terms of trading volumes as well as the prevailing volatility on the secondary markets in connection with the general competition situation.

One limiting factor for market opportunities in the equity Capital Markets (ECM) business line, especially in large-volume transactions with guarantee components, is Baader Bank's lower balance sheet volume in relation to larger banks. Accordingly, the competition for mandates in traditional equity transactions will remain intense in 2019. In order to meet this competition, the Board of Directors of Baader Bank is endeavouring in 2019 to use its expertise as a regional GSA broker and its excellent research coverage to benefit from co-lead-mandates in large volume transactions without guarantee components. Thus, Baader Bank expects to benefit from the increased earnings potential of these mandates. In addition, it will continue to focus on its market-leading support for small- and mid-cap transactions in selected sectors and its support for challenging capital market transactions without a placement component. Through the latter, Baader Bank intends to continue enhancing its profile as a competent partner in special execution services for capital market transactions, and in future also to act as an outsourcing partner for international trading banks in this area, for example.

A stronger weighting will be placed on the Corporate Brokerage service which is considered a key strategic point in Baader Bank's range of products for corporate clients.

Another goal is to maintain its strong market positioning in the Special Execution service. In terms of Special Execution services, Baader Bank operates largely independently of the economic mood and wishes to continue doing so at a consistently high level of quality and income.

### **3.2.2.3 Multi Asset Brokerage business line**

Similar to the Market Making and Capital Markets business lines, the major earnings drivers of the Multi Asset Brokerage business line are the prevailing mood underlying the economy, the general developments in the equity market and the volatile movements in secondary markets.

One year after the entry into force of MiFID II and the associated upheavals in the contractual setting for institutional clients, Baader Bank is cautiously optimistic regarding market opportunities arising from it. Within their brokerage activities, the unpooling of research services to be priced separately from order execution could continue to have a negative impact in the form of a reduction in clients and orders. Baader Bank intends to counteract this by strengthening its international acquisition activities, increasing the total number of brokerage clients and making targeted use of newly created potential in the execution area, its order routing and trading services.

Overall, market share gains in Multi Asset Brokerage in 2019 have not been ruled out, however it is assumed that there will be a further slowdown in the growth rate. In addition to its proven brokerage activities in electronic trading, sales and sales trading/execution, Baader Bank will increasingly focus on offering complementary services such as clearing services, especially derivatives clearing, in 2019.

In respect of its regional focus, Baader Bank continues to be considered a local broker for the German-speaking region (Germany, Austria and Switzerland) for investment clients worldwide. Expanding the business to attain the market leadership position as the leading broker of specified product groups and services in the GSA region continues to be the highest strategic goal in this business line.

## **3.2.3 Outlook for the complementary business lines**

### **3.2.3.1 Banking Services business line**

Baader Bank expects to increase its market share by continuing to expand partnerships with traditional and digital asset managers, especially by offering account, custodial and trading services for asset managers and their end clients. Banking Services will continue to act as cross-departmental function, having an income-improving effect on other trading units. After the initial market entry phase in this business line, a constantly growing total deposit volume is expected as a result of both the rising number and the targeted selection of cooperation partners. Scalability and automation should ensure efficient processes. Different price models will be used for standard solutions and special services.

The market focus continues to be on the German-speaking region, even though foreign partners requiring complete solutions for the target-market of Germany or Europe may gain in significance over the long term.

### **3.2.3.2 Asset Management Services business line**

Baader Bank has significant competitive advantages for its business activities in the Asset Management Services business line. These include the speed and quality of trading, the diversity of execution venues and tradeable securities. For the current fiscal year, Baader Bank expects to see consistent growth across all asset classes and has identified an increased outsourcing requirement on the client side due to the increasing regulation and thereby higher cost pressure for asset management companies. Through its trading and regulatory expertise, Baader Bank is continuing its efforts to create added value for clients through complementary banking services and at the same time to ensure efficient usage of the existing infrastructure in its core business lines.

### **3.2.3.3 Research business line**

Baader Bank's Equity Research remains an important link between German-speaking corporate clients and international investors. The strong presence at international investor conferences will be maintained and added value for clients be created by offering research payment accounts as an additional service for the smooth processing of the payment process.

The partnership with French provider AlphaValue and the resulting regenerated product "Baader Europe" provides Baader Bank with access to a wider ranging offer, as measured by the number of covered securities which now also includes a pan-European selection of securities and should provide new incentives to prospective new clients as a result of this combination.

### 3.2.4 Outlook for the business development of subsidiaries

The management of **CCPM AG** assumes that the existing sources of income, management fee and performance fee will continue to largely depend on the development of assets under management (AuM) in 2019, which in turn will largely depend on the performance of the managed funds.

The level of assets under management reached in 2018 provides a solid basis for the coming fiscal years, although it is worth linking this to the significantly positive performance development in the current fiscal year of the managed funds in the final quarter of 2018.

The weak stock market performance of 2018, considerably increased volatilities and a geopolitical situation plagued by uncertainties could continue over the course of 2019 and cause further market fluctuations. It is therefore probable that if CCPM AG implements its portfolio management as a combination of favourable fund performance and growing AuM in fiscal year 2019, this will lead to a correspondingly growing positive business performance for CCPM AG. An annual result at a significantly higher level is therefore a realistic objective for the management of CCPM AG.

Dependencies continue to exist due to a high proportion of AuMs managed by a relatively small number of large clients.

In accordance with its fundamental strategic orientation, Baader Bank AG is reducing its interest in CCPM AG to 19.9%. At the time of publication of this report, the ownership control procedures of the German Federal Financial Supervisory Authority (BaFin) are ongoing. The Board of Directors of the Baader Bank AG assumes a positive outcome and thus the completion of the sale of the interest.

The most important goal of **Baader & Heins AG** in 2019 will be to secure the company's strong market position in the brokerage of debt instruments and in money market trading in a persistently difficult market environment.

In view of a slightly attenuated interest rate policy, but still held low by the ECB nevertheless, the investment alternatives in interest products for the clients of Baader & Heins AG may continue to be less attractive. For this reason, the Board of Directors again expects a lower number of transactions or business agreements as well as a decline in brokerage volume in 2019. In planning for 2019, the Board of Directors reduced the commercial agent's

commission and the resulting commission fees by around 20% on the basis of an assessment of business opportunities that remains cautious. The company will seek to offset any negative external conditions as much as possible through active cost management.

Even in view of an expected reduction in the commission result in the double-digit percentage range, a solid reported profit should also be achieved in the new fiscal year and the company should maintain its profitability.

The **Baader Helvea Group** will also make a significant contribution to the successful support for international clientele in 2019. It is to be expected that the expanded research offer will represent an incentive for potential new clients seeking a combination of broad coverage and fundamental expertise in certain business lines.

Baader Helvea's locations in Zurich, London and North America will continue to strengthen Baader Bank's investment banking activities which are fully integrated into the Multi Asset Brokerage, Capital Markets and Research business lines through its broad investor access in core international markets. This connection is proving valuable in generating order volumes through international market access.

The **Selan Group** in 2018 made a significant positive contribution to the consolidated result through its Croatian wind farm operator Selan d.o.o. Thanks to its strong infrastructure and high technical standards, the management of the Selan Group expects the wind energy yields to remain at a stable high level, thanks to wind conditions that remain consistent. Since these services are remunerated at a relatively constant level through contractually determined feed-in prices, the management is also expecting a moderate income increase in the 2019 fiscal year.

No noteworthy risk arises from the perspective of the Board of Directors of Baader Bank if the planned further disposal of interests in Vjetropark Vratarusa d.o.o. cannot be realised as expected.

### 3.2.5 Overall assessment of the future development of the Baader Bank Group

A consolidation trend within the securities trading institutions will continue in the 2019 fiscal year. The complexity and high costs resulting from increasing requirements in a highly regulated market environment are the main reasons for the increasingly cutthroat competition which are a particular risk to smaller providers. At the same time, ongoing investments in new technologies are necessary in order to ensure competitiveness.

In the face of the considerably weakened income and internal financing power, and a general mood that is continuing to worsen in the markets in which Baader Bank is active, in the current fiscal year the Bank is faced with difficult challenges which can only be overcome through consistent improvements in cost efficiency and profitability.

By focussing on the existing core business, Baader Bank is fundamentally improving its ability to invest and stabilise its profit and results situation. In addition to prioritising activities that are reliably known to have a positive impact on income, the profitability of the business strategy in some parts of the business must be fundamentally questioned.

Retail-related services from basic business lines are monitored just as continuously for profitability. They continue to serve to compensate for market fluctuations by providing diversified sources of income and supporting a targeted market cultivation strategy within challenging technological and regulatory conditions which the client side is also facing.

Baader Bank addresses the ongoing digitalisation in the financial sector with a targeted further development of its processes and is ensuring a continuous increase in efficiency in the networking of its operational core systems.

After the gross profit experienced a significant drop in 2018, the essential prerequisites have already been met to enable us to work towards a marked improvement in gross profit in 2019. These include the already mentioned restructuring measures and the effects expected from tighter business organisation, particularly in terms of administrative expenses.

Overall in the fiscal year 2019, significant improvement in results from ordinary business activities can be expected for both the Baader Bank Group and Baader Bank AG. As the cost measures that have been adopted will only take full effect from fiscal year 2020, the Board of Directors only expects to reach the break-even point from 2020.

Given the uncertain, external influencing factors, the Board of Directors is of the opinion that reliable forecasts for the business development can only be made subject to qualifications. The statements, expectations and forecasts on the future development of Baader Bank made in this Management Report are therefore based on the information and knowledge available to the company as at the reporting date.

## 4. Other disclosures

### 4.1 Corporate governance statement with the determinations and disclosures pursuant to Section 289f (2) No. 4, and (4) sentence 1 HGB

On 28 September 2015, the Board of Directors passed a resolution on the determination of target quotas for the proportion of women at the two management levels below the Board of Directors pursuant to Section 76 (4) AktG. Based on such resolution, by 30 June 2017, the proportion of women should reach 3.6% at the first management level („Managing Director“) and 12% at the second management level („Executive Director“).

With a proportion of women at the first management level of 9.5% in June 2017, the first target quota was achieved or exceeded. At the same time, the proportion of women at the second management level was 8%, thus below the target figure set. The main reason for this was the change of female managers from the second to the first management level.

The circumstances described prompted the Board of Directors to pass new resolutions on target quota for the respective proportions of women at the first and second levels of management. For the first management level, the target was raised to 12%, for the second management level, the target was left at 12%. The date by which the two targets would be achieved was set as 30 June 2022.

On 28 September 2015, the Supervisory Board adopted a resolution setting target quotas for the proportion of women on the Board of Directors and Supervisory Board in accordance with Section 111 (5) AktG, which included the targets of 0% for the proportion of women on the Board of Directors and 16.67% on the Supervisory Board of Baader Bank. Both targets had been achieved by 30 June 2017. After the new formation of the Supervisory Board in light of the shareholders' meeting of Baader Bank AG on 25 June 2018, the ratio of women on the Supervisory Board is 0%. The planned resolution of the Supervisory Board on 3 April 2019 will set a target for a proportion of women on the Board of Directors of 0% and of 16.67% on the Supervisory Board. The deadline to achieve both targets is 30 June 2022.

### 4.2 Closing statement on the dependency report pursuant to Section 312 AktG

Baader Bank Aktiengesellschaft (Baader Bank AG) is controlled by Baader Beteiligungs GmbH, Unterschleißheim, Germany (Baader GmbH). Baader GmbH has a shareholding of 62.88% in Baader Bank AG. As no domination agreement has been concluded between the companies, the Board of Directors of Baader Bank AG is obliged to provide a report regarding the relationships with affiliated companies pursuant to Section 312 AktG, which concludes with the following declaration:

“According to the circumstances known to the Board of Directors at the time, Baader Bank AG received appropriate consideration for the legal transactions or other measures undertaken or omitted and listed in the report regarding the relationships with affiliated companies. The company was not disadvantaged by the measures taken or omitted. All reportable transactions were resolved by the Board of Directors and, if required by the Articles of Association or rules of procedure of Baader Bank AG, also approved by the Supervisory Board and presented in this dependency report.”

Unterschleißheim, Germany, 20 March 2019

Baader Bank AG  
The Board of Directors



Nico Baader



Dieter Brichmann



Oliver Riedel

# Supervisory Board's Report

## Monitoring and consulting activities and work culture of the Supervisory Board

In the reporting period, fiscal year 2018, the Supervisory Board of Baader Bank discharged the duties required of it by law and the Articles of Association. It received regular reports from the Board of Directors on the situation of the individual Group company and the Group as a whole. In doing so, it monitored and supported the work of the Board of Directors.

The Board of Directors consistently and comprehensively informed and discussed with the Supervisory Board, in writing and orally, fundamental issues for the institution, the business strategy of the Bank, the current and future management, and significant transactions and important one-off events.

In particular, the development of the income and earnings situation, the overall economic situation, the strategic development, and the risk situation and risk management of Baader Bank were discussed thoroughly. Solutions and measures were discussed. Any deviations from the company's financial plans and targets regarding its ordinary course of business and earnings were promptly discussed in detail and reviewed by the Supervisory Board. The Supervisory Board was included in all decisions of great importance.

The Chairman and the other members of the Supervisory Board were informed at regular intervals of the general progress of the company and any particularly significant events by receiving the minutes of the Board of Directors meetings and through numerous personal meetings between the chairmen of both boards. The Supervisory Board also held discussions with the other members of the Board of Directors for more in-depth discussion of questions in their areas of responsibility. The members of the Supervisory Board also met repeatedly to exchange information internally without the involvement of third parties.

In its monthly reports, the Board of Directors provided information on key financial performance indicators and the risk position of Baader Bank Aktiengesellschaft and the Group to the Supervisory Board on an ongoing basis and as required in specific situations. The regular discussions and exchange of information focused on company figures, the Group's earnings performance and employment trends, including those of its subsidiaries and equity investments, and the performance of all business lines.

The Supervisory Board optimised and further digitised its communications, reporting and monitoring processes to improve its own committee work in 2018. This ensures that the Baader Bank supervisory body works extremely quickly and efficiently. The intensification and professionalisation of communication at Baader Bank and, in particular, the Investor Relations work on shares and with the shareholders was especially welcomed and supported by the Supervisory Board.

If the Supervisory Board's approval was required for individual measures based on a law, the Articles of Association or the rules of procedure, a resolution was passed in this regard after thorough review and consultation. In principle, the Supervisory Board of Baader Bank passes resolutions in meetings. If required, resolutions can also be passed outside of meetings by way of a written circular if directed by the Chairman of the Supervisory Board.

The Compliance Officer presented his detailed reports twice a year and the Head of Internal Audit presented his detailed annual review to the Chairman of the Supervisory Board. In addition, the Chairman of the Supervisory Board requested reports on important decisions and particular transactions at regular meetings with the Board of Directors. The Chairman of the Supervisory Board received the minutes of the Board of Directors meetings in good time.

## Topics and focal points of the supervisory activities

In 2018, the Supervisory Board of Baader Bank held six meetings. While in the first half of the year the meetings and discussions of the supervisory body primarily related to equity investments of Baader Bank, topics such as the annual financial statements and audit results, preparation and execution of the shareholders' meeting and the elections of the Supervisory Board, in addition to any issues, the Supervisory Board switched its focus in the second half of 2018 to the income and earnings performance, strategic content and the adjustment of the Group, organisation and strategy based on the earnings performance of the institute. A meeting of the Supervisory Board across two days was dedicated entirely to strategic issues.

The supervisory body dealt with the finalisation of Vision 2022, Baader Bank's ambitions for the future, in depth. The Supervisory Board closely supervised a review of the Vision. In particular, the focus here was on the existing business potential of the active and announced business lines and the interaction of short and medium-term measures taken to stabilise the earnings situation with measures for implementing Vision 2022, i.e. the strategic and business policy measures for Baader Bank to secure the future.

## Strategy review and development of actions

In view of the economic development of the company, which, following the initially very good results, deteriorated significantly in the second half of 2018 in particular, the Board of Directors hired an external consultancy firm to conduct a strategic analysis at the request of the Supervisory Board. The analysis focused, on the one hand, on the already mentioned review of the corporate vision that has been developed. On the other hand, all of the business lines of the Bank were, and are, examined in terms of their potential, profitability and efficiency.

As a result, a package of measures was developed, some of which have already been initiated or implemented, which targeted, and will target, strategic and business issues to secure the future, organisational optimisation, and short and medium-term measures to stabilise the earnings situation and the reduction of costs.

The Supervisory Board actively supported the developments, holding additional meetings in the second half of the year. The Supervisory Board was also represented on the steering committee of the strategy project and thus was able to track the development extremely closely and in a timely manner.

The Supervisory Board also discussed issues regarding capital requirements and financing with the Board of Directors as well as measures to optimise costs and processes on the basis of the results from 2018. In the case of issues relating to operational and personnel development, the Supervisory Board and Board of Directors also reviewed the schedule of responsibilities and the organisational structure of the Bank. The internal organisation was further developed in the course of this.

## Streamlining of the Board of Directors

The analyses and discussions of the Supervisory Board also resulted in the streamlining of the governing body of Baader Bank. On 1 February 2019, Mr Christian Bacherl, who was responsible for the business lines Equity Capital Markets and Research, left the Board of Directors and the company by mutual agreement. The objective of the organisational change was to consolidate strengths in order to concentrate on the success of existing and newly developing business lines. A further aim is to continue to improve cooperation between units and departments in the future and to reduce interfaces by consolidation. The streamlining of the Board of Directors is part of these measures and an important element of the strategic alignment of Baader Bank.

In addition to the discussions between the Board of Directors and the Supervisory Board, which were held on the basis of the earnings situation and the measures required and developed in this area in 2018 as well as the further development of Vision 2022, including an in-depth potential and profitability analysis of present and future business lines, the Supervisory Board primarily closely supervised the consolidation of the Group structure of the Baader Bank Group. In the course of the overall bank strategy, the sale and discontinuation of product providers and of foreign investments in the Baader Bank Group were started in fiscal year 2018 and have already been implemented to a large extent.

## International meeting of the Supervisory Board

Furthermore, significant projects and individual loan commitments were important points in the discussions between the Supervisory Board and the Board of Directors in 2018. In the middle of the fiscal year, the Supervisory Board was able to get a good impression of the significant value potential and the operation of the wind park of the subsidiary Selan on site (Croatia).

## Audit of the annual financial statements and consolidated financial statements

The Board of Directors of Baader Bank Aktiengesellschaft prepared the annual financial statements, the consolidated financial statements and the combined Group management report for fiscal year 2018 in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch), the German Stock Corporation Act (Aktiengesetz) and the German Regulation on Accounting by Banks (Verordnung über die Rechnungslegung der Kreditinstitute).

The auditors of the annual financial statements and consolidated financial statements chosen by the shareholders' meeting, PriceWaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements and the management report and issued an unqualified audit opinion. The auditor conducted its audit of the annual financial statements in compliance with the German generally accepted accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW).

The Supervisory Board examined the aforementioned documents in detail. All the documents relating to the financial statements and the auditor's audit reports were provided to the members of the Supervisory Board in good time. The Supervisory Board discussed the documents relating to the financial statements in detail in the presence of the responsible auditor. The auditor reported on the significant results of the audit. Furthermore, the auditor detailed the scope and focal points of the audit.

The Supervisory Board acknowledged and endorsed the results of the audit and, after completing its own review, determined that it had no objections to raise.

The Supervisory Board approved the annual financial statements, consolidated financial statements and combined Group management report prepared by the Board of Directors and audited by the auditor in its meeting held on 3 April 2019. The annual financial statements have therefore been adopted.

The Supervisory Board, taking into account especially the company's annual results from 2018, the cash flow and the financial planning, supports the proposal by the Board of Directors to carry forward the accumulated losses on the balance sheet.

### Subordinate status report

In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Board of Directors prepared a report on the company's relationships with affiliated companies. The auditor, PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft, Munich, reviewed the subordinate status report of the Board of Directors in compliance with the legal regulations and issued the following unqualified audit opinion: "In accordance with our mandatory audit and in our opinion, we confirm that 1. the factual disclosures in the report are correct and 2. the company's payments for the legal transactions set out in the report are not inappropriate in amount, and 3. the measures detailed in the report do not support a judgement materially different to that reached by the Board of Directors."

The Supervisory Board acknowledged and endorsed the results of the audit of the final report and, after completing its own review, determined that it had no objections to raise.

### Cyclical elections of the Supervisory Board

In fiscal year 2018, the Supervisory Board of Baader Bank was newly elected as part of the regular cycle of elections. The supervisory body continued to include Mr Helmut Schreyer and Dr Horst Schiessl. The shareholders' meeting on 25 June 2018 saw Prof. Dr Georg Heni and Mr Nils Niermann newly elected. Mr Ali Cavli and Mr Thomas Leidel were elected to the body as employee representatives. The members of the Supervisory Board, in its constituent meeting on 25 June 2018, elected Dr Horst Schiessl as Chairman and Mr Helmut Schreyer as Deputy Chairman. Mr Schreyer and Prof Dr Heni were also elected to the Baader Bank Loan Committee. There was no change to the Board of Directors in 2018.

### Thank you

In conclusion, the Supervisory Board of Baader Bank wishes to thank the Board of Directors in office, the departing member of the Board of Directors and all the company's employees for their motivated, constructive and responsible work during the past fiscal year. The Supervisory Board would also like to thank the departing Supervisory Board members for their successful and loyal work on the bodies of the company in the past term of office.

Unterschleissheim, Germany, 3 April 2019

The Supervisory Board



Dr. Horst Schiessl  
Chairman



# Consolidated Financial Statements



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# Consolidated balance sheet as at 31 December 2018

| Assets in EUR  | 31/12/2018     |                       | 31/12/2017     |                       |
|--|----------------|-----------------------|----------------|-----------------------|
| <b>1. Cash reserves</b>  |                |                       |                |                       |
| a) Cash on hand  | 1,463.27       |                       | 837.46         |                       |
| b) Credit balances with central banks  | 209,094,276.59 | <b>209,095,739.86</b> | 217,506,694.63 | 217,507,532.09        |
| of which: at Deutsche Bundesbank EUR 209,095,739.86<br>(previous year: EUR 217,506,694.63)   |                |                       |                |                       |
| <b>2. Loans and advances to banks</b>  |                |                       |                |                       |
| a) Due on demand   | 89,748,355.31  |                       | 79,762,673.42  |                       |
| b) Other loans and advances  | 9,447,332.33   | <b>99,195,687.64</b>  | 10,488,356.82  | 90,251,030.24         |
| <b>3. Loans and advances to clients</b>  |                | <b>26,780,117.88</b>  |                | 31,555,335.49         |
| <b>4. Debt securities and other fixed-income securities</b>  |                |                       |                |                       |
| a) Bonds and debt securities   |                |                       |                |                       |
| aa) From public issuers  | 71,988,910.64  |                       | 59,233,500.28  |                       |
| of which: eligible as collateral at Deutsche Bundesbank<br>EUR 63,352,387.20 (previous year: EUR 59,233,500.28)                              |                |                       |                |                       |
| ab) From other issuers   | 120,286,702.23 | <b>192,275,612.87</b> | 166,496,106.40 | 225,729,606.68        |
| of which: eligible as collateral at Deutsche Bundesbank<br>EUR 88,400,909.47 (previous year: EUR 92,024,575.74)                              |                |                       |                |                       |
| <b>5. Equities and other variable-income securities</b>  |                | <b>15,442,433.23</b>  |                | 19,017,076.11         |
| <b>5a. Trading portfolio</b>   |                | <b>49,406,772.48</b>  |                | 55,761,129.80         |
| <b>6. Equity investments</b>   |                | <b>4,162,029.56</b>   |                | 233,947.33            |
| of which: to financial services institutions EUR 231,336.00<br>(previous year: EUR 231,336.00)   |                |                       |                |                       |
| <b>7. Investments in associates</b>  |                | <b>3,823,558.62</b>   |                | 3,857,554.94          |
| <b>8. Intangible assets</b>  |                |                       |                |                       |
| a) Concessions, industrial property and similar rights and<br>assets, and licenses in such rights and assets acquired for<br>a consideration | 10,016,537.04  |                       | 12,209,957.04  |                       |
| b) Goodwill  | 7,258,497.10   |                       | 8,806,074.44   |                       |
| c) Advance payments made   | 320,904.11     | <b>17,595,938.25</b>  | 275,477.96     | 21,291,509.44         |
| <b>9. Property, plant and equipment</b>  |                | <b>81,708,037.89</b>  |                | 86,306,558.51         |
| <b>10. Other assets</b>  |                | <b>2,362,305.13</b>   |                | 2,850,539.96          |
| <b>11. Prepaid expenses and deferred charges</b>   |                | <b>3,839,487.10</b>   |                | 3,078,633.58          |
| <b>12. Excess of plan assets over pension liabilities</b>  |                | <b>7,502,119.04</b>   |                | 7,403,439.32          |
| <b>Total assets</b>  |                | <b>713,189,839.55</b> |                | <b>764,843,893.49</b> |

| Equity and liabilities in EUR                       |               |               | 31/12/2018     |                       |                | 31/12/2017            |
|---|---------------|---------------|----------------|-----------------------|----------------|-----------------------|
| <b>1. Bank loans and advances</b>                   |               |               |                |                       |                |                       |
| a) Due on demand                                    |               |               | 28,890,281.52  |                       | 30,489,851.22  |                       |
| b) With agreed term or notice period                |               |               | 69,924,095.95  | <b>98,814,377.47</b>  | 85,169,987.42  | 115,659,838.64        |
| <b>2. Payables to clients</b>                       |               |               |                |                       |                |                       |
| a) Other liabilities                                |               |               |                |                       |                |                       |
| aa) Due on demand                                   |               |               | 333,846,816.87 |                       | 349,368,316.18 |                       |
| ab) With agreed term or notice period               |               |               | 153,308,324.06 | <b>487,155,140.93</b> | 161,433,298.99 | 510,801,615.17        |
| <b>3. Trading portfolio</b>                         |               |               |                | <b>1,802,682.75</b>   |                | 2,898,169.31          |
| <b>4. Other liabilities</b>                         |               |               |                | <b>13,590,245.20</b>  |                | 6,941,466.46          |
| <b>5. Prepaid expenses and deferred charges</b>     |               |               |                | <b>426,000.07</b>     |                | 0.00                  |
| <b>6. Provisions</b>                                |               |               |                |                       |                |                       |
| a) Provisions for pensions and similar obligations  |               |               | 1,964,137.78   |                       | 1,737,948.34   |                       |
| b) Tax provisions                                   |               |               | 758,002.94     |                       | 1,381,360.89   |                       |
| c) Other provisions                                 |               |               | 10,530,105.06  | <b>13,252,245.78</b>  | 5,847,037.58   | 8,966,346.81          |
| <b>7. Fund for general banking risks</b>            |               |               |                |                       |                |                       |
| of which:   |               |               |                |                       |                |                       |
| Special items pursuant to Section 340e (4) HGB      |               |               | 22,120,000.00  | <b>22,120,000.00</b>  | 22,120,000.00  | 22,120,000.00         |
| <b>8. Equity</b>                                    |               |               |                |                       |                |                       |
| a) Called up capital                                |               |               |                |                       |                |                       |
| Subscribed capital                                  | 45,908,682.00 |               |                |                       | 45,908,682.00  |                       |
| less nominal amount of treasury shares              | -276,996.00   | 45,631,686.00 |                |                       | -276,996.00    |                       |
| b) Capital reserve                                  |               |               | 31,431,265.61  |                       | 31,431,265.61  |                       |
| c) Retained earnings                                |               |               |                |                       |                |                       |
| ca) Other retained earnings                         | 30,160,824.46 |               |                |                       | 30,109,006.52  |                       |
| cb) Difference in equity due to currency conversion | 758,560.80    | 30,919,385.26 |                |                       | 459,307.67     |                       |
| d) Minority interests                               |               |               | 1,690,369.17   |                       | 861,118.11     |                       |
| e) Consolidated net loss                            |               |               | -33,643,558.69 | <b>76,029,147.35</b>  | -11,035,926.81 | 97,456,457.10         |
| <b>Total shareholders' equity and liabilities</b>   |               |               |                | <b>713,189,839.55</b> |                | <b>764,843,893.49</b> |

#### 1, Contingent liabilities

|   |  |  |                     |  |               |
|---|--|--|---------------------|--|---------------|
| a) Liabilities from guarantees and indemnity agreements |  |  | <b>208,070.00</b>   |  | 208,070.00    |
| <b>2, Other obligations</b>                             |  |  |                     |  |               |
| a) Irrevocable loan commitments                         |  |  | <b>7,584,133.00</b> |  | 10,508,242.30 |

# Consolidated income statement

| in EUR  |               |                | 2018              |                       |                       | 2017                |
|---|---------------|----------------|-------------------|-----------------------|-----------------------|---------------------|
| <b>1. Interest income from</b>  |               |                |                   |                       |                       |                     |
| a) Lending and money market transactions  |               |                | -272,988.23       |                       |                       | 20,973.62           |
| b) Fixed-income securities and book-entry securities  | 6,293,681.79  | 6,020,693.56   |                   |                       | 7,313,407.50          |                     |
| <b>2. Interest expenses</b>   |               |                | 6,466,104.97      | <b>-445,411.41</b>    | -7,672,236.26         | -337,855.14         |
| <b>3. Current income from</b>   |               |                |                   |                       |                       |                     |
| a) Equities and other variable-income securities  |               |                | 952,340.10        |                       |                       | 1,821,025.68        |
| b) Equity investments   | 19,278.00     |                | <b>971,618.10</b> | 19,278.00             | 1,840,303.68          |                     |
| <b>4. Commission income</b>   |               |                | 72,549,306.00     |                       |                       | 71,907,614.75       |
| <b>5. Commission expenses</b>   |               |                | -32,031,189.44    | <b>40,518,116.56</b>  | -25,368,407.06        | 46,539,207.69       |
| <b>6. Net income from the trading portfolio</b>   |               |                |                   |                       | <b>40,976,352.58</b>  | 57,682,687.02       |
| <b>7. Revenue</b>   |               |                |                   |                       | <b>13,095,219.14</b>  | 12,134,736.91       |
| <b>8. Other operating income</b>  |               |                |                   |                       | <b>3,004,689.70</b>   | 3,457,952.58        |
| <b>9. General administrative expenses</b>   |               |                |                   |                       |                       |                     |
| a) Personnel expenses   |               |                |                   |                       |                       |                     |
| aa) Salaries and wages  |               |                | -47,454,231.46    |                       |                       | -47,849,293.34      |
| ab) Social security and expenses for retirement benefits  | -7,232,103.24 | -54,686,334.70 |                   |                       | -6,853,156.90         |                     |
| of which: for pensions:<br>EUR -1,496,782.27<br>(previous year: EUR -1,186,885.28)  |               |                |                   |                       |                       |                     |
| b) Other administrative expenses  |               |                | -43,734,744.59    | <b>-98,421,079.29</b> | -41,385,460.44        | -96,087,910.68      |
| <b>10. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment</b>  |               |                |                   |                       | <b>-10,916,367.57</b> | -14,120,594.45      |
| <b>11. Other operating expenses</b>   |               |                |                   |                       | <b>-1,650,079.90</b>  | -1,200,074.17       |
| <b>12. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in the lending business</b> |               |                |                   |                       | <b>-5,274,598.58</b>  | -4,223,395.10       |
| <b>13. Depreciation and value adjustments on equity investments, shares in affiliated companies and securities treated as assets</b>                      |               |                |                   |                       | <b>-1,199,636.89</b>  | 0.00                |
| <b>14. Net income from interests in associates</b>  |               |                |                   |                       | <b>-33,996.32</b>     | -1,426,003.50       |
| <b>15. Profit/loss on ordinary activities</b>   |               |                |                   |                       | <b>-19,375,173.88</b> | <b>4,259,054.84</b> |

Continued on next page

for the period from 1 January 2018 to 31 December 2018

| in EUR   | 2018          |                | 2017           |                |
|--|---------------|----------------|----------------|----------------|
| <b>16. Taxes on income</b>                                   |               | -1,520,021.09  |                | -1,884,435.66  |
| <b>17. Other taxes, unless stipulated under item 11</b>      |               | -129,295.17    |                | -92,536.80     |
| <b>18. Consolidated net profit before minority interests</b> |               | -21,024,490.14 |                | 2,282,082.38   |
| <b>19. Minority interest in net income</b>                   |               | -286,004.95    |                | 120,375.20     |
| <b>20. Parent company loss brought forward</b>               |               | -11,035,926.81 |                | -6,642,205.09  |
| <b>21. Withdrawals from retained earnings</b>                |               |                |                |                |
| a) from other retained earnings                              | 3,800,894.90  | 3,800,894.90   | 6,999,975.13   | 6,999,975.13   |
| <b>22. Transfers to retained earnings</b>                    |               |                |                |                |
| a) to other retained earnings                                | -5,098,031.69 | -5,098,031.69  | -13,796,154.43 | -13,796,154.43 |
| <b>23. Consolidated net loss</b>                             |               | -33,643,558.69 |                | -11,035,926.81 |

## Statement of changes in equity as at 31 December 2018

| in EUR'000                                | Parent company                        |                 |                       |                                |
|---|---------------------------------------|-----------------|-----------------------|--------------------------------|
|   | Subscribed capital<br>Ordinary shares | Capital reserve | Consolidated earnings |                                |
|   |                                       |                 | Retained earnings     | Balance sheet profit<br>/ loss |
| <b>As at 01 January 2018</b>              | <b>45,909</b>                         | <b>31,431</b>   | <b>30,109</b>         | <b>-11,036</b>                 |
| Purchase / withdrawal of treasury shares  | 0                                     | 0               | 0                     | 0                              |
| Dividends paid                            | 0                                     | 0               | 0                     | 0                              |
| Change in group of consolidated companies | 0                                     | 0               | -1,245                | 0                              |
| Other changes                             | 0                                     | 0               | 0                     | 0                              |
| Consolidated net profit for the year      | 0                                     | 0               | 0                     | -21,311                        |
| Other consolidated income                 | 0                                     | 0               | 0                     | 0                              |
| <b>Total comprehensive income</b>         | <b>0</b>                              | <b>0</b>        | <b>0</b>              | <b>-21,311</b>                 |
| Transfer to / withdrawal from reserves    | 0                                     | 0               | 1,297                 | -1,297                         |
| <b>As at 31 December 2018</b>             | <b>45,909</b>                         | <b>31,431</b>   | <b>30,161</b>         | <b>-33,644</b>                 |

## Statement of changes in equity as at 31 December 2017

| in EUR'000                                | Parent company                        |                 |                       |                                |
|---|---------------------------------------|-----------------|-----------------------|--------------------------------|
|   | Subscribed capital<br>Ordinary shares | Capital reserve | Consolidated earnings |                                |
|   |                                       |                 | Retained earnings     | Balance sheet profit<br>/ loss |
| <b>As at 01 January 2017</b>              | <b>45,909</b>                         | <b>31,431</b>   | <b>23,313</b>         | <b>-6,642</b>                  |
| Purchase / withdrawal of treasury shares  | 0                                     | 0               | 0                     | 0                              |
| Dividends paid                            | 0                                     | 0               | 0                     | 0                              |
| Change in group of consolidated companies | 0                                     | 0               | 0                     | 0                              |
| Other changes                             | 0                                     | 0               | 0                     | 0                              |
| Consolidated net profit for the year      | 0                                     | 0               | 0                     | 2,402                          |
| Other consolidated income                 | 0                                     | 0               | 0                     | 0                              |
| <b>Total comprehensive income</b>         | <b>0</b>                              | <b>0</b>        | <b>0</b>              | <b>2,402</b>                   |
| Transfer to / withdrawal from reserves    | 0                                     | 0               | 6,796                 | -6,796                         |
| <b>As at 31 December 2017</b>             | <b>45,909</b>                         | <b>31,431</b>   | <b>30,109</b>         | <b>-11,036</b>                 |



| Treasury shares | Equity  | Difference in equity due to currency conversion | Minority interests / Minority equity | Consolidated equity |
|-----------------|---------|---|--------------------------------------|---------------------|
| -277            | 96,136  | 459   | 861                                  | 97,456              |
| 0               | 0       | 0   | 0                                    | 0                   |
| 0               | 0       | 0   | -500                                 | -500                |
| 0               | -1,245  | 0   | 1,043                                | -202                |
| 0               | 0       | 0   | 0                                    | 0                   |
| 0               | -21,311 | 0   | 286                                  | -21,025             |
| 0               | 0       | 300   | 0                                    | 300                 |
| 0               | -21,311 | 300   | 286                                  | 20,725              |
| 0               | 0       | 0   | 0                                    | 0                   |
| -277            | 73,580  | 759   | 1,690                                | 76,029              |

| Treasury shares | Equity | Difference in equity due to currency conversion | Minority interests / Minority equity | Consolidated equity |
|-----------------|--------|---|--------------------------------------|---------------------|
| -277            | 93,734 | 1,252   | 1,029                                | 96,015              |
| 0               | 0      | 0   | 0                                    | 0                   |
| 0               | 0      | 0   | -48                                  | -48                 |
| 0               | 0      | 31  | 0                                    | 31                  |
| 0               | 0      | 0   | 0                                    | 0                   |
| 0               | 2,402  | 0   | -120                                 | 2,282               |
| 0               | 0      | -824  | 0                                    | -824                |
| 0               | 2,402  | -824  | -120                                 | 1,458               |
| 0               | 0      | 0   | 0                                    | 0                   |
| -277            | 96,136 | 459   | 861                                  | 97,456              |

# Cash flow statement

| in EUR'000   | 2018                       | 2017                      |
|--|----------------------------|---------------------------|
| <b>1. Net income/loss for the period</b><br>(incl. shares of minority interests)   | <b>-21,024</b>             | <b>2,282</b>              |
| <b>Non-cash items and reconciliation to the cash flow from ordinary activities included in net income/loss for the period:</b> |                            |                           |
| 2. Amortisation and depreciation, write-downs and write-ups on receivables and fixed assets                                    | 17,923                     | 16,994                    |
| 3. Change in provisions  | 4,518                      | -1,487                    |
| 4. Other non-cash expenses/income  | -45                        | 894                       |
| 5. Gains and losses from the disposal of fixed assets  | -501                       | 2,812                     |
| 6. Other adjustments (net)   | 1,631                      | -922                      |
| <b>7. Sub-total</b>  | <b>2,502</b>               | <b>20,573</b>             |
| <b>Change in assets and liabilities from ordinary activities:</b>  |                            |                           |
| 8. Loans and advances  |                            |                           |
| 8a. to banks   | -8,061                     | 6,766                     |
| 8b. to clients   | 4,607                      | -1,702                    |
| 9. Securities (unless fixed assets)  | 35,330                     | -21,615                   |
| 10. Other assets from operating activities   | -306                       | 298                       |
| 11. Bank loans and advances  |                            |                           |
| 11a. to banks  | -16,733                    | 13,515                    |
| 11b. to clients  | -23,508                    | 126,736                   |
| 12. Liabilities held for trading   | -1,095                     | 783                       |
| 13. Prepaid expenses and deferred charges  | 426                        | 0                         |
| 14. Other liabilities from operating activities  | 6,689                      | 1,101                     |
| 15. Interest and dividends received  | 7,256                      | 9,735                     |
| 16. Interest paid  | -6,697                     | -7,960                    |
| 17. Income tax payments  | -2,190                     | -853                      |
| <b>18. Cash flow from operating activities</b>   | <b>-1,780</b>              | <b>147,377</b>            |
| 19. Proceeds from the disposal of  |                            |                           |
| 19a. financial assets  | 1,503                      | 0                         |
| 20. Payments made for investments in   |                            |                           |
| 20a. financial assets  | -3,928                     | -948                      |
| 20b. property, plant and equipment and intangible assets   | -2,510                     | -1,940                    |
| 21. Payments made for the acquisition of consolidated companies and other business units                                       | 0                          | 0                         |
| <b>22. Cash flow from investing activities</b>   | <b>-4,935</b>              | <b>-2,888</b>             |
| 23. Payments to business owners and minority interests   |                            |                           |
| 23a. dividend payments   | 0                          | 0                         |
| 23b. other payments  | 0                          | 0                         |
| 24. Changes in cash flow from other loan capital (net)   | -500                       | -47                       |
| <b>25. Cash flow from financing activities</b>   | <b>-500</b>                | <b>-47</b>                |
| <b>26. Net change in cash and cash equivalents</b><br>(the sum of 18, 22 and 25)   | <b>-7,215</b>              | <b>144,442</b>            |
| 27. Effects of changes in exchange rates, group of consolidated companies and measurement on cash and cash equivalents         | -97                        | -604                      |
| <b>28. Cash and cash equivalents at start of period</b>  | <b>230,200<sup>1</sup></b> | <b>85,154<sup>1</sup></b> |
| <b>29. Cash and cash equivalents at end of period</b>  | <b>222,888</b>             | <b>230,200</b>            |

<sup>1</sup> Sight deposits are included if they are used to meet short-term payment obligations.

# Notes to the Consolidated Financial Statements

## I. Basis of preparation

The consolidated financial statements of Baader Bank AG for the 2018 fiscal year were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). The provisions of the German Stock Corporation Act (Aktiengesetz – AktG) were observed.

The consolidated financial statements are also based on the standards issued by the Accounting Standards Committee of Germany (Deutsches Rechnungslegungs Standards Committee e.V. – DRSC) and published by the Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz – BMJV) pursuant to Section 342 (2) HGB.

In addition to the consolidated balance sheet and the consolidated income statement, the consolidated financial statements also include the statement of changes in equity, cash flow statement and notes to the consolidated financial statements as additional components. The option pursuant to Section 297 (1) Sentence 2 HGB was not exercised and segment information is not reported.

For the purposes of clarity, all amounts are reported in thousands of euros. For computational reasons, rounding differences of +/- one unit can occur in the tables.

The reporting date is 31 December 2018. The fiscal year is the same as the calendar year. Baader Bank Aktiengesellschaft, with registered office in Unterschleißheim, Germany is registered at the Munich Local Court under commercial register number HRB 121537.

## II. Accounting policies

When measuring assets and liabilities reported in the consolidated financial statements, the general measurement principles (Sections 252 et seq. HGB), the special provisions for companies limited by shares (Sections 264 et seq. HGB) and the supplementary provisions applying to banks and financial services institutions (Sections 340 et seq. HGB) were observed.

In the interests of better clarity and ease of understanding, the notes optionally required on the balance sheet, income statement and notes to the annual financial statements are presented in the notes to the annual financial statements. Individual items that are summarised in the balance sheet and the income statement are broken down in the notes.

The following accounting policies were applied:

### Cash reserves

Cash reserves were recognised at the nominal amount.

### Loans and advances

Loans and advances to banks and clients are generally recognised at their nominal amount or acquisition cost and are reduced by adequate write-downs where necessary. Offsetting permitted pursuant to Section 340f (3) HGB is applied.

### Securities (excluding trading portfolio)

Securities that are intended to be used in business operations on an ongoing basis are recognised as financial assets at amortised cost under the lower of cost or market value principle pursuant to Section 253 (1) and (3) HGB. Any impairments which appear to be permanent are taken into account. If necessary, write-ups are made in accordance with the requirement to reverse impairments (Section 253 (5) HGB). Offsetting permitted pursuant to Section 340c (2) HGB is applied. The measurement option pursuant to Section 340e (1) Sentence 3 HGB in conjunction with Section 253 (3) Sentence 6 HGB is not exercised.

Securities that are not intended for use in business operations on an ongoing basis and are not allocated to the trading portfolio are recognised as current assets at their acquisition cost or lower stock market value or lower fair value under the strict lower of cost or market principle pursuant to Section 253 (1) and (4) HGB.

Fair value in accordance with Section 255 (4) HGB generally corresponds to the market price. If no market price can be established on the reporting date, the fair value is determined using generally accepted measurement models. If no fair value can be determined, the acquisition cost is amortised as set out in Section 255 (4) Sentence 3 HGB.

### Trading portfolio

Financial instruments in the trading portfolio are initially measured at acquisition cost. Subsequent measurement is carried out at fair value less a risk discount for financial assets, or plus a risk premium for financial liabilities pursuant to Section 340e (3) HGB in conjunction with IDW RS BFA Statements 2 and 5. If there is no daily market valuation for derivative financial instruments, the fair value for options is determined by means of the Black Scholes model; the arbitrage-free valuation model is used for futures. Baader Bank AG values American options using the Barone-Adesi and Whaley approximation (1987). Foreign currency options are valued using the Garman Kohlhagen model (1983).

The starting point for determining the risk discount is the value at risk (VaR) measure. Value at risk refers to a risk measurement that indicates the level of loss on the portfolio in question that will not be exceeded with a given probability over a given time horizon. Baader Bank AG uses the Monte Carlo simulation to determine the market price risk. For the subsidiaries included in the consolidated financial statements, the risk assessment is carried out based on sensitivity (delta-normal method). A confidence level of 99.9% is assumed for the calculation and the required parameters (especially volatilities, correlations, etc.) are estimated on the basis of historical data. Holding periods relevant to the portfolio of between 0.25 to 10 days are used for the calculation as at 31 December 2018. The determination of the holding period is updated on a quarterly basis.

Value at risk is determined at the end of every month for all proprietary trading portfolios.

The risk discount was determined for all portfolios held for assets and liabilities held for trading. As it is not possible to correctly allocate this amount to the portfolio assets and liabilities held for trading for the individual classes, the risk discount is in general taken into account for the larger of the respective portfolios. The portfolio assets held for trading were allocated as at 31 December 2018.

There were no changes to the criteria set by the Bank for including financial instruments in the trading portfolio in fiscal year 2018.

## Hedging instruments

In cases where assets, liabilities, pending transactions or highly probable transactions (underlying transactions) are combined (valuation unit) to offset opposing changes in value or cash flows from the occurrence of comparable risks with financial instruments (hedging instruments), the general valuation principles are not applied to the extent and for the period in which the opposing changes in value or cash flows offset each other. The Baader Bank Group applies the net hedge presentation method. The offsetting changes in value resulting from the hedged risk are not recognised in the balance sheet. Thus, negative changes in the fair value of the hedged risk are not taken into account. Any negative ineffectiveness from the hedging instruments is taken into account by including a provision for impending losses.

## Reclassification

The allocation of receivables and securities to the trading portfolio, liquidity reserve or assets measured as investments is based on their purpose at the time of acquisition (Section 247 (1) and (2) HGB).

Reclassification to the trading portfolio is not permitted and reclassification from the trading portfolio is only possible if extraordinary circumstances, in particular significant impairments in the tradability of the financial instruments, result in them not being held for trading.

Reclassification between the categories of liquidity reserves and assets treated as investments takes place if the established purpose has changed since initial recognition and this change is documented. The reclassification of receivables or securities takes place at the time of the change in purpose.

No reclassifications took place during the 2018 fiscal year.

## Derivative financial instruments in the trading portfolio

Derivative financial transactions are recognised and measured as follows:

- Option premiums paid as part of the purchase of call or put options are recognised as trading portfolio assets and measured at fair value less a risk discount.
- Option premiums received from the sale of call or put options are recognised as trading portfolio liabilities and measured at fair value plus a risk premium.
- Margin receivables from futures transactions are accounted for at their nominal amount as other assets.
- Margin obligations from futures transactions are accounted for at their nominal amount as other liabilities.

## Loss-free measurement of interest-rate-based transactions in the banking book

IDW RS BFA Statement 3 provides guidance on specific issues related to the loss-free measurement of the banking book in accordance with HGB. Banks' business activities in the context of the banking book generally do not allow the direct allocation of individual financial instruments to each other. The banking book is managed as a single unit. For interest-rate-based assets and liabilities in the banking book, the principle of prudence under commercial law is adhered to. In accordance with Section 249 HGB, a "provision for anticipated losses" is recognised for the necessary expenses expected in relation to management of the banking book (refinancing, risk and administrative costs) to cover any potential excess liability. In defining the scope of the banking book, Baader Bank has made use of the option not to include the directly allocable refinancing of non-interest-bearing assets or the corresponding assets. Baader Bank uses the periodic method to calculate the provision for anticipated losses. According to this approach, a provision for anticipated losses is recognised if the sum of discounted net profits or losses for future periods from the banking book is negative. Risk costs and administrative costs are taken into account by applying a deduction to the cash flows. There is no excess liability for the Baader Bank Group as at the reporting date. There is thus no requirement to recognise a provision for anticipated losses in relation to loss-free measurement.

## Equity investments and interests in associates

Equity investments and interests in associates are accounted for in accordance with the regulations applicable to assets regarding acquisition cost. If an impairment appears to be permanent, unscheduled depreciation is made. If the reasons that led to a write-down no longer exist, the write-down is reversed up to a maximum of the acquisition cost. See also the separate "Securities (excluding trading portfolio)" section for more information on the determination of the theoretical price. Standardised Group accounting and valuation principles were not applied to the associated companies if the effects on assets and earnings resulting from not carrying out any modifications were not material.

## Intangible assets and property, plant and equipment

The Baader Bank Group reports its standard computer software under intangible assets. Purchased intangible assets are measured at acquisition cost net of straight-line scheduled amortisation. If an impairment appears to be permanent, unscheduled depreciation is undertaken.

The goodwill arising from mergers and acquired order books is, in principle, written down according to the individual useful life. If an impairment appears to be permanent, unscheduled depreciation is undertaken.

Property, plant and equipment are measured at their acquisition costs less scheduled straight-line depreciation. Depreciation is calculated on a pro rata basis. Low-value assets with a value of up to EUR 250.00 (net) are recognised immediately as expenses through the income statement. In addition, low-value assets with a value of up to EUR 1,000.00 are recognised in an annual collective line item and depreciated over five years on a straight-line basis. The actual useful lives of the low-value assets combined in the collective item, or their disposals, are not taken into account.

To determine the individual useful lives, the Federal Ministry of Finance's depreciation tables for fixed assets in general use (AfA tables) are consulted and technical wear and tear is used as a reference. In individual cases and where there are economic reasons to do so, a longer useful life will be estimated.

Advance payments made on intangible assets and property, plant and equipment are recognised at their nominal amount and written down to an appropriate value where necessary.

## Other assets

Other assets are recognised at their nominal amount net of any necessary amortisation, depreciation or write-downs.

## Liabilities and provisions

Liabilities are recognised at their settlement amounts.

Pension provisions are measured using the pro rata degressive projected unit credit method, applying the average market interest rate resulting from an assumed residual maturity of 15 years (10-year average). As at the reporting date, the Deutsche Bundesbank (the German central bank) had set this interest rate at 3.21%. The comparative interest rate used for the required disclosures in the notes to the annual financial statements (7-year average) is 2.32% and is also set by the Deutsche Bundesbank.

Assets used exclusively for meeting pension obligations are settled at this rate in accordance with Section 246 (2) sentence 2 HGB.

Other provisions are measured at their required settlement amount arising in compliance with Section 253 (1) HGB in accordance with the principles of prudent commercial judgement. If the expected remaining term of a provision is more than one year, the provision is discounted using the interest rate published by the Deutsche Bundesbank for the respective remaining term.

## Fund for general banking risks

The fund for general banking risks includes amounts required to secure against general banking risks, in accordance with prudent commercial judgement. Independently of this, separate allocations are also made to the fund out of trading portfolio net income pursuant to Section 340e (4) HGB.

## Deferred taxes

Where differences arise between the carrying amounts of assets, liabilities and deferred items under commercial law and their values under tax law, and where these differences are expected to be reversed in future fiscal years, a deferred tax liability must be recognised on the balance sheet if such differences result in a net tax expense. If these differences result in net tax income, a deferred tax asset may be recognised.

In accordance with the option under Section 274 (1) Sentence 2 HGB, the resulting asset surplus is not recognised on the balance sheet.

## Acquisition of treasury shares

The nominal value of treasury shares acquired is shown as a deduction in the first column as a separate line item to subscribed capital. The difference between the imputed value and the acquisition cost of treasury shares is offset against freely available reserves (retained earnings) in equity, without impacting the income statement.

If the Treasury shares are sold again, they are not deducted in the first column. Any difference exceeding the imputed value arising from the disposal proceeds is transferred to the respective reserve up to the amount offset against freely available reserves. Any further difference is allocated to the capital reserve, while any loss arising on sale is charged to retained earnings.

## Currency translation

The treatment of gains or losses from foreign currency translation depends on whether the foreign currency transactions are allocated to the trading portfolio or covered specifically. There was no specific cover as at the reporting date. If the gains or losses are allocated to the trading portfolio, both the expenses and the income from the foreign currency translation are recognised through the income statement and shown under net trading income. However, for foreign currency items with a remaining term of more than one year, only the expenses from the foreign currency translation are taken into account through the income statement in accordance with the imparity principle and recognised under other operating expenses. For foreign currency items with a remaining term of up to one year, gross expenses and income are recognised under other operating result.

The asset and liability items for balances in foreign currencies are translated into euros at the mean spot exchange rate on the reporting date, with the exception of equity which is translated into euros at the historical rate.

## Net interest

Negative interest from the lending business is included in interest income. Interest income includes the interest income realised during the course of the fiscal year, reduced by negative interest. Accordingly, negative interest from deposit-taking transactions reduces the interest expense accordingly.

## III. Changes in accounting policies

There were no changes in accounting policies in the 2018 fiscal year.

## IV. Group of consolidated companies

The consolidated financial statements as at 31 December 2018 include Baader Bank AG as the parent company and a total of seven subsidiaries (previous year: eight subsidiaries) (Baader Bank Group). Baader Bank AG directly or indirectly holds more than 50% of the shares in these subsidiaries or exercises control over them. Three of these companies are based in Germany, and four are headquartered abroad.

The following fully consolidated companies were included in the consolidated financial statements as at 31 December 2018:

| Name/registered office   | Share of capital<br>% | Share capital<br>EUR'000 | Equity<br>EUR'000 | Total assets<br>EUR'000 | Net profit/<br>loss for the<br>year<br>EUR'000 | First-time<br>consolidation |
|--|-----------------------|--------------------------|-------------------|-------------------------|--|-----------------------------|
| Baader Helvea AG, Zurich (Switzerland) <sup>2</sup>                    | 100.00                | 4,967                    | 8,286             | 10,918                  | 502  | 31 August 2013              |
| Baader Helvea Inc., New York (United States of America) <sup>1,3</sup> | 100.00                | 1,597                    | 2,653             | 2,874                   | -920   | 31 August 2013              |
| Baader Helvea Ltd., London (United Kingdom) <sup>1,4</sup>             | 100.00                | 943                      | 509               | 803                     | -220   | 31 August 2013              |
| Baader & Heins Capital Management AG, Unterschleissheim                | 75.00                 | 50                       | 3,376             | 5,635                   | 1,118  | 01 January 2005             |
| Conservative Concept Portfolio Management AG, Frankfurt am Main        | 66.07                 | 140                      | 2,331             | 2,524                   | 11   | 01 October 2006             |
| Selan Holding GmbH, Unterschleissheim                                  | 100.00                | 25                       | 8,510             | 8,510                   | -3   | 01 January 2017             |
| Selan d.o.o., Senj (Croatia) <sup>5,6</sup>                            | 100.00                | 2,138                    | 9,157             | 48,494                  | 4,100  | 01 January 2017             |

<sup>1</sup> Indirect holding via the investment in Baader Helvea AG, Zurich. | <sup>2</sup> The figures for the fiscal year as at 31 December 2018 have been translated (EUR/CHF 1.12690). | <sup>3</sup> The figures for the fiscal year as at 31 December 2018 have been translated (EUR/USD 1.14500). | <sup>4</sup> The figures for the fiscal year as at 31 December 2018 have been translated (EUR/GBP 0.89453). | <sup>5</sup> Indirect holding via the investment in Selan Holding GmbH, Unterschleissheim. | <sup>6</sup> The figures for the fiscal year as at 31 December 2018 have been translated (EUR/HRK 7.41250).

There were changes in the scope of consolidation in the past fiscal year due to the sale of shares in **SKALIS Asset Management AG, Unterschleissheim, Germany**. Until the date of the sale, Baader Bank AG held an indirect interest in the company via **Baader & Heins Capital Management AG, Unterschleissheim**. In the course of the sale, all assets and liabilities were transferred to the new majority shareholder. In compliance with Section 294 (2) HGB, due to the low level of importance, there were no material changes that would affect the comparability of the net assets, financial position and results of operations of the consolidated financial statements in consecutive fiscal years.

In **Baader Unterstützungskasse e.V., Unterschleissheim**, Baader Bank AG maintains a special purpose vehicle within the meaning of Section 290 (2) number 4 HGB for which there is, in principle, an obligation to include same in the consolidated financial statements. However, due to immateriality it was not consolidated on 31 December 2018, as permitted by Section 296 (2) Sentence 1 HGB.

The following associated companies were included in the consolidated financial statements:

| Name/registered office                                      | Share of capital | Carrying amount of the investments | Equity              | Total assets        | Net profit/loss for the year | Market value of the investments |
|---|------------------|------------------------------------|---------------------|---------------------|------------------------------|---------------------------------|
|   | %                | EUR'000                            | EUR'000             | EUR'000             | EUR'000                      | EUR'000                         |
| <b>Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)</b> | 30.00            | 3,728                              | 13,624 <sup>1</sup> | 21,173 <sup>1</sup> | 25 <sup>1</sup>              | n/a <sup>3</sup>                |
| <b>Ophirum ETP GmbH, Frankfurt am Main</b>                  | 50.00            | 96                                 | 191 <sup>2</sup>    | 192 <sup>2</sup>    | -58 <sup>2</sup>             | n/a <sup>3</sup>                |

<sup>1</sup> Figures based on the unaudited annual financial statements as at 31 December 2018. Equity, total assets and net profit for the fiscal year have been translated (EUR/OMR 0.44140). | <sup>2</sup> Figures based on the preliminary annual financial statements for the period ending 31 December 2018. | <sup>3</sup> No published market price available as at 31 December 2018.

Baader Bank AG continues to hold 50% of the shares in **Ophirum ETP GmbH, Frankfurt am Main** as of the reporting date. Taking into account the continuation of the investment in the amount of the pro rata result, the carrying amount as of the reporting date was EUR 96 thousand (previous year: EUR 128 thousand).

As at 31 December 2018, Baader Bank AG continues to hold 21.93% of the shares in **Parsoli Corporation Ltd., Mumbai (India)**. The departure of Baader Bank AG's representatives from Parsoli Corporation Ltd's Executive Board in the 2009 fiscal year means that Baader Bank AG can no longer be presumed to exert significant influence over the company. The holding is therefore recognised under the item equity investments, with a notional residual value of EUR 1.00.

## V. Consolidation methods

The consolidated financial statements include financial information about the parent company, Baader Bank AG, and the subsidiaries and present the individual Group companies as a single economic entity (Baader Bank Group).

## Subsidiaries

The subsidiaries of the Baader Bank Group are the entities which it controls. The Baader Bank Group has a controlling influence on the subsidiaries if it can determine their financial and business policies. This is generally assumed if the Baader Bank Group holds a direct or indirect equity interest in more than half of the voting rights in the company. The existence of potential voting rights which are currently exercisable or convertible is taken into account when assessing whether the Group controls another company. As at the reporting date there were no potential voting rights.

Subsidiaries are fully consolidated from the time at which the Baader Bank Group acquires a controlling influence. The consolidation ends at the time when the controlling influence no longer exists.

The Baader Bank Group reviews previous consolidation decisions to ensure that they are still appropriate at least at the end of every financial year. Likewise, any organisational changes are taken into account immediately. Besides changes in ownership, these also include any changes to the Group's existing contractual obligations and any new obligations entered into with an entity.

The financial statements of the subsidiaries consolidated in the Baader Bank Group are prepared according to uniform accounting policies.

Subsidiaries are generally fully consolidated in accordance with the principles set out in Sections 300 et seq. HGB.

Article 66 (3) Sentence 4 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) provides for the option of using the carrying amount method for the capital consolidation of subsidiaries (acquired before 31 December 2009), depending on the method of acquisition. In addition, pursuant to Section 301 (1) HGB it is mandatory to use the revaluation method for acquisitions from 1 January 2010.

The Baader Bank Group makes use of this option and continues to use the carrying amount method for all subsidiaries acquired up to 31 December 2008. The revaluation method is used for subsidiaries acquired from 1 January 2009.

### **Carrying amount method**

Consolidation is based on the carrying amounts reported in the individual financial statements. The proportion of equity attributable to the consolidated subsidiary is offset against the carrying amount of the investment that the Group companies hold in the subsidiary. Information about the determination of the carrying amount of equity investments is presented in the separate “Equity investments” section.

The difference between the proportional equity and the carrying amount of the investments is allocated to the hidden reserves and charges attributable to the subsidiary's assets and liabilities in proportion to the interest held. The remaining difference represents goodwill or negative goodwill. The goodwill resulting from this process was offset against retained earnings in accordance with Section 309 (1) Sentence 3 HGB (old).

### **Revaluation method**

At the time of acquisition, the net assets of the subsidiary are revalued at fair value. In addition to calculating the fair value of assets and liabilities that have already been recognised on the balance sheet, assets and liabilities that have not yet been recognised are also recorded. The revaluation of the assets and liabilities results in a revaluation of equity. The portion of equity attributable to the Group companies is offset against the acquisition cost and the difference represents goodwill or negative goodwill.

The writing down of goodwill takes place principally in accordance with the individual useful life.

If the Group acquires a controlling influence by gradually increasing its ownership interest, goodwill or negative goodwill is calculated at the time of each additional acquisition.

If a subsidiary is consolidated for the first time as at 1 January of each fiscal year, the items in the subsidiary's income statement are fully incorporated into the consolidated income statement. If a subsidiary is consolidated for the first time during the course of the year, the items are incorporated on a pro rata basis.

Baader Bank AG essentially recognises at acquisition cost any interests in subsidiaries not included in the consolidated financial statements due to limited options for exercising rights or for reasons of materiality (Section 296 (1) and (2) HGB). Refer also to the “Equity investments” section for more information.

## **Associates**

An associate is a company over which the Group exercises significant influence, but does not exert a controlling influence over decisions concerning financial and operational policy. As a rule, significant influence is presumed if the Group holds between 20% and 50% of the voting rights. In assessing whether the Group has the ability to exercise significant influence over another company, the existence and the effect of potential voting rights that are currently exercisable or convertible are taken into account.

As at the reporting date there were no potential voting rights.

Examples of other factors used in assessing significant influence include representation on the management and supervisory boards of the company in which the investment is held, and significant transactions with the company. The presence of such factors could indicate the existence of an associate even if the Group's interest involves less than 20% of the voting rights.

In accordance with Section 311 (1) HGB, interests in associates are recognised for first-time adoption at acquisition cost using the equity method. Profits and losses in subsequent years and other changes in the net assets of the associate concerned increase or decrease the acquisition cost (“equity value”).

The Group reviews the equity value for indications of impairment at least once a year, at the end of each financial year. If the “equity value” exceeds the fair value, unscheduled amortisation is undertaken. If the reason for the unscheduled amortisation ceases to exist, the write-down is reversed.

The writing down of goodwill takes place principally in accordance with the individual useful life. Any negative goodwill is immediately released through the income statement.



Results from transactions between Group companies and associates are eliminated, where appropriate, in line with the investment holding.

If the Group disposes in whole or in part of its interests in an associated company, the gain or loss on disposal is determined by offsetting the disposal proceeds realised against the equity value attributable to the outgoing interest. If the Group loses significant influence over an associate but there is no change in the equity interest held by the Group, the equity value is amortised using the acquisition cost method.

The Group's interests in associated companies remained unchanged in the 2018 fiscal year. In addition, the Group continued to have significant influence over its associates as at 31 December 2018.

## VI. Notes to the balance sheet

### Foreign currency holdings

As at the reporting date, assets in foreign currency amounted to (translated) EUR 118,475 thousand (previous year: EUR 114,750 thousand). Liabilities denominated in foreign currency totalled EUR 91,375 thousand (previous year: EUR 88,800 thousand). This involved the following balance sheet items:

| Currency | Loans and advances<br>(clients and banks) | Securities,<br>equity investments<br>and associates | Other assets  | Payables<br>(clients and banks) | Other liabilities |
|----------|---|---|---------------|---------------------------------|-------------------|
|          | EUR'000                                   | EUR'000   | EUR'000       | EUR'000                         | EUR'000           |
| AUD      | 68  | 0   | 0             | 59                              | 7                 |
| BRL      | 1   | 0   | 0             | 0                               | 0                 |
| CAD      | 18  | 213   | 0             | 218                             | 3                 |
| CHF      | 7,540                                     | 0   | 370           | 3,074                           | 621               |
| DKK      | 6   | 0   | 0             | 1                               | 0                 |
| GBP      | 1,106                                     | 280   | 245           | 875                             | 425               |
| HKD      | 92  | 0   | 0             | 102                             | 8                 |
| HRK      | 5,248                                     | 0   | 43,243        | 30,647                          | 1,479             |
| INR      | 17  | 0   | 0             | 0                               | 0                 |
| JPY      | 2,541                                     | 0   | 0             | 2,528                           | 16                |
| MXN      | 3   | 0   | 0             | 3                               | 0                 |
| MYR      | 2   | 0   | 0             | 0                               | 0                 |
| NOK      | 44  | 302   | 0             | 345                             | 0                 |
| NZD      | 122                                       | 0   | 11            | 134                             | 0                 |
| OMR      | 74  | 3,728   | 0             | 90                              | 0                 |
| PLN      | 1   | 0   | 0             | 0                               | 0                 |
| SEK      | 60  | 0   | 0             | 58                              | 0                 |
| SGD      | 1   | 0   | 0             | 0                               | 0                 |
| USD      | 41,530                                    | 10,900  | 504           | 50,018                          | 459               |
| ZAR      | 0   | 205   | 0             | 205                             | 0                 |
|          | <b>58,474</b>                             | <b>15,628</b>                                       | <b>44,373</b> | <b>88,357</b>                   | <b>3,018</b>      |

Foreign currency translation resulted in expenses amounting to EUR 565 thousand (previous year: EUR 87 thousand) which are recognised under other operating expenses, and income in the amount of EUR 1,154 thousand (previous year: EUR 346 thousand) recognised under other operating income. The expenses arising from foreign currency translation relating to the trading portfolio amounted to EUR 89 thousand (previous year: EUR 70 thousand) and are recognised under net income from the trading portfolio.

### Loans and advances to banks

Loans and advances to banks comprise bank balances due on demand in the amount of EUR 83,216 thousand (previous year: EUR 60,122 thousand) as well as loans and advances due on demand and other loans and advances in the amount of EUR 15,980 thousand (previous year: EUR 30,129 thousand).

### Loans and advances to clients

Loans and advances to clients amount to EUR 26,780 thousand (previous year: EUR 31,555 thousand).

## Debt securities and other fixed-income securities

Debt securities and other fixed-income securities totalled EUR 192,276 thousand.

| EUR'000  | 31/12/2018     | 31/12/2017     |
|--|----------------|----------------|
| Bonds and debt securities                                | 189,569        | 222,730        |
| Accrued interest   | 2,707          | 3,000          |
| <b>Debt securities and other fixed-income securities</b> | <b>192,276</b> | <b>225,730</b> |

In the coming year, bonds and debt securities totalling EUR 30,528 thousand will fall due.

## Equities and other variable-income securities

As at 31 December 2018, Baader Bank AG recognises a class allocated to the category "assets treated as fixed assets" under equities and other variable-income securities. A market price on an active market was not available as at 31 December 2018. Baader Bank AG determined the fair value pursuant to Section 255 (4) HGB using a DCF model and calculated unplanned depreciation of EUR 1,160 thousand on the book value as at 31 December 2017 (EUR 11,237 thousand) on the basis impairment that appears to be permanent.

## Breakdown of residual maturities

The maturities of the loans and advances and liabilities reported in the balance sheet are as follows:

| EUR'000  | Up to 3 months | More than 3 months up to 1 year | More than 1 year up to 5 years | More than 5 years |
|--|----------------|---------------------------------|--------------------------------|-------------------|
| Other loans and advances to banks                            | 1,176          | 271                             | 0                              | 8,000             |
| Loans and advances to clients                                | 25,779         | 533                             | 346                            | 122               |
| Bank loans and advances with an agreed term or notice period | 20,321         | 15,057                          | 22,030                         | 12,516            |
| Payables to clients with an agreed term or notice period     | 11,087         | 13,869                          | 88,352                         | 40,000            |

| EUR'000   | Cost of acquisition or production |              |                 |           |                                       |               |
|---|-----------------------------------|--------------|-----------------|-----------|---------------------------------------|---------------|
|   | As at 01/01/2018                  | Additions    | Pro rata result | Transfers | Changes in the scope of consolidation | Disposals     |
| <b>Intangible assets</b>  | <b>102,245</b>                    | <b>1,350</b> | <b>0</b>        | <b>0</b>  | <b>-85</b>                            | <b>0</b>      |
| Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration | 68,559                            | 1,304        | 0               | 0         | -85                                   | 0             |
| Goodwill  | 33,411                            | 0            | 0               | 0         | 0                                     | 0             |
| Advance payments for intangible assets  | 275                               | 46           | 0               | 0         | 0                                     | 0             |
| <b>Property, plant and equipment</b>  | <b>135,194</b>                    | <b>1,332</b> | <b>0</b>        | <b>0</b>  | <b>-79</b>                            | <b>-241</b>   |
| Land and buildings  | 56,501                            | 337          | 0               | 0         | 0                                     | 0             |
| Furniture and office equipment  | 76,764                            | 974          | 0               | 0         | -79                                   | -241          |
| Advance payments for property, plant and equipment and assets under construction  | 1,929                             | 21           | 0               | 0         | 0                                     | 0             |
| <b>Financial assets</b>   | <b>26,494</b>                     | <b>3,959</b> | <b>-34</b>      | <b>0</b>  | <b>0</b>                              | <b>-1,512</b> |
| Equity investments  | 2,449                             | 3,959        | 0               | 0         | 0                                     | 0             |
| Associates  | 7,502                             | 0            | -34             | 0         | 0                                     | 0             |
| Securities held as fixed assets   | 16,543                            | 0            | 0               | 0         | 0                                     | -1,512        |

## Breakdown of marketable securities by listed and unlisted securities:

| EUR'000                                       | Non marketable securities | Marketable securities |          | Marketable securities not measured at the lower of cost or market value |
|---|---------------------------|-----------------------|----------|---|
|   |                           | Listed                | Unlisted |   |
| Bonds and debt securities                     | 0                         | 192,276               | 0        | 0   |
| Equities and other variable-income securities | 0                         | 15,068                | 374      | 0   |
| Investments in associates                     | 3,824                     | 0                     | 0        | 0   |
| Equity investments                            | 3                         | 0                     | 4,159    | 0   |

## Fixed assets

The recognised goodwill arising from the merger between DBM Deutsche Börsenmakler GmbH and Baader Service Bank GmbH is written down on a straight-line basis over 10 years. Taking into account the actual benefit of the client business acquired and transferred to Baader Bank AG due to the merger, as well as due to the actual useful lives of the goodwill acquired in the past, it is clear that a useful life of 5 years is entirely insufficient. The same applies to capitalised goodwill resulting from the takeover of *Helvea Holding SA, Geneva* (merger into *Baader Helvea AG, Zurich*). The assumed remaining useful life of the wind turbines operated by *Selan d.o.o., Senj* is 14 years. Taking into account Section 253 (3) Sentences 3 and 4 HGB, capitalised goodwill is also amortised over 10 years.

All the land and buildings recognised in the schedule of fixed assets are used by the Baader Bank Group in the context of its activities. No intangible assets produced in-house were recognised. The movements in and composition of fixed assets are shown in the following schedule of fixed assets:

| Depreciation and amortisation |               |                    |                                       |                  |                  | Carrying amount  |  |
|-------------------------------|---------------|--------------------|---------------------------------------|------------------|------------------|------------------|--|
| As at 01/01/2018              | of which 2018 | of which disposals | Changes in the scope of consolidation | As at 31/12/2018 | As at 31/12/2018 | As at 31/12/2017 |  |
| -80,953                       | -5,028        | 0                  | 67                                    | -85,914          | 17,596           | 21,292           |  |
| -56,349                       | -3,479        | 0                  | 67                                    | -59,761          | 10,017           | 12,210           |  |
| -24,604                       | -1,549        | 0                  | 0                                     | -26,153          | 7,258            | 8,807            |  |
| 0                             | 0             | 0                  | 0                                     | 0                | 321              | 275              |  |
| -48,887                       | -5,888        | 211                | 66                                    | -54,498          | 81,708           | 86,307           |  |
| -18,267                       | -1,950        | 0                  | 0                                     | -20,217          | 36,621           | 38,234           |  |
| -30,620                       | -3,938        | 211                | 66                                    | -34,281          | 43,137           | 46,144           |  |
| 0                             | 0             | 0                  | 0                                     | 0                | 1,950            | 1,929            |  |
| -8,633                        | -1,191        | 0                  | 0                                     | -9,824           | 19,083           | 17,861           |  |
| -2,215                        | -31           | 0                  | 0                                     | -2,246           | 4,162            | 234              |  |
| -3,644                        | 0             | 0                  | 0                                     | -3,644           | 3,824            | 3,858            |  |
| -2,774                        | -1,160        | 0                  | 0                                     | -3,934           | 11,097           | 13,769           |  |

## Other assets

Other assets include:

| EUR'000   | 31/12/2018   | 31/12/2017   |
|---|--------------|--------------|
| Other tax receivables   | 1,495        | 2,633        |
| Other trade receivables   | 722          | 64           |
| Receivables from brokerage fees, exchange rate differences and transaction fees | 95           | 107          |
| Reinsurance claims from life insurance policies                                 | 50           | 47           |
| <b>Other assets</b>   | <b>2,362</b> | <b>2,851</b> |

## Prepaid expenses and deferred charges

Prepaid expenses and deferred charges relate to an amount of EUR 41 thousand (previous year: EUR 52 thousand) in differences from the issue of promissory note loans recognised on the assets side pursuant to Section 250 (3) HGB. This difference is released pro rata over the remaining term on a straight-line basis.

## Bank loans and advances

Bank loans and advances are primarily used to finance the office building in Unterschleissheim and to refinance the securities trading business.

## Payables to clients

As at the reporting date, client deposits due on demand amounted to EUR 333,847 thousand (previous year: EUR 349,368 thousand) and payables to clients with an agreed term or notice period amounted to EUR 153,308 thousand (previous year: EUR 161,433 thousand) which were primarily attributed to promissory note loans issued.

## Other liabilities

Other liabilities include:

| EUR'000                                  | 31/12/2018    | 31/12/2017   |
|--|---------------|--------------|
| Liabilities from capital market services | 6,455         | 0            |
| Trade payables                           | 4,412         | 4,553        |
| Tax liabilities                          | 1,494         | 1,467        |
| Other liabilities                        | 1,229         | 921          |
| <b>Other liabilities</b>                 | <b>13,590</b> | <b>6,941</b> |

## Pension provisions

As at 31 December 2018, pension provisions amounted to EUR 16,172 thousand (previous year: EUR 15,122 thousand) and are determined using the procedure described in the "Liabilities and provisions" section. For the reinsurance of liabilities, bank accounts, securities deposits and reinsurance policies are available.

The actuarial calculations are based on the following parameters:

|                         | 31/12/2018     | 31/12/2017     |
|-------------------------|----------------|----------------|
| Actuarial interest rate | 3.21%          | 3.68%          |
| Changes in salaries     | 2.00% to 3.00% | 2.00% to 3.00% |
| Pension adjustments     | 1.80% to 2.00% | 1.80% to 2.00% |

In compliance with Section 253 (6) HGB, a difference of EUR 1,080 thousand arises between the recognition of provisions using the relevant average market interest rate from the past ten fiscal years and the recognition of the provision using the relevant average market interest rate of the past seven fiscal years.

In addition, the Klaus Heubeck "Richttafeln 2018 G" (mortality) tables were used as the basis for the calculations in both the commercial financial statements and the statements used for tax purposes as at 31 December 2018.

## Plan assets

| EUR'000            | 31/12/2018 | 31/12/2017 |
|--------------------|------------|------------|
| Acquisition cost   | 21,268     | 20,139     |
| Fair value         | 21,710     | 20,788     |
| Offset liabilities | 14,208     | 13,385     |

Bank deposits, reinsurance policies and securities accounts qualifying as plan assets are netted against the pension obligations. In addition, an excess of plan assets over pension liabilities totalling EUR 7,502 thousand is reported within assets (previous year: EUR 7,403 thousand). On a net basis, this results in a balance sheet recognition of pension provisions in the amount of EUR 1,964 thousand (previous year: EUR 1,738 thousand). Income and expenses from the offset assets are recognised in the net amount of EUR 52 thousand under "other operating income" in compliance with Section 246 (2) HGB. Income in the amount of EUR 816 thousand was offset against expenses in the amount of EUR 868 thousand under application of Section 246 (2) Sentence 2 HGB.

## Other provisions

Other provisions are comprised as follows:

| EUR'000                                | 31/12/2018    | 31/12/2017   |
|--|---------------|--------------|
| Personnel provisions                   | 6,780         | 3,144        |
| Administrative and commission expenses | 2,722         | 1,766        |
| Auditing, Legal and consulting costs   | 509           | 342          |
| Other provisions                       | 519           | 595          |
| <b>Other provisions</b>                | <b>10,530</b> | <b>5,847</b> |

The increase in other provisions in the amount of EUR 3,900 thousand is predominantly attributable to additions for restructuring measures.

## Fund for general banking risks

Under Section 340e (4) HGB, banks are required to create a special "Fund for general banking risks" item in accordance with Section 340g HGB. 10% of the net income generated by the trading portfolio is to be allocated annually to this special item in order to cover the special risks arising from valuation at fair value. The special item is to be funded annually with at least 10% of the net income generated by the trading portfolio until it reaches at least 50% of the average annual net income from the trading portfolio of the last five years prior to the date of calculation (minimum level).

As in the previous year, an amount of EUR 22,120 thousand was allocated to the special item as of the reporting date.

## Trading portfolio

Assets and liabilities held for trading as at 31 December 2018 were as follows:

| Assets held for trading in EUR'000                  | 31/12/2018    | 31/12/2017    |
|---|---------------|---------------|
| Derivative financial instruments                    | 23            | 17            |
| Debt securities and other fixed-income securities   | 1,658         | 1,254         |
| Equities and other variable-income securities       | 48,504        | 55,321        |
| Risk discount                                       | -778          | -831          |
| <b>Assets held for trading on the balance sheet</b> | <b>49,407</b> | <b>55,761</b> |

| Liabilities held for trading in EUR'000                  | 31/12/2018   | 31/12/2017   |
|--|--------------|--------------|
| Derivative financial instruments                         | 48           | 50           |
| Bank loans and advances                                  | 1,755        | 2,848        |
| <b>Liabilities held for trading on the balance sheet</b> | <b>1,803</b> | <b>2,898</b> |

## Hedging instruments

In the fiscal year, derivative financial instruments (interest rate swaps) were used to hedge future cash flows (interest rate risk) from variable-interest (EURIBOR) loans. The interest rate swap is based on an underlying transaction with a comparable, opposite risk (micro hedge).

## Derivative financial instruments

As at the reporting date of 31 December 2018, Baader Bank AG held index-related derivative financial instruments in its trading portfolio. These transactions relate to options and futures.

The procedure for recognising and measuring the assets and liabilities in the trading portfolio is described in the "Trading portfolio" section. At the reporting date, all derivative financial instruments were recognised at fair value, which corresponds to their market value.

### Futures transactions

At the reporting date, outstanding futures transactions consist solely of forward exchange contracts as defined by Section 36 No. 1 RechKredV.

| Term                                | Currency | Nominal |
|-------------------------------------|----------|---------|
|                                     |          | EUR'000 |
| 28 December 2018 to 03 January 2019 | CHF      | -38     |
| 27 December 2018 to 02 January 2019 | SEK      | -2      |
| 28 December 2018 to 02 January 2019 | USD      | 42      |
| 28 December 2018 to 02 January 2019 | USD      | -57     |

The transactions shown relate solely to client-originated futures transactions as well as spot transactions not fulfilled as at the reporting date.

The chart on the next page depicts the extent and type of each category of derivative financial instruments measured at fair value (market value), including significant conditions that could influence the amount, timing and certainty of future cash flows:

## Assets held for trading

| Portfolio   | Description         | Category                  | Maturity     | Contracts (Units) | Currency | Market price | Market value | Carrying amount |
|-------------|---------------------|---------------------------|--------------|-------------------|----------|--------------|--------------|-----------------|
| Eurex FH FW | DAX® options (ODAX) | Eurex Equity Index Option | January 2019 | 10                | EUR      | 130.90       | 6,545.00     | 4.005,50        |
| Eurex FH FW | DAX® options (ODAX) | Eurex Equity Index Option | January 2019 | 10                | EUR      | 106.50       | 5,325,00     | 4.505,50        |
| Eurex FB    | DAX® options (ODAX) | Eurex Equity Index Option | January 2019 | 100               | EUR      | 22.60        | 11,300,00    | 22.605,00       |

## Liabilities held for trading

| Portfolio   | Description                          | Category                     | Maturity   | Contracts (Units) | Currency | Market price | Market value | Carrying amount |
|-------------|--------------------------------------|------------------------------|------------|-------------------|----------|--------------|--------------|-----------------|
| JPM FW FH   | E-Mini S&P 500 Stock Index Future    | Equity index futures         | March 2019 | 10                | USD      | 2,505.25     | 1,252,625.00 | 1,215,309.50    |
| JPM FW FH   | E-Mini Nasdaq 100 Stock Index Future | Equity index futures         | March 2019 | 2                 | USD      | 6,333.25     | 253,330.00   | 245,916.90      |
| Eurex FH FW | DAX® Future (FDAX)                   | Equity index futures – Eurex | March 2019 | 2                 | EUR      | 10,561.50    | 528,075.00   | 523,086.40      |
| Eurex FH FW | EURO STOXX 50® Index Future (FESX)   | Equity index futures – Eurex | March 2019 | 15                | EUR      | 2,974.00     | 446,100.00   | 442,144.75      |

## Interests in investment funds

As at 31 December 2018, the Baader Bank Group has an interest of more than 10% in the following domestic investment funds as defined by Section 1 of the German Investment Act (Investmentgesetz) or similar foreign investment interests as defined by 2 (9) of the German Investment Act:

| Instrument  | Investment objective | Volume | Market value | Carrying amount | Dividend in 2018 |
|---|----------------------|--------|--------------|-----------------|------------------|
|   |                      | Units  | EUR'000      | EUR'000         | EUR'000          |
| TRISTONE UI AK I <sup>1</sup><br>(ISIN: DE000A1XDVV2) | Hybrid fund          | 25,000 | 2,101        | 2,500           | 0                |
| TRISTONE UI AK Q <sup>1</sup><br>(ISIN: DE000A12BPJ7) | Hybrid fund          | 5,000  | 384          | 374             | 0                |
| ATHENA UI AK I <sup>1</sup><br>(ISIN: DE000A0Q2SF3)   | Derivative           | 27,113 | 2,904        | 2,891           | 0                |

<sup>1</sup> Investment fund within the meaning of the UCITS directive, pursuant to Sections 192 et. seq. of the German Investment Code (Kapitalanlagegesetzbuch – KAGB); mutual funds

The shares in the investment fund in the amount of EUR 5,389 thousand (previous year: EUR 7,854 thousand) were allocated to the liquidity reserve in the amount of EUR 4,350 thousand (previous year: EUR 5,291 thousand).

The investment fund shares can be returned daily.

## Cash flow statement of the Baader Bank Group

| Risk factors  | Cash flows   |
|---|--|
| Cash flow fluctuations arise mainly due to the change in value of the DAX index (5 euros per index point) | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |
| Cash flow fluctuations arise mainly due to the change in value of the DAX index (5 euros per index point) | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |
| Cash flow fluctuations arise mainly due to the change in value of the DAX index (5 euros per index point) | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |

| Risk factors   | Cash flows   |
|--|--|
| Cash flow fluctuations arise mainly due to the change in value of the S & P 500 index (USD 50 per index point)     | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |
| Cash flow fluctuations arise mainly due to the change in value of the Nasdaq 100 index (USD 20 per index point)    | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |
| Cash flow fluctuations arise mainly due to the change in value of the DAX index (EUR 25 per index point)           | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |
| Cash flow fluctuations arise mainly due to the change in value of the Euro Stoxx 50 index (EUR 10 per index point) | <ul style="list-style-type: none"> <li>■ Daily: difference settlement</li> <li>■ Cash settlement takes place on the first exchange trading day after the final settlement day</li> </ul> |

### Assets transferred as collateral

For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2018:

| EUR'000                        | Mortgages | Securities (liquidity reserve) | Bank deposits |
|--------------------------------|-----------|--------------------------------|---------------|
| <b>Bank loans and advances</b> | 26,200    | 0                              | 17,075        |

### Deferred taxes

Deferred taxes are determined on the differences between commercial and tax law in the recognition of pension provisions (deferred tax assets) and goodwill for tax purposes, plan assets, recognised order books and for the discounting of other provisions (deferred tax liabilities). The tax rate used is 28.47%. In accordance with the option under Section 274 (1) Sentence 2 HGB, the resulting asset surplus is not recognised on the balance sheet.

### 1. Share capital

The company's share capital amounted to EUR 45,909 thousand as at 31 December 2018. It is subdivided into 45,908,682 no par bearer shares (ordinary shares).

### 2. Authorised capital

#### a) Authorised capital 2016

The company's shareholders' meeting created authorised capital 2016 by means of the resolution dated 22 June 2016 having the following content:

The Board of Directors was authorised, with the consent of the Supervisory Board, to increase the company's share capital by up to a total of EUR 22,954 thousand by 21 June 2021 via the issue of new shares on one or more occasions in return for a cash and/or non-cash consideration (subscribed capital 2016). When using authorised capital 2016, shareholders must be granted a subscription right. The Board of Directors is authorised to exclude the shareholders' statutory subscription rights with the consent of the Supervisory Board,

- a) in order to exclude fractions from the subscription right;
- b) if the new shares are issued for cash deposits at an issue amount that does not significantly fall below (as defined by Section 186 (3) Sentence 4 AktG [German Stock Corporation Act]) the share price of the already listed shares at the time the issue price is finally determined, and if the total number of shares issued since the authorisation pursuant to Section 186 (3) Sentence 4 AktG does not exceed 10% of the share capital at the time the authorisation becomes effective or – if this value is lower – at the time the authorisation is utilised. Shares that are issued or sold under exclusion of the shareholders' subscription right during the effectiveness of this authorisation until the date the respective authorisation is exercised, in direct or corresponding application of Section 186 (3) Sentence 4 AktG must be included in this 10% threshold. Also included must be the shares that were issued or could still be issued by the company based on the convertible debt securities and/or warrants issued at the time of the respective exercise of the authorisation if the convertible debt securities and/or warrants were issued by the company or its Group companies after the effectiveness of this authorisation in direct or corresponding application of Section 186 (3) Sentence 4 AktG under exclusion of the shareholders' subscription right;
- c) in order to issue shares against non-cash contributions to acquire companies, investments in companies or company divisions or assets – including by means of share swaps – and in the event of business combinations.

The resolution to create authorised capital 2016 was submitted for entry in the commercial register on 29 August 2016. It was entered in the commercial register on 19 December 2016.

Authorised capital 2016 was not used in the reporting year.

#### **b) Other authorised capital**

There was no other authorised capital in the 2018 fiscal year.

### **3. Contingent capital**

#### **a) 2007 contingent capital**

The company's shareholders' meeting created contingent capital 2007 by means of the resolution dated 26 June 2007 having the following content:

The share capital is conditionally increased up to a nominal EUR 1,600 thousand. The contingent capital increase is only carried out through the issue of up to 1,600,000 new, no par bearer shares with a dividend entitlement from the beginning of the fiscal year of their issue and only to the extent that the holders of options that were issued in the context of the share option plan 2006 of Baader Wertpapierhandelsbank AG based on the authorisation issued on 19 July 2006 exercise their options.

#### **b) Other contingent capital**

There was no other contingent capital in the 2018 fiscal year.

### **4. Treasury shares**

#### **a) Authorisations to buy treasury shares**

The company's shareholders' meeting passed the following resolution on 1 July 2014:

- a) Pursuant to Section 71 (1) No. 7 AktG, the company is authorised until 30 June 2019 to buy and sell treasury shares for the purposes of securities trading at prices that do not exceed or fall short of the average closing price for the shares in floor trading on the Frankfurt Stock Exchange by more than 10% on the three preceding trading days. The stock of shares acquired for such purposes may not exceed 5% of the share capital of the company.

- b) Pursuant to Section 71 (1) No. 8 AktG, the company is authorised to acquire shares of the company, in particular so as to be able to

- offer them to third parties in the context of the acquisition of companies, company divisions, equity interests or assets – including by means of share swaps – and in the event of business combinations,
- offer them for subscription to those entitled under Baader Bank AG's share option plan 2006 in accordance with the authorisation of the shareholders' meeting held on 19 July 2006; or
- withdraw them.

This authorisation is limited to the acquisition of treasury shares up to a maximum of 10% of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, and in order to pursue one or more of the stated goals. The authorisation is valid until 30 June 2019.

Acquisition is via the stock exchange. The price paid by Baader Bank AG per share may not exceed the average closing price for the no par value shares of Baader Bank AG in floor trading on the Frankfurt Stock Exchange during the last 5 trading days prior to the purchase of the shares (excluding ancillary acquisition costs) by more than 5%.

With the approval of the Supervisory Board, the Board of Directors is authorised to offer treasury shares in Baader Bank AG that were acquired as a result of this authorisation to third parties in the course of the acquisition of companies, parts of companies, equity interests or assets – including by means of share swaps – and in the event of business combinations.

Subject to the agreement of the Supervisory Board, the Board of Directors is authorised to offer the company's own shares, acquired on the basis of this authorisation, for purchase by holders of options under the share option plan 2006 approved by the shareholders' meeting.

Shareholders' rights to subscribe these treasury shares are excluded to the extent such shares are used in accordance with the authorisations referred to above.

With the approval of the Supervisory Board, the Board of Directors is also authorised to withdraw treasury shares in Baader Bank AG that were acquired as a result of this authorisation, without such withdrawal or the execution thereof being subject to another resolution by the shareholders' meeting. The withdrawal authorisation may be exercised in whole or in part.



## b) Number of treasury shares

The company held 276,996 treasury shares as at 31 December 2018.

### Retained earnings

The changes to retained earnings are presented in the statement of changes in equity of the Baader Bank Group, which forms a separate component of the consolidated financial statements.

### Balance sheet profit/loss

| EUR'000   | 31/12/2018     | 31/12/2017     |
|---|----------------|----------------|
| Consolidated net profit before minority interests | -21,024        | 2,282          |
| Minority interest in net income                   | -286           | 120            |
| <b>Consolidated net income</b>                    | <b>-21,311</b> | <b>2,402</b>   |
| Parent company loss brought forward               | -11,036        | -6,642         |
| Withdrawals from retained earnings                | 3,801          | 7,000          |
| Transfers to retained earnings                    | -5,098         | -13,796        |
| <b>Consolidated net loss</b>                      | <b>-33,644</b> | <b>-11,036</b> |

The net loss for fiscal year 2018 of Baader Bank AG as the parent company amounts to EUR -22,608 thousand. If the loss brought forward from the previous years is taken into account, a balance sheet loss in the amount of EUR 33,644 thousand arises.

A proposal to bring forward the balance sheet loss to the new account is submitted to the shareholders' meeting of Baader Bank AG.

### Treasury shares

The company held 276,996 treasury shares as at 31 December 2018. The number of treasury shares held did not change during the reporting period, and represents 0.60% of share capital. The share capital held as treasury shares amounts to EUR 277 thousand.

| Balance as at 31/12/2017 | Additions (Number) | Average price (in EUR) | Disposals (Number) | Average price (in EUR) | Balance as at 31/12/2018 |
|--------------------------|--------------------|------------------------|--------------------|------------------------|--------------------------|
| 276,996                  | 0                  | 0                      | 0                  | 0                      | 276,996                  |

The average price of treasury shares held at the reporting date was EUR 2.40.

### Contingent liabilities

Contingent liabilities are a result of guarantees given to members of the Board of Directors and, as at the reporting date, amount to EUR 203 thousand (previous year: EUR 203 thousand) as well as in respect of an employee in the amount of EUR 5 thousand (previous year: EUR 5 thousand).

### Other obligations

There are irrevocable open loan commitments to clients totalling EUR 7,584 thousand (previous year: EUR 10,508 thousand).

This item includes open loan commitments to members of the Board of Directors totalling EUR 398 thousand (previous year: EUR 398 thousand), EUR 203 thousand of which has been drawn (previous year: EUR 203 thousand). There are no open loan commitments to affiliated companies (previous year: EUR 0 thousand).

## VII. Transactions not included in the balance sheet

### Disclosures pursuant to Section 314 (1) No. 2a HGB

During the course of its normal business activities, the Baader Bank Group has entered into financial commitments in addition to the liabilities shown in the balance sheet as at 31 December 2018, as shown in the following table:

|   | Remaining term | Financial obligation |
|---|----------------|----------------------|
|   | Months         | EUR'000              |
| Future payments from lease agreements for office space, usable areas and parking spaces               | 3 to 118       | 4,096                |
| Future payments from vehicle lease agreements and lease agreements for furniture and office equipment | 4 to 46        | 3,471                |
| Future payments from other service agreements   | 3 to 36        | 3,555                |

The Bank is not aware of any significant risks arising from transactions not included in the balance sheet that could have a negative impact on liquidity or the Baader Bank Group's ability to fulfil its existing obligations in the foreseeable future.

### Disclosures pursuant to Section 314 (1) No. 2 HGB

There are no other significant financial obligations that are not included in the balance sheet and that are required to be disclosed under Section 314 (1) No. 2 HGB.

## VIII. Explanations to the income statement

### Interest income and interest expenses

The item "interest income" from lending and money market transactions includes negative interest on credit balances on current accounts in the amount of EUR 711 thousand (previous year: EUR 359 thousand) as well as from term and client deposits in the amount of EUR 9 thousand (previous year: EUR 8 thousand).

Negative interest in the amount of EUR 1,068 thousand (previous year: EUR 507 thousand) resulting from client deposits and time deposits, as well as expenses in the amount of EUR 9 thousand (previous year: EUR 11 thousand) from the compounding of other provisions were recognised under the item „Interest expenses“.

### Revenue

Revenue of EUR 13,095 thousand relates in full to feed-in remuneration for electricity generated by the wind farm.

### Other operating income

Other operating income in the amount of EUR 3,005 thousand (previous year: EUR 3,458 thousand) relates to income from benefits-in-kind (company cars) (EUR 517 thousand), income from the reversal of provisions (EUR 98 thousand) and income unrelated to the accounting period in the amount of EUR 15 thousand.

Furthermore, the item includes other income in the amount of EUR 2,251 thousand in total that is primarily due to pass-through project costs mainly in the context of support for capital market services and other fee reimbursements.

The income which is unrelated to the period mainly relates to commercial agents' commissions and reimbursements from the Federal Financial Supervisory Authority.

### Other administrative expenses

The other administrative expenses of EUR 43,735 thousand include expenses for the operation and maintenance of the wind farm in the amount of EUR 2,791 thousand.

### Other operating expenses

Other operating expenses in the amount of EUR 1,650 thousand (previous year: EUR 1,200 thousand) primarily include expenses unrelated to the accounting period in the amount of EUR 561 thousand, other expenses in the amount of EUR 1,008 thousand due mainly to expenses for project costs, and offset expenses from discounting pension provisions against expenses and income from plan assets in accordance with Section 246 (2) HGB in the amount of EUR 52 thousand.

Expenses unrelated to the period primarily relate to expenses for services purchased in the previous year.

## Taxes on income

The tax expense reported in fiscal year 2018 of EUR 1,520 thousand essentially comprises income taxes for the past financial year amounting to EUR 1,442 thousand and payments of tax arrears from previous years of EUR 80 thousand.

## IX. Additional disclosures

### Controlling interests

Baader Beteiligungs GmbH, Unterschleissheim, holds a controlling interest in Baader Bank AG pursuant to Section 16 (1) AktG. A notice pursuant to Section 20 (4) AktG is available.

### Employees

In the 2018 fiscal year, the average number of staff employed was 447 (previous year: 448). Of these, 58 employees held executive positions.

### Total remuneration of the Board of Directors and Supervisory Board

The total remuneration of Board of Directors members for their activity during the fiscal year amounted to EUR 1,835 thousand.

The total remuneration of the Supervisory Board members for their activity during the fiscal year amounted to EUR 218 thousand.

### Audit fees

The following information relates to the total fees of PricewaterhouseCoopers GmbH WPG for services provided to Baader Bank AG and its fully consolidated German subsidiaries.

The fees for fiscal year 2018 can be broken down as follows:

| EUR'000                      | 2018       | 2017       |
|------------------------------|------------|------------|
| Annual audit                 | 534        | 527        |
| Other certification services | 202        | 75         |
| Tax consulting services      | 11         | 38         |
| Other services               | 0          | 55         |
| <b>Total fees</b>            | <b>747</b> | <b>695</b> |

The services provided by the auditor in addition to the audit essentially comprise the audit in accordance with Section 36 (1) Sentence 1 WpHG (German Securities Trading Act) and custody account audit, project-related support services within the framework of MiFID II and tax consultancy services.

## Executive bodies of the Baader Bank Group

### Board of Directors

Mr Nico Baader, Gräfelfing (Chairman)

Occupation: Banker

Responsible for: Group Strategy & Communication, Executive Committee for Market Making, Legal & Corporate Finance Execution, Capital Market Analysis, Market Making Equities Stuttgart, Market Making Equities Frankfurt/Berlin/Munich/OTC/Funds/ETF/ATF, Market Making Securitised Derivatives, Market Making Bonds, Treasury, Information Technologies

Mr Dieter Brichmann, Penzberg (Deputy Chairman)

Occupation: Dipl. Kaufmann (Business Administrator)

Responsible for: Risk Management & Regulatory Reporting, Compliance/Anti-Money Laundering, Internal Audit, Data Protection, Lending, Accounting & Corporate Taxes/Controlling, Business Organisation/ Human Resources, Information Security, Back Office, Outsourcing

Mr Christian Bacherl, Baldham (until 31 January 2019)

Occupation: Dipl. Betriebswirt [Business Economist]; B.Sc. (Computer Sciences) (JMU)

Responsible for: Capital Markets, Equity Strategy, Equity Research, Publications Office

Mr Oliver Riedel, Lauf

Occupation: Banker

Responsible for: Equities & Derivatives Sales, Sales Trading / Execution, Designated Sponsoring / Trading, Product Management / Asset Management & Services, Middle-Office Client Service Group, Roadshows & Events Business Management

### Supervisory Board

Dr Horst Schiessl, Munich  
(Chairman)

Partner at legal firm, SSP Schiessl Rechtsanwälte –  
Partnergengesellschaft

Mr Helmut Schreyer, Munich  
(Deputy Chairman since 25 June 2018)

Former general partner at Hauck & Aufhäuser  
Privatbankiers KGaA

Prof Dr Georg Heni, Freudenstadt  
(since 25 June 2018)

Managing Partner of Wirtschaftstreuhand GmbH,  
Public Auditors

Mr Nils Niermann, Lauingen  
(since 25 June 2018)

Chairman of the Board of Directors  
of Sparkasse Neuburg-Rain

Dr Christoph Niemann, Meerbusch  
(Deputy Chairman until 25 June 2018)

Former general partner  
at HSBC Trinkaus & Burkhardt KGaA

Mr Karl-Ludwig Kamprath, Munich  
(until 25 June 2018)

Former Chairman of the Executive Board  
at Kreissparkasse München Starnberg Ebersberg

Mr Ali Cavli, Frankfurt am Main  
(employee representative since 25 June 2018)

Securities trader in the Market Making Funds  
department of Baader Bank AG

Mr Thomas Leidel, Bruckmühl  
(employee representative since 25 June 2018)

Head of Data & Risk Management of Baader Bank AG

Ms Theresia Weber, Emmering  
(employee representative until 25 June 2018)

Bank employee in the Clearing & Settlement  
department of Baader Bank AG

## Appointments pursuant to Section 340a (4) No. 1 HGB

As at 31 December 2018, appointments were held on statutory supervisory committees of large incorporated companies. These and other noteworthy appointments are listed below:

| Appointee                | Company/institution in which appointment held  | Appointment                                  |
|--------------------------|--|--|
| Mr Nico Baader           | Baader & Heins Capital Management AG, Unterschleissheim                                | Deputy Chairman of the Supervisory Board     |
|                          | Conservative Concept Portfolio Management AG, Frankfurt am Main                        | Member of the Supervisory Board              |
| Mr Dieter Brichmann      | Baader & Heins Capital Management AG, Unterschleissheim                                | Chairman of the Supervisory Board            |
|                          | Conservative Concept Portfolio Management AG, Frankfurt am Main                        | Chairman of the Supervisory Board            |
|                          | SKALIS Asset Management AG, Unterschleissheim (until 30 September 2018)                | Deputy Chairman of the Supervisory Board     |
|                          | Ophirum ETP GmbH, Frankfurt am Main (until 26 April 2018)                              | Chairman of the Audit Committee              |
| Mr Christian Bacherl     | Baader Helvea AG, Zürich (Switzerland)   | Member of the Managing Board                 |
|                          | Baader & Heins Capital Management AG, Unterschleissheim (until 11 February )           | Member of the Supervisory Board              |
| Mr Oliver Riedel         | Baader Helvea AG, Zürich (Switzerland)   | Chairman of the Managing Board               |
|                          | Baader Helvea Limited, London (UK)   | Member of the Supervisory Board of Directors |
|                          | Baader Helvea Inc., New York (USA)   | Member of the Supervisory Board of Directors |
|                          | Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)                                   | Member of the Board of Directors             |
| Mr Florian Schopf        | Baader & Heins Capital Management AG, Unterschleissheim (from 11 February 2019)        | Member of the Supervisory Board              |
|                          | Conservative Concept Portfolio Management AG, Frankfurt am Main (from 1 February 2019) | Member of the Supervisory Board              |
| Mr Lukas Burkart         | Baader Helvea Limited, London (UK)   | Member of the Supervisory Board of Directors |
| Mr Sebastian Niedermayer | Baader Helvea Inc., New York (USA)   | Member of the Supervisory Board of Directors |

## X. List of Baader Bank Group shareholdings

The Baader Bank Group directly holds more than 5% of the shares in the following companies, which were not included as subsidiaries or associates as at 31 December 2018:

| Name / registered office                                 | Share of capital<br>% | Last interim/<br>annual financial<br>statements              | Equity (Total)<br>EUR'000 | Net profit/loss for the<br>year<br>EUR'000 |
|--|-----------------------|--|---------------------------|--|
| Vjetropark Vrataruša d.o.o., Senj (Croatia) <sup>1</sup> | 100.00                | 31 December 2018   | 0                         | 4  |
| Parsoli Corporation Ltd., Mumbai (India)                 | 21.93                 | <i>No current data are available as at 31 December 2018.</i> |                           |  |
| Trading Systems Portfolio Management AG, Bad Homburg     | 9.64                  | 31 December 2017   | 1,077                     | 299  |
| Earlybird DWES Fund VI GmbH & Co. KG <sup>2</sup>        | 6.45                  | 31 December 2018   | 60,023                    | 3,170                                      |

<sup>1</sup> Equity and the net profit for the fiscal year as at 31 December 2018 have been translated (EUR/HRK 7.41250).

<sup>2</sup> Equity and the net profit for the fiscal year were disclosed on the basis of unaudited annual financial statements as at 30 December 2018.

Unterschleissheim, 20 March 2019

Baader Bank AG  
Board of Directors



Nico Baader



Dieter Brichmann



Oliver Riedel

# Independent Auditor's Report

To Baader Bank Aktiengesellschaft, Unterschleissheim

## Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

### Audit Opinions

We have audited the consolidated financial statements of Baader Bank Aktiengesellschaft, Unterschleissheim and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the group management report of Baader Bank Aktiengesellschaft, which is combined with the Company's management report,] for the financial year from January 1 to December 31, 2018. We have not audited the content of the group statement on corporate governance pursuant to § 289f HGB and § 315d HGB in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the group statement on corporate governance referred to above.

Pursuant to § 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

#### I. Impairment of Goodwill

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matter[s]:

## I. Impairment of Goodwill

1. 7.3 million (1.0% of total assets or 9.3% of equity) from the consolidation of subsidiaries are reported under the balance sheet item „Intangible assets“ in the consolidated financial statements of Baader Bank. Goodwill is amortized on a straightline basis over its expected useful life. If there are objective indications of a probable permanent impairment and this cannot be disproved, the recoverability of the goodwill is reviewed and, if necessary, an impairment loss is recognized and the carrying amount reduced. The amount of the extraordinary amortization requirement is determined by comparing the carrying amount of goodwill with its fair value. To simplify matters, the fair value of the investment is determined by comparing the fair value of the investment with the sum of the consolidated carrying amount of the net assets of the subsidiary and the residual carrying amount of the goodwill of the subsidiary. Since no market price can be used, the fair value of the investments is determined on the basis of a company valuation model. The valuation is regularly based on the present value of expected future cash flows, which is determined using discounted cash flow models. The planning calculations prepared by the legal representatives of the associated companies form the starting point, which are extrapolated using assumptions about long-term growth rates. Expectations about future market developments and assumptions about the development of macroeconomic factors are also taken into account. Discounting is based on the weighted average cost of capital of a comparable alternative investment. As a result of the impairment test, no need for impairment was identified. The execution and result of this valuation are highly dependent on the assessment of the legal representatives with regard to the indications of a probable permanent impairment, the expected future cash flows of the respective subsidiaries, the discount rate applied, the growth rate and other assumptions and are therefore subject to considerable uncertainty. Against this background and due to the complexity of the valuation, this matter was of particular importance in the context of our audit.
2. Our audit included, among other things, a review of the methods used to assess the recoverability of goodwill. We also assessed whether there was any indication of impairment by, among other things, interviewing employees of the Company and reviewing the financial statements of subsidiaries and other documents. With regard to determining the fair value, after comparing the expected future cash flows used in the calculation with the Group's approved medium-term planning, we assessed the appropriateness of the calculation, in particular by reconciling the planning assumptions with general and industry-specific market expectations. With the knowledge that even relatively small changes in the discount rate used can have significant effects on the amount of the enterprise value determined in this way, we have intensively dealt with the parameters used to determine the discount rate used and have followed the calculation

scheme. We have conducted our own sensitivity analyses in order to take account of the existing forecast uncertainties. We have determined that the consolidated carrying amount of the net assets plus the residual carrying amount of the goodwill of the subsidiaries are sufficiently covered by the discounted expected future cash flows, taking into account the available information. The estimates made by the legal representatives as well as the valuation parameters and assumptions used are generally in line with our expectations and lie within what we believe to be reasonable ranges.

3. The Company's disclosures on goodwill are contained in the „Fixed assets“ section of the notes to the consolidated balance sheet.

## Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB, which we obtained prior to the date of our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles. In addition the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 25, 2018. We were engaged by the supervisory board on November 7, 2018. We have been the group auditor of the Baader Bank Aktiengesellschaft, Unterschleissheim, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

### German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Sven Hauke.

# Information and Service

The Annual Report 2018 was published in German and English. The report is available as PDF on the Internet [www.baaderbank.de/Investor-Relations/News-and-financial-reports](http://www.baaderbank.de/Investor-Relations/News-and-financial-reports)

Further information about Baader Bank can be found on the Internet at [www.baaderbank.de](http://www.baaderbank.de)

## Editor

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Baader Bank AG is a joint-stock company under German law with its headquarters in Munich.

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The LEI (legal entity identifier) is used for the unambiguous identification of all companies and funds with registered offices in Germany, which have a reporting obligation pursuant to future regulatory requirements: 529900JFOPPEDUR61H13.

The creditors' identification numbers (Creditor Identifiers, CI) make it possible to identify a debit receiver (creditor) unambiguously under a SEPA Direct Debit scheme: DE54ZZZ00000118113.

The GIIN (Global Intermediary Identification Number) is used for reporting to the Internal Revenue Service (USA) under the FATCA (Foreign Account Tax compliant Act) as well as for establishing Baader Bank AG as a FATCA-compliant institution: HPMLSE.00000.LE.276

## Notes

We classify external data sources, which have been processed in our report, as trustworthy and reliable. Although they have been carefully researched, we accept no responsibility for the accuracy of this information. Forward-looking statements made in this report are based on current expectations, assumptions and forecasts on the basis of information currently available. No guarantee can be accepted regarding future developments. If registered brands or trademarks have been listed, they also belong to their respective owners, even if they have not been identified as such. Even if they are not labelled, they are not free names as defined by the law on brands and trademarks.

# Financial calendar 2019

**20 May 2019** // Announcement // Publication of Annual Report 2018

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**1 July 2019** // Annual General Meeting //

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**31 July 2019** // Announcement // Publication of Half Year Results

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**16 October 2019** // Conference // m:access Analyst Conference

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## / Corporate Governance

*Good and transparent corporate governance ensures responsible management, with a focus on value creation, and control of the institution. It promotes trust with customers and other business partners, investors and the financial markets, employees and the public.*

*Core features of Baader Bank's corporate governance system are the dual management system, with a transparent division of company management and its supervision between the Board of Directors and Supervisory Board, the composition of the Supervisory Board, with representatives for shareholders and employees, and the shareholders' rights of co-administration and supervision at the shareholders' meeting.*

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