



Baader Wertpapierhandelsbank AG
Quarterly Report II/2005

/ BAADER /

Foreword

Dear Shareholders,

The positive trend of the first half of 2004 was not repeated in the first six months of 2005. The capital markets were hit by fears of growing inflation and a cooling economy. Higher oil prices, a fear of interest rate hikes and the continued high level of the euro were responsible for this. According to Deutsche Börse's turnover statistics, trading volumes declined by more than 11% against the first half of 2004. Only at the beginning of June 2005 did the announcement of new elections in Germany lead to an upturn in stock market turnover.

Despite fluctuations, the DAX recorded a gain of 7.8% in the first half of the year. The second-tier stock indices MDAX and SDAX clearly outperformed this figure again at 17.6% and 21.0% respectively. The TecDAX increased by 5.6%. The major foreign indices also improved after adjustment for exchange rate effects. The NASDAQ-100 rose by 3.3%, the Nikkei 225 by 5.6% and the Dow Jones by 6.8%. Only the DJ Stoxx 50 recorded a loss of 2.5%.

The General Meeting resolved to distribute a dividend of €0.10 per share on the basis of the profit for fiscal year 2004. In future, the Company will continue to distribute half of its profit to shareholders. All agenda items were adopted by a substantial majority.

Baader Wertpapierhandelsbank AG intends to acquire an equity interest in a German financial services company (target company). The target company's core business area is portfolio management for hedge funds and managed accounts. The planned transaction depends on the results of due diligence, the outcome of the contractual negotiations to be held, as well as the decision by the Executive Board and the Supervisory Board of Baader Wertpapierhandelsbank AG, and the executive bodies of the target company.

Result of operations

Trading volumes in Q2 2005 remained below the figure for the prior-year period, which led to a drop in Baader Wertpapierhandelsbank AG's net profit after taxes from €1,928 thousand in Q2 2004 to €867 thousand in Q2 2005. Net profit for the half-year period also declined year-on-year in line with this, falling 75.9% from €4,917 thousand to €1,183 thousand. The Group recorded a profit from ordinary activities for the second quarter of €926 thousand (previous year: €2,253 thousand). At €6,601 thousand, net trading income again trailed the unusually positive result recorded in Q2 of the previous year (€9,282 thousand). In contrast, net fee and commission income, at €4,839 thousand, more than doubled again in Q2 2005, against the prior-year period's €2,328 thousand. The main reason for the decline in profits is the change in the IAS 39 accounting standard, which since January 1, 2005 no longer permits the reversal to income of impairment losses on available-for-sale financial instruments. Instead such reversals must be taken directly to the revaluation reserve. In the first half of the year, the change in the revaluation reserve resulted in an initial remeasurement gain of €552 thousand relating to available-for-sale financial instruments whose losses were not reversed and recognized in income.

Administrative expenses increased in H1 2005 by 13.2% in comparison with the prior-year period. This is due in part to the higher staff costs reported following the consolidation of the subsidiaries Baader Service Bank GmbH and Heins & Seitz Capital Management GmbH. However, depreciation and amortization of property and equipment and intangible assets increased, as a result of the first-time full-year depreciation and amortization of investments made in the previous year.

Net assets

At €156,175 thousand, total assets as of June 30, 2005 were down 5.9% on December 31, 2004 (€165,944 thousand). This is due in particular to the decline in assets held for trading and loans and advances to other banks, the latter of which was due among other things to the cash outflow from the dividend distribution. The changes in equity-accounted investments and goodwill result from the consolidation of Heins & Seitz Capital Management GmbH and SPAG AG. As of June 30, 2005, consolidated shareholders' equity amounted to €111,896 thousand and the equity ratio to 71.6 %.

Financial position

On June 30, 2005, short-term loans and advances to other banks and available-for-sale securities amounted to €56,344 thousand, while short-term liabilities to banks totaled €16,286 thousand. This results in a net balance-sheet liquidity surplus of €40,058 thousand. The solvency of the Group was guaranteed at all times during the period under review.

Outlook

Uncertainties also remain in the current quarter due to fluctuations in the euro exchange rate and oil prices. In addition, it is unclear how Germany's new Linkspartei (the Left Party) will perform in the country's elections, which are scheduled for September. On the basis of the results for the first few weeks of the current quarter, and if the stock market environment remains favorable, the Executive Board expects a substantial improvement in results for the third quarter as well, and continues to forecast an increase in results for fiscal year 2005.

Accounting policies

In accordance with section 315a of the HGB, Baader Wertpapierhandelsbank AG prepares its consolidated financial statements in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as interpreted by the International Financial Reporting Interpretations Committee (IFRIC). The following interim report was prepared in accordance with IAS 34 for the Baader Group as of June 30, 2005. The same accounting policies were used to prepare the interim report and determine the comparative figures for last year as were used in the consolidated financial statements as of December 31, 2004. The amendments forming part of the IASB's Improvement Project relevant to the Baader Group were taken into consideration.

Consolidated companies

As of June 30, 2005, the companies included in Baader Wertpapierhandelsbank AG's consolidated financial statements comprise the parent company itself, Baader Management AG, Baader Service Bank GmbH, and Heins & Seitz Capital Management GmbH. All these companies are fully consolidated. Heins & Seitz Capital Management GmbH has been included since January 1, 2005, i.e. with effect from the increase of Baader Wertpapierhandelsbank AG's investment in the company to 70%. The company was previously included as an associate at equity.

Consolidated Balance Sheet

June 30, 2005

ASSETS	Notes	June 30, 2005	Dec. 31, 2004
		€	€ thousands
1. Cash reserve		1,904,984.72	161
2. Loans and advances to other banks	(10)	23,167,178.31	25,234
3. Loans and advances to customers	(10)	1,630,253.45	1,343
4. Allowance for losses on loans and advances	(10)	-108,751.61	-167
5. Assets held for trading	(11)	20,878,082.65	27,666
6. Available-for-Sale financial instruments	(12)	24,603,429.15	26,529
7. Investments in companies carried at equity	(13)	3,760,983.36	4,017
8. Property and equipment	(14)	23,025,887.87	23,456
9. Intangible assets	(15)	20,675,087.75	23,340
10. Goodwill	(15)	2,408,937.62	963
11. Recoverable income taxes	(16)	1,300,266.80	1,216
12. Other assets	(17)	3,982,360.35	3,300
13. Deferred tax assets	(16)	28,946,693.85	28,886
Total assets		156,175,394.27	165,944

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	June 30, 2005	Dec. 31, 2004
		€	€ thousands
1. Deposits from other banks	(18)	16,018,547.44	24,015
2. Deposits from customers	(18)	13,680,264.13	15,037
3. Provisions	(19)	7,340,336.83	7,098
4. Provisions for taxes	(20)	56,790.44	1
5. Other liabilities and accruals	(21)	5,787,957.74	6,650
6. Deferred tax liabilities	(20)	1,237,164.33	708
7. Minority interest		158,354.56	0
8. Shareholders' equity			
a) Issued capital		22,465,184.00	22,438
b) Share premium		83,184,103.21	83,199
c) Revaluation reserve		790,921.39	279
d) Consolidated net profit		5,455,770.20	6,519
Total liabilities and shareholders' equity		156,175,394.27	165,944

Consolidated Income Statement

for the period January 1 to June 30, 2005

INCOME STATEMENT	Notes	€	Jan. 1, - June 30,	Jan. 1, - June 30,
			2005	2004
			€	€ thousands
1. Interest income	(1)	193,649.74		94
2. Interest expense	(1)	-419,671.63		-327
3. Net interest expense	(1)		-226,021.89	-233
4. Allowance for losses on loans and advances			-1,831.53	-30
5. Net interest expense after allowance for losses and advances			-227,853.42	-263
6. Fee and commission income	(2)	15,901,935.07		8,972
7. Fee and commission expense	(2)	-5,559,607.57		-3,941
8. Net fee and commission income	(2)		10,342,327.50	5,031
9. Net trading income	(3)		14,245,731.41	21,683
10. Net income from available-for-sale financial instruments	(4)		109,570.54	843
11. Net income from equity-accounted investments	(5)		767,165.76	0
12. Net income from investment	(6)		0.00	78
13. Administrative expenses	(7)		-24,099,564.70	-21,287
14. Profit from operations			1,137,377.09	6,085
15. Other operating income	(8)		488,407.59	622
16. Other operating expenses	(8)		-97,969.64	-115
17. Income from ordinary activities			1,527,815.04	6,592
18. Income taxes on profit	(8)		-239,099.84	-1,679
19. Net profit for the period before minority interest			1,288,715.20	4,913
20. Minority interest in net profit			-105,278.75	4
21. Net profit for the period			1,183,436.45	4,917
22. Accumulated income brought forward			4,272,333.75	2,295
23. Consolidated net profit			5,455,770.20	7,212

	Jan. 1, - June 30,	Jan. 1, - June 30,
	2005	2004
	€	€
Earnings per share	0.05	0.22

INCOME STATEMENT QUARTERLY OVERVIEW				
	II/2005	I/2005	II/2004	I/2004
	€ thsd.	€ thsd.	€ thsd.	€ thsd.
1. Net interest income/expense	-129	-97	-126	-107
2. Allowance for losses on loans and advances	-1	0	-55	25
3. Net interest income/expense after allowance for losses on loans and advances	-130	-97	-181	-82
4. Net fee and commission income/expense	4,839	5,503	2,329	2,702
5. Net trading income	6,601	7,645	9,281	12,402
6. Net income/expense from available-for-sale financial instruments	157	-47	-34	877
7. Net income from equity-accounted investments	767	0	0	0
8. Net income from investment securities	0	0	39	39
9. Administrative expenses	-11,554	-12,546	-9,533	-11,754
10. Profit/loss from operations	680	458	1,901	4,184
11. Other operating income	265	223	408	214
12. Other operating expense	-19	-79	-57	-58
13. Income/expense from ordinary activities	926	602	2,252	4,340
14. Income taxes on profit from ordinary activities	-33	-206	-325	-1,354
15. Net profit/loss for the period before minority interest	893	396	1,927	2,986
16. Minority interest in net profit/loss	-26	-80	0	4
17. Net profit/loss for the period	867	316	1,927	2,990
18. Accumulated income brought forward	-2,246	6,519	0	2,295
19. Consolidated net profit/loss	-1,379	6,835	1,927	5,285

Statement of Changes in Equity

	Jan. 1 - June 30, 2005 € thousands	Jan. 1 - June 30, 2004 € thousands
Equity as of January 1	112,435	105,479
Issued Capital		
- Change in treasury shares	28	-7
Share premium		
- Change in treasury shares	36	-26
- Adjustments from appropriation of profit	0	872
- Currency translation adjustments	0	0
- Adjustments from consolidation	-51	-162
Retained earnings		
- Adjustments to appropriated profit	0	0
- Adjustments from consolidation	0	0
Revaluation reserves		
- Remeasurement	833	-35
- Deferred tax adjustments	-321	13
Consolidated earnings		
- Net profit for the period Jan. 1 - June 30	1,183	6,739
- Dividend distribution	-2,247	0
Equity as of June 30	111,896	112,873

Cash Flow Statement

for the period January 1 to June 30, 2005

	Jan. 1 - June 30, 2005 € thousands	Jan. 1 - June 30, 2004 € thousands
Profit for the period (incl. minority interest in net profit)	1,183	4,917
Cash-Flow from operating activities	12,255	24,340
Cash-Flow from investing activities	-3,356	-1,976
Cash-Flow from financing activities	-2,183	-33
Net change in cash and cash equivalents	6,716	22,331
Effect of exchange rate adjustments and changes in group structure	162	-2,917
Cash and cash equivalents at beginning of period	15,456	6,474
Cash and cash equivalents at end of period	22,334	25,888
Composition of cash and cash equivalents at June 30		
Loans and advances to other banks - payable on demand	24,297	26,171
Deposits from other banks - payable on demand	-1,963	-283
Cash and cash equivalents	22,334	25,888

Segment Reporting

for the period January 1 to June 30, 2005

in € thousands	Specialist activities and proprietary trading	Agency business	Capital market services	Others/ Consolidation	Group
Net interest income/expense	-304	75	3	0	-226
Allowance for losses on loans and advances	0	2	0	0	2
Net interest income/expense after allowance for losses on loans and advances	-304	73	3	0	-228
Net fee and commission income/expense	7,070	2,986	286	0	10,342
Net trading income	12,569	1,425	251	0	14,245
Net income/expense from available-for-sale financial instruments	234	52	718	-894	110
Net income from equity-accounted investments	0	0	0	767	767
Net income from investment securities	0	0	0	0	0
Net income/expense from financing activities	12,803	1,477	969	-127	15,122
Direct allocated administrative expenses	9,982	4,516	441	-32	14,907
Other operating net income/expenses	297	96	29	-32	390
Earnings after direct allocated administrative expense	9,884	116	846	-127	10,719
Indirect allocated administrative expenses	6,446	2,388	358	0	9,192
Profit/loss from ordinary activities	3,438	-2,272	488	-127	1,527
Risk-weighted assets	90,794	18,435	13,885		123,114
Allocated capital	77,303	28,896	5,697		111,896
Return on allocated capital based on income before taxes	4.4%	-7.9%	8.6%		1.4%
Average number of employees	90	49	7	69	215

Notes to the Consolidated Income Statement

(1) NET INTEREST INCOME	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Interest income from	194	94	>100,0
- Lending and money market business	194	94	>100,0
- Fixed-interest securities	0	0	0.0
Interest expenses	-420	-327	28.4
Total	-226	-233	3.0

(2) NET FEE AND COMMISSION INCOME	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Fee and commission income	15,902	8,972	77.2
- Securities and issue business	3,465	344	>100,0
- Brokerage fees	12,437	8,628	44.1
Fee and commission expenses	-5,560	-3,941	41.1
- Brokerage fees	-1,179	-939	25.6
- Settlement fees	-3,193	-2,933	8.9
- Securities and issue business	-843	-33	>100,0
- Other fee and commission expenses	-345	-36	>100,0
Total	10,342	5,031	>100,0

(3) NET TRADING INCOME	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Securities trading	14,215	21,685	-34.4
- Interest and dividends	400	475	-15.8
- Securities	9,021	12,917	-30.2
- Options and futures	-6	-36	-
- Price differences	4,800	8,329	-42.4
Foreign currencies	31	-2	-
Total	14,246	21,683	-34.3

(4) NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Interest and dividend income	202	9	>100.0
- Fixed-interest securities	139	0	100.0
- Equities/other non-fixed-interest securities	63	9	>100.0
- Investments in associates	0	0	0.0
Gain on the sale of available-for-sale securities	17	205	-91.7
- Equities/other non-fixed-interest securities	17	174	-90.2
- Investments in associates	0	31	-100.0
Provision for depreciation	-109	629	-
- Depreciations	-109	-25	>100.0
- Appreciations	0	654	-100.0
Total	110	843	-87.0

(5) NET INCOME FROM EQUITY-ACCOUNTED INVESTMENTS	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Reversals of write-downs	767	0	100.0
Total	767	0	100.0

(6) NET INCOME FROM INVESTMENT SECURITIES	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Interest income from	0	78	-100.0
- Lending and money market business	0	0	0.0
- Fixed-interest securities	0	78	-100.0
Provision for depreciation	0	0	0.0
Total	0	78	-100.0

(7) ADMINISTRATIVE EXPENSES	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Staff costs	-12,236	-11,226	9.0
Other administrative expenses	-8,050	-7,362	9.3
Depreciation, amortization and write-downs on intangible assets and property and equipment	-3,814	-2,699	41.3
Total	-24,100	-21,287	13.2

(8) OTHER INCOME AND EXPENSES	Jan. 1 - June 30,	Jan. 1 - June 30,	Change in %
	2005	2004	
	€ thousands	€ thousands	
Other operating income	488	622	-21.5
Other operating expenses	-98	-115	-14.8
Taxes	-239	-1,679	-85.8
Total	151	-1,172	-

Consolidated Balance Sheet Disclosures

(9) CASH RESERVE	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Balance of cash	2	1	100.0
Assets Deutsche Bundesbank	1,903	160	>100,0
Total	1,905	161	>100.0

(10) LOANS AND ADVANCES	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Loans and advances to other banks	23,167	25,234	-8.2
- Payable on demand	22,392	25,008	-10.5
- Other loans and advances	775	226	>100.0
Loans and advances to customers	1,630	1,343	21.4
Allowance for losses on loans and advances	-109	-167	-34.7
Total	24,688	26,410	-6.5

(11) ASSETS HELD FOR TRADING	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Bonds and other fixed-income securities	1,124	8,019	-86.0
Equities and other non-fixed-interest securities	19,754	19,647	0.5
Total	20,878	27,666	-24.5

(12) AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Unconsolidated affiliated companies	0	0	0.0
Investments in associates	2,931	2,929	0.1
Equities and other non-fixed-interest securities	12,799	16,747	-23.6
Bonds and dept securities	8,873	6,753	31.4
Other equity interests	0	100	-100.0
Total	24,603	26,529	-7.3

(13) INVESTMENTS IN COMPANIES CARRIED AT EQUITY	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Associated companies	3,761	4,017	-6.4
Total	3,761	4,017	-6.4

(14) PROPERTY AND EQUIPMENT	June 30, 2005	Dec 31, 2004	Change
	€ thousands	€ thousands	in %
Operating and office equipment	1,807	1,870	-3.4
Land and buildings	21,219	21,586	-1.7
Total	23,026	23,456	-1.8

(15) INTANGIBLE ASSETS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Concessions, industrial and similar rights and assets	20,675	23,340	-11.4
Goodwill	2,409	963	>100.0
Total	23,084	24,303	-5.0

(16) RECOVERABLE INCOME TAXES	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Claims for actual overpayment of taxes	1,300	1,216	6.9
Deferred tax assets	28,947	28,886	0.2
Total	30,247	30,102	0.5

(17) OTHER ASSETS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Other assets	3,653	3,205	14.0
Prepaid expenses	329	95	>100.0
Total	3,982	3,300	20.7

(18) LIABILITIES	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Deposits from other banks	16,019	24,015	-33.3
- Payable on demand	1,963	9,713	-79.8
- With agreed maturity or notice	14,056	14,302	-1.7
Loans and advances to customers	13,680	15,037	-9.0
- Payable on demand	13,680	15,037	-9.0
Total	29,699	39,052	-24.0

(19) PROVISIONS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Provisions for pensions	5,280	4,801	10.0
Other provisions	2,060	2,297	-10.3
Total	7,340	7,098	3.4

(20) TAX LIABILITIES	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Outstanding	57	1	>100.0
Deferred tax liabilities	1,237	708	74.7
Total	1,294	709	82.5

(21) OTHER LIABILITIES AND ACCRUALS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Other liabilities	5,788	6,650	-13.0
Total	5,788	6,650	-13.0

(22) CONTINGENCIES AND COMMITMENTS	June 30, 2005	Dec. 31, 2004	Change
	€ thousands	€ thousands	in %
Contingent liabilities	537	170	>100.0
- Liabilities on guarantees and warranties	537	170	>100.0
- Liabilities from the granting of security for thirdparty liabilities	0	0	0.0
Other commitments	3,172	3,331	-4.8
- Irrevocable loan commitments	3,172	3,331	-4.8

Information on consolidated subsidiaries

Name, Headquarters:	Baader Management AG, Unterschleissheim
Equity interest/Share in voting right:	100.00 %
Name, Headquarters:	Baader Service Bank GmbH, Unterschleissheim
Equity interest/Share in voting right:	100.00 %
Name, Headquarters:	Heins & Seitz Capital Management GmbH, München
Equity interest/Share in voting right:	70.00 %

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