Financial Reporting for the 3rd Quarter 2008

BAADER

1983–2008
Die ersten 25 Jahre.

Table of Contents

Interim Group Management Report

1. Business and market environment

Due to the current crisis on the American property market, a confidence crisis amongst banks has become a global problem. The Lehman Brothers insolvency at the beginning of September represented the end of an era for investment banks in the USA. This is the reason why the last two investment banks, Morgan Stanley and Goldman Sachs, have become normal commercial banks. In many countries, the banks that have been hit can only survive thanks to assistance provided by the state. In Germany, Hypo Real Estate, which found itself in danger, was saved with the help of large private banks and the German government. Bailouts provided by European governments are expected to contribute to the long-term revival of the almost dried-up market for credit between the banks. Regardless of whether this results in a success or not, the crisis experienced in the finance industry has impacted the real economy. For this reason, the International Monetary Fund is expecting a recession in the leading industrial nations in coming years.

Within the first nine months, the German share index, the DAX, lost 27.7%. The German SDAX small caps index and the TecDAX technology companies index both fell by 34.6% and 29.6% respectively during this timeframe. The MDAX mid caps index suffered a loss of 29.5%.

On a euro basis, the leading US indices Dow Jones Industrial Average and the NASDAQ 100 sank by 15.1% and 20.8% respectively below their levels at year-end 2007. The Japanese Nikkei 225 shrank by 18.3%. By the end of September 2008, the DJ STOXX 50, the leading European index, recorded a drop of 31.0%. The BRIC countries are also suffering as a result of the global financial crisis. The Chinese SSEB share index in Shanghai recorded a loss of 63.5%. The SENSEX in India fell by 44.1 %. RTS, the Russian share index, dropped by 22.2%. The Brazilian BOVESPA ended Q3 with a loss of 25.7 %. Enterprise values on the Muscat stock exchange in Oman recorded significantly lower losses – here the MSM 30 dropped only 2.9% in the first nine months. (All values given have been adjusted for currency translation effects).

As a result of the dramatic developments on capital markets, share issuing is at an extreme low. The prevailing financial crisis has prevented many IPO candidates from entering the capital market over recent months. Not one IPO was registered over the summer months. The IPOs of Schott Solar AG and Deutsche Bahn AG have been postponed indefinitely for the time being. This means that GK Software, Ropal Europe and SMA Solar are the only three companies to have gone public during the first nine months of 2008.

The *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Federal Financial Supervisory Authority) granted the former Baader Wertpapierhandelsbank AG an extension to its permit to conduct banking business pursuant to Article 1 (1a) clause 2 numbers 1a, 1c and 3 as well as clause 3 of the *Kreditwesengesetz* (KWG – German Banking Act) (investment advice, placement business, financial portfolio management as well as own account deals) as well as to conduct banking business pursuant to Article 1 (1) clause 2, numbers 1, 2, 5, 8 and 9 of the KWG (deposit business, lending business, safe custody business, guarantee business and giro business). With effect of this notification, Baader Wertpapierhandelsbank AG became a member of the *Entschädigungseinrichtung deutscher Banken* (EdB – Compensation Fund of German Banks) pursuant to article 32 (3a) of the KWG. All the requirements for changing the Bank's name from Baader Wertpapierhandelsbank AG to Baader Bank AG, as resolved at the Annual General Meeting of 26 June 2008, have hereby been met.

In Q3 2008, Baader Bank continued its course of expansion in the Gulf region. In addition to its investment in Oman, Baader Bank is expanding its activities to the stock exchanges in Dubai and Abu Dhabi. Gulf Baader Capital Markets S.A.O.C. (GBCM) in Muscat, in which Baader has held 24.9% since last year, thus acquired 50% of the shares to Börsenmaklergesellschaft Stock Securities LLC, established in 2004, from Gulf General Investment Company (GGICO), both in Dubai. The new company, which now trades under the name of Gulf Baader Capital Markets LLC, Dubai, is a member of the Dubai Financial Market (DFM) and Abu Dhabi Exchange (ADX) stock exchanges.

At the end of Q3 2008, Baader was managing 13,746 order books related to equities. Securitised derivatives such as warrants, certificates and ETFs accounted for 289,023 of these order books; bonds and participation certificates accounted for 15,952 and actively managed funds accounted for 9,928. The Baader Group thus managed a total of 328,649 order books as at 30 September 2008, which corresponds to an increase of 72.3%.

2. Result of operations

In Q3 2008, profits from ordinary activities dropped significantly to EUR -2,237 thousand (previous year: EUR 9,508 thousand). In the same period, post-tax profit fell to EUR -3,257 thousand (previous year: EUR 7,051 thousand). Due to the extremely difficult market environment, net fee and commission income as well as net trading income were 16.8% and 39.6%, respectively, down on the values for the previous year. However, profit for the quarter was also impacted by several extraordinary effects. EUR 5,032 thousand due to bad debt allowances and write-downs on loans and advances and securities, EUR 1,692 thousand in goodwill impairment and investment write-downs and EUR 1,219 in one-time expenses due to a banking software project have all had an effect on earnings. In contrast to this, income from the reversal of provisions for the EdW following receipt of the banking licence amounted to EUR 8,732 thousand.

Administrative expenses of EUR 21,257 thousand for the quarter rose compared with the same period of the previous year (EUR 19,053 thousand). Staff costs fell by EUR 352 thousand to EUR 10,397 thousand – other administrative expenses grew from EUR 6,247 thousand to EUR 9,176 thousand. This growth includes the abovementioned one-time expenses of EUR 1,219 thousand relating to the banking software project as well as expenses resulting from the integration of DBM Deutsche Börsenmakler GmbH. At the same time, depreciation of property and equipment and amortisation of intangible assets remained almost the same.

In the first nine months of 2008, Baader Bank AG has thus generated a profit from ordinary activities of EUR 3,429 thousand (previous year: EUR 28,413 thousand). Earnings after taxes for the period January to September 2008 amounts to EUR 3,007 thousand (EUR 21,027 thousand). Earnings per share for the reporting period amounts to EUR 0.07 (previous year: EUR 0.46).

3. Net assets

At EUR 350,031 thousand, total assets as at 30 September 2008 increased by 34.18% compared to EUR 260,875 thousand on 31 December 2007. This increase chiefly reflects the items loans and advances to banks, loans and advances to customers, deposits from other banks and amounts due to customers. This is a result of Baader Service Bank GmbH's increased business volume. The rise of the items assets held for trading, liabilities held for trading, intangible assets and goodwill is predominantly due to the acquisition/integration of DBM. Liabilities held for trading are a major fund trading component.

The Group's shareholders' equity amounted to EUR 154,193 thousand as of 30 September 2008 (31 December 2007: EUR 165,364 thousand). The equity ratio is thus 44.05%. The change in equity is mainly attributable to the dividend distribution for financial year 2007 as well as the decline in the revaluation reserve.

4. Financial position

On 30 September 2008, short-term loans and advances to other banks and available-for-sale negotiable securities of EUR 204,697 thousand were offset by current liabilities to other banks of EUR 153,944 thousand. This results in a net balance sheet liquidity surplus of EUR 50,753 thousand. The Group's liquidity was secured at all times during the period under review.

5. Supplemental report

Christopher Schütz, former Board of Directors member responsible for the MiFIS division (Markets in Financial Instruments Services) left Baader Bank AG on 13 October 2008. Dieter Silmen, Board of Directors member responsible for trading, will assume the duties of Christopher Schütz.

6. Risk report

Principles of risk management
Generating earnings in banking is generally not possible without entering into risks. The core elements of the success-orientated governance of the Baader Group therefore involve conscious handling, active management and ongoing identification and monitoring of risks. As the parent institution, Baader Bank AG is responsible for establishing a risk control system throughout the Group, which complies with the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) issued by BaFin. For this reason, special care is taken to ensure that the various business activities as well as the resulting risk potential are suitably backed with equity.

Risk-bearing capacity and strategy
With this basic conviction as a starting point, the Baader Bank AG Group's management is regularly provided with an overview of the forms that all the risks take within the Group based on the MaRisk. This basis guarantees that the Group's risk-hedging potential covers all material risks at all times, thus ensuring the risk-bearing capacity required. The business and risk strategy, the allocation of the risk capital across the individual risk types and business segments and the limits for the following financial year are adopted as part of a resolution.

Internal control system
The internal control system stipulated in accordance with the MaRisk requires the setup of risk management and risk control processes which ensure that the material risks within the Group are identified, assessed, managed and communicated. These processes ensure that material risks are identified in good time, completely recorded and presented in an appropriate manner. Of the risk types that have been identified, the following risks can be considered material: counterparty default risks, market price risks, operational risks and business risks. These are presented briefly below:

Counterparty default risks

Within the Group, only Baader Service Bank GmbH performs lending business as defined by section 1 (1) no. 2 of the *Kreditwesengesetz* (KWG – German Banking Act). This guarantees customers (non-genuine) Lombard loans against collateral in listed securities, the lending value of which is set at an extremely conservative level and/or against bank guarantees. The following table shows lending exposure as at 30 September 2008:

EUR million	Total credit exposure	Drawdowns	Unutilised loan commitments	Evaluated collateral	90 days or more overdue as % of total exposure
Private customers	44.24	9.90	34.34	53.90	0.00 %
of which employees	1.30	0.60	0.70	0.12	0.00 %
Corporate customers	11.77	1.07	10.70	7.77	0.00 %
TOTAL	**56.01**	**10.97**	**45.04**	**61.67**	

Furthermore, only money market deposits at banks are made within the Group as part of the lending business. Money market facilities exist at the Bank for such transactions based on either external credit ratings or internal credit checks with the corresponding credit decisions. In order to accommodate risk management as part of the banking crisis, our loans and advances to other banks are distributed amongst several German and foreign bank addresses.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all obligations. A distinction must be made between the replacement risk in the event of default of a counterparty and the resulting inability to settle transactions that have been concluded on the one hand, and the advance payment risk that can arise from transactions not settled as delivery versus payment (DVP) transactions on the other. As a rule, all transactions conducted by the Bank are settled as delivery versus payment transactions, so no replacement risks arise here. The sole exception is the trading of OTC derivatives transactions. The Baader Group trades derivatives on the stock exchange only. Derivatives exchanges that are subject to daily margin requirements are not considered as a default in accordance with the *Solvabilitätsverordnung* (SolvV – Solvency Ordinance). Due to the fact that Baader is not a clearing member on the derivatives stock exchange, all Baader derivatives transactions must be booked by a general clearing member, resulting in a replacement risk due to the settlement claim.

When processing *schuldschein* note loans where Baader plays the role of counterparty as part of the purchase agreement, a counterparty risk exists in the sense of an advance payment risk. Since the payment in the case of these transactions are “free of delivery”, i.e. payment and transfer of the instrument do not occur concurrently, these transactions are relevant in terms or risk and must be monitored.

At present, the permanent monitoring of counterparty default risks represents one of the central tasks within the risk management process. As part of this, the banks’ credit rating will be checked on a continual basis by means of the latest yearly and five-yearly credit spread in order to be able to react promptly to financial difficulties being experienced by other financial institutions. Where necessary, the corresponding limits will be reduced and the positions will be reallocated.

Market price risks Market risk

Market price risks Market risk is the risk of a fluctuation in the value of a given item due to changes in market prices, e.g. share prices, exchange rates, interest rates and volatility.

On 30 September 2008, the following risk positions with the following market values were held in EUR million in the trading book:

CASH MARKET		**FORWARD MARKET**	
Equities	19.42	Optionen	0.02
Bonds	5.39	Futures	-10.64
Funds, Index-and Funds-Linked Certificates	27.31	Swaps	6.58
Securitised Derivatives	1.43		

Market price risks are measured using a value-at-risk (VaR) model based on Monte Carlo simulations (generally a one-day holding period and a confidence level of 99%). The input risk parameters are determined using a variance-covariance matrix based on the Bank's own historical summaries, which are exponentially weighted. In past years, the following VaR values were calculated in EUR million:

Value-at-risk trading segments	2005	2006	2007	QI/2008	QII/2008	QIII/2008
VaR at the end of the period	0.83	0.78	1.32	1.48	1.41	1.65
MinimumVaR	0.51	0.68	1.11	1.14	1.21	1.05
Maximum VaR	1.46	2.84	2.73	2.60	1.67	1.91
Average VaR	0.84	1.19	1.36	1.60	1.41	1.23

Due to the increased trading volume and the extremely volatile markets, the Bank's risk positions are subjected to a particularly detailed check. The Bank reacts immediately to changes in the market situation and ensures that the appropriate measures are taken. Based on the strict limitation of portfolios, traders are required to structure their position management very conservatively.

Operational risks

Operational risk is the danger of losses that occur as a result of the inadequacy or failure of internal procedures, people and systems or of external events. This also includes legal risks. Strategic and reputation risks are excluded.

The risk potential is evaluated, i.e. operational risks are identified and assessed, by the Risk Control department of the Group's parent using questionnaires to be filled out every six months by our operational risk managers. In addition, it is the operational risk manager's responsibility to report any losses that occur from operational risks. Significant losses are immediately analysed with regard to their causes. Losses totalling EUR 4,798 thousand have been reported to date in financial year 2008. The highest individual loss here was EUR 4,252 thousand and can be classified under the Basel II category Settlement, Sales and Process Management. This was offset by a reversal of a provision (unrealised operational risk loss) of EUR 8.7 million from the Basel II category External Influences. Appropriate allowances were made in terms of the potential legal disputes.

Business risk

Business risk describes the uncertainty that accompanies operation of a business. Business risk is countered in the business strategy and the responsible action of the management. In accordance with BaFin's risk management requirements and MaRisk, the Group management defines a business strategy and a risk strategy consistent with these goals and plans, taking the risk-bearing capacity into account, for the coming financial year.

7. Outlook

In Q3 2008, Baader Bank AG affirmed its position as a leading specialist in securities trading and as the largest stock broker in Germany. This is despite the fact that the German stock exchange migrated the trade of securitised derivatives from Xontro to Xetra from 28 April 2008 onwards.

In the course of the strategy that the Bank has been pursuing for several years, offering additional or related services to its core competencies of securities trading and thus generating new income fields, Baader Bank AG has advanced considerably in Q3 2008. For Baader Bank AG, receiving the full banking licence on 31 July 2008 means meeting the requirements necessary in order to merge the wholly owned subsidiary Baader Service Bank GmbH in the coming year with effect from 1 January 2009 onwards. This planned streamlining of the Group structure enables the Baader Group to leverage synergies in the areas of IT, processing and risk control and generates the basis for continued growth in the core business areas, which are currently covered by Baader Service Bank. A merger will mean that the services that, to date, have been offered by two institutions, can now be bundled into a financially sound and efficient banking unit. At the same time, the equity base for the business operated by Baader Service Bank will be expanded.

Naturally, the Bank will continue to evaluate all possibilities of reducing trading and settlement costs as a measure to counteract the ongoing pressure on margins in stock market trading. The significance of these measures is particularly clear in the current situation in which the extent of the financial crisis is keeping the capital markets on their toes. Furthermore, it is also a matter of course that both the Board of Directors as well as the Bank's independent risk control department will be vigorously monitoring their own risk positions. In particular, Baader Bank AG will respond immediately to the changing market situation and will implement the appropriate measures. The open trading positions are being monitored very carefully and the Baader Bank AG traders are required to structure their position management very conservatively.

As Baader Bank AG expected in Q1 2008, the financial industry will be have to contend with the consequences of this crisis throughout the whole of this year. The belief that the competition and consolidation pressure which could be seen before the current crisis within the European financial industry due to falling margins, substantial investment expenses and requirements by the supervisory authorities is due to increase further has thus become a reality. Therefore, Baader Bank AG believes that the process of concentration amongst stock exchanges and trading platforms as well as financial institutions and brokerage companies will continue at a national and European level. The particularly weak earnings performance of the competition support this theory.

Despite a diversification strategy, Baader Bank AG cannot evade the situation, however, it is possible that the consequences can be absorbed. The Bank's broad position and its equity strength mean that it is well prepared to actively shape this trend. Furthermore, the Bank sees this as an opportunity to move on from the financial crisis even stronger.

Baader Bank AG expects that the continued high volatility on the market will continue over the next few months. On the one hand, this makes it more difficult to successfully operate in equities trading, however, the Bank's strict risk management will keep the dangers within tight limits. On the other hand, bond trading benefits from the uncertain market situation since an ongoing high return difference can be expected between default-encumbered and risk-free bonds (credit spreads). Baader Bank AG sees bright prospects for trading with securitised derivatives and actively managed funds even in the currently difficult phase on the stock market.

November of this year will see the first anniversary of the EU's MiFID (Markets in Financial Instruments Directive) being implemented nationally. Following this, commercial banks will be required to review their best execution policies, providing us with new opportunities to offer these financial institutions a MiFID-compliant service with the aim of generating additional orders.

The competitive and price pressure affecting issue business is also likely to continue to grow. Baader Bank AG will counter this trend by expanding its distribution channels and increasing its qualitative lead in its existing network. The value added chain is to be expanded at the same time with new products and markets being added.

Overall, Baader Bank AG expects 2008 as well as 2009 to be difficult years for stock market trading, characterised by a continual high level of volatility. The European financial markets, and also the real economy and the employment market will have to contend with the consequences of the financial crisis coming into 2009. At the same time, the Board of Directors expects that the Bank will again report a profit for 2008.

Unterschleissheim, 22 October 2008

Baader Bank AG

The Board of Directors

Uto Baader Dieter Brichmann Stefan Hock Dieter Silmen

Consolidated Balance Sheet (short form)

September 30, 2008

ASSETS		Notes	Sep. 30, 2008	Dec. 31, 2007 € thousands
1.	Cash reserve	(3)	1,178,760.96	3,273
2.	Loans and advances to other banks	(4)	127,837,820.46	75,338
3.	Loans and advances to customers	(4)	20,308,913.71	2,521
4.	Allowance for losses on loans and advances	(4)	-4,293,566.34	-62
5.	Assets held for trading	(5)	59,257,839.97	47,627
6.	Available-for-sale financial instruments	(6)	13,688,583.73	9,304
7.	Equity-accounted investments	(7)	16,658,544.42	38,216
8.	Property and equipment	(8)	20,247,407.50	20,846
9.	Intangible assets	(9)	21,609,187.43	12,513
10.	Goodwill	(9)	24,785,055.44	4,600
11.	Income tax assets	(10)	11,269,868.45	12,071
12.	Other assets	(11)	14,830,654.48	11,251
13.	Deferred tax assets	(10)	22,651,842.18	23,377
	Summe Aktiva		350,030,912.39	260,875

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Sep. 30, 2008 €	Dec. 31, 2007 € thousands
1. Deposits from other banks	(12)	50,058,599.78	19,751
2. Amounts due to customers	(12)	103,384,274.29	41,430
3. Liabilities held for trading	(13)	12,655,872.96	0
4. Provisions	(14)	10,727,322.26	17,314
5. Income tax liabilities	(15)	314,659.88	2,560
6. Other liabilities	(16)	14,357,504.66	12,723
7. Deferred tax liabilities	(15)	4,340,055.67	1,733
8. Shareholders' equity	(17)	154,192,622.89	165,364
Total liabilities and shareholders' equity		350,030,912.39	260,875

Consolidated income statement (cumulative)

for the period January 1 to September 30, 2008

	Notes	€	Jan. 1 - Sep. 30, 2008 €	Jan. 1 - Sep. 30, 2007 € thousands
1. Interest income	(18)	2,767,253.20		1,865
2. Interest expense	(18)	-1,915,478.69		-867
3. Net interest income/expense	(18)		851,774.51	998
4. Allowance for losses on loans and advances	(19)		-4,262,496.70	0
5. Net interest income/expense after allowance for losses on loan and advances			-3,410,722.19	998
6. Fee and commission income	(20)	40,342,299.54		51,549
7. Fee and commission expense	(20)	-11,897,917.37		-14,889
8. Net fee and commission income	(20)		28,444,382.17	36,660
9. Net trading income	(21)		33,193,503.58	41,860
10. Net expense/income from available-for-sale financial instruments	(22)		-439,154.55	3,826
11. Net income from equity-accounted investments	(23)		-883,024.77	1,822
12. Administrative expenses	(24)		-62,308,038.07	-57,657
13. Profit from operations			-5,403,053.83	27,509
14. Other operating income	(25)		10,422,373.56	1,333
15. Other operating expenses	(25)		-1,590,356.22	-429
16. Profit ordinary activities			3,428,963.51	28,413
17. Income taxes on profit from ordinary activities	(26)		-272,314.47	-7,387
18. Net profit for the period before minority interests			3,156,649.04	21,026
19. Minority interests in net profit for the period			-149,453.56	1
20. Net profit for the period			3,007,195.48	21,027
21. Accumulated income brought forward			381,138.91	3,732
22. Consolidated net profit/loss			3,388,334.39	24,759

	Jan. 1 - Sep. 30, 2008 €	Jan. 1 - Sep. 30, 2007 € thousands
Earnings per share	0.07	0.46

Income Statement Quarterly Overview

	III/2008 T€	II/2008 T€	I/2008 T€	III/2007 T€	II/2007 T€	I/2007 T€
1. Net interest income/expense	398	196	258	480	360	158
2. Allowance for losses on loans and advances	-4,252	0	-11	0	0	0
3. Net interest income/expense after allowance for losses on loans and advances	-3,854	196	247	480	360	158
4. Net fee and commission income/expense	9,559	8,753	10,132	11,494	11,495	13,671
5. Net trading income	7,300	9,773	16,120	12,094	12,624	17,142
6. Net income/expense from available-for-sale financial instruments	-650	73	138	3,793	66	-33
7. Net income/expense from equity-accounted investments	-1,335	479	-28	465	265	1,092
8. Administrative expenses	-21,257	-19,484	-21,567	-19,053	-18,164	-20,440
9. Profit /loss from operations	-10,237	-209	5,042	9,273	6,646	11,590
10. Other operating income	9,349	676	397	467	531	335
11. Other operating expense	-1,350	-151	-89	-232	-85	-112
12. Profit/loss from ordinary activities	-2,238	316	5,350	9,508	7,092	11,813
13. Income taxes on profit from ordinary activities	-934	192	470	-2,472	-1,844	-3,071
14. Net profit/loss for the period before minority interest	-3,172	508	5,820	7,036	5,248	8,742
15. Minority interest in net profit/loss	-85	-7	-57	14	100	-113
16. Net profit/loss for the period	-3,257	501	5,763	7,050	5,348	8,629

Statement of changes in equity as of 30 September, 2008

in € thousand	Issued capital	Share premium	Retained earnings	Revaluation reserve	Currency translation reserve	Consoli-dated net profit	Total before minority interests	Minority interests	Shareholders' equity
Shareholders' equity as of 31 Dec. 2006	**45,494**	**60,978**	**8,000**	**6,125**	**-1**	**30,668**	**151,264**	**1,362**	**152,626**
Consolidated net profit for the period						29,029	29,029		29,029
Transfer to retained earnings			15,570			-15,570	0		0
Gains/losses							0	-57	-57
Net change in the revaluation reserve				-4,898			-4,898		-4,898
Net change in the currency reserve					-9		-9		-9
Comprehensive net profit for 2007	**0**	**0**	**15,570**	**-4,898**	**-9**	**13,459**	**24,122**	**-57**	**24,065**
Capital increases		301					301	371	672
Changes in treasury shares	9	-133					-124		-124
Gains/losses (previous year)							0		0
Dividends						-11,365	-11,365		-11,365
Changes in the consolidated group/other changes		-242					-242	-268	-510
Shareholders' equity as of 31 Dec. 2007	**45,503**	**60,904**	**23,570**	**1,227**	**-10**	**32,762**	**163,956**	**1,408**	**165,364**
Consolidated net profit for the period						3,007	3,007		3,007
Transfer to retained earnings			21,000			-21,000	0		0
Gains/losses							0	149	149
Net changes in the revaluation reserve				-3,044			-3,044		-3,044
Net change in the currency reserve					13		13		13
Comprehensive net profit by 30 Sep. 2008	**0**	**0**	**21,000**	**-3,044**	**13**	**-17,993**	**-24**	**149**	**125**
Capital increases							0		0
Changes in treasury shares	12	367					379		379
Dividends						-11,381	-11,381		-11,381
Changes in consolidated group / other changes		-189					-189	-106	-295
Shareholders' equity as of 30 Sep. 2008	**45,515**	**61,082**	**44,570**	**-1,817**	**3**	**3,388**	**152,741**	**1,451**	**154,192**

Cash flow statement

	Jan. 1 - Sep. 30, 2008 € thousands	Jan. 1 - Sep. 30, 2007 € thousands
Net profit for the period (including minority interest in net profit)	**3,007**	**21,027**
Non-cash items contained in the net profit for the period and reconciliation to net cash from operating activities	1,270	2,378
Subtotal	**4,277**	**23,405**
Change in assets and liabilities from operating activities	46,747	-12,188
Net cash from operating activities	**51,024**	**11,217**
Net cash used in investing activities	**-41,768**	**2,338**
Net cash from/used in financing activities	**-11,407**	**-11,481**
Net change in cash and cash equivalents	-2,094	2,073
Effect of exchange rate adjustments and changes in Group structure	0	0
Cash and cash equivalents at beginning of period	3,273	485
Cash and cash equivalents at end of period	**1,179**	**2,558**
Composition of cash and cash equivalents at 30 June		
Cash reserve	1,179	2,558

The cash flow statement presents the composition of, and changes in, cash and cash equivalents during the reporting period. It is classified by cash flows from operating, investing and financing activities. The objective of this classification is to illustrate how cash and cash equivalents were generated in the Group and used in the period under review.

Cash and cash equivalents are composed exclusively of the cash reserve, which comprises cash in hand and deposits with Deutsche Bundesbank. The item does not include loans and advances to other banks, which are payable on demand.

Shares in Deutsche Börsenmakler GmbH (cf. Note 2) were acquired with retroactive effect to 1 January 2008. In this respect, they were payments for the acquisition of investments in consolidated companies. This item falls under cash flows from investing activities. The purchase price of EUR 39,194 thousand was paid in cash, but in accordance with the determination above does not form part of cash and cash equivalents. The purchase price is derived from the assets measured at fair value and liabilities amounting to net EUR 18,046 thousand plus goodwill in the amount of EUR 21,148 thousand. The acquisition did not include cash and cash equivalents.

Assets and liabilities of the companies acquired can be broken down as follows:

Assets	Carrying amounts € thousands	Fair values € thousands
Loans and advances to banks	13,052	13,052
Loans and advances to customers	10	10
Assets held for trading	13,898	14,149
Available-for-sale financial instruments	235	565
Property, plant and equipment	270	270
Intangible assets	26	11,615
Deferred tax assets	0	9
Other assets	854	854
	28,345	40,524

Equity & Liabilities	€ thousands	€ thousands
Liabilities held for trading	14,126	14,126
Provisions for pensions	431	461
Other provisions	425	198
Deferred tax liabilities	0	3,524
Other liabilities	4,169	4,169
	19,151	22,478

Notes (short form)

(1) ACCOUNTING PRINCIPLES

In accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council dated 19 July 2002 and Regulation (EC) 2086/2004 of the European Commission, the interim financial statements of Baader Bank AG as of 30 September 2008 were prepared on the basis of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued and published by the International Accounting Standards Board (IASB). These financial statements are based on the IASs/IFRSs that have been endorsed by the European Commission and are consistent with IAS 34 (Interim Financial Reporting). The same accounting policies were applied to this interim report as to the consolidated financial statements for the year ended 31 December 2007, with the exception of the change in the useful lives of order books (cf. Note 9) and the change in the measurement of the tax assets (cf. Note 10).

On 13 October 2008, the IASB resolved changes to IAS 39 Financial Instruments: Recognition and Measurement and changes to IFRS 7 Financial Instruments: Disclosures which now allow companies to reclassify certain financial instruments from the category of financial instruments measured at fair value through profit/loss to other categories where measurement is at amortised cost and impairment tests are carried out. This change has been enforced retroactively to 1 July 2008. In the official journal from 16 October 2008, the European Commission Regulation (EC) 1004/2008 from 15 October 2008 on the amendment to Regulation (EC) 1725/2003 regarding the adoption of specific international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council was published by the European Union as part of this change. Changes have been made to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments: Disclosures based on this regulation. Baader Bank AG did not apply these changes in the interim financial statements as of 30 September 2008.

(2) BASIS OF CONSOLIDATION

There were no changes in the companies included in consolidation for the purposes of the interim report as of 30 September 2008 compared with the consolidated financial statements for the year ended 31 December 2007. In addition to the parent company Baader Bank AG, the consolidated financial statements include six subsidiaries in which Baader Bank AG holds a direct or indirect interest of more than 50% or over which it exercises a controlling influence. Of these companies, five are headquartered in Germany (previous year: five) and one is headquartered abroad. There are no subsidiaries or associates that are immaterial for transparency of the Group’s net assets, financial position and result of operations.

DBM Deutsche Börsenmakler GmbH in Frankfurt am Main, in which Baader Bank AG acquired a 100% interest in February 2008 retroactively to 1 January 2008, was legally merged on 16 June 2008 by means of entry into the commercial register (HRB 121537), also retroactively to 1 January 2008. This makes Baader the leading order book management company in stock exchange fund trading with actively managed funds. DBM also operated in the agency business for equities with national and international banks and was the leading provider of financial portals for bonds and mutual funds. These business segments were also taken over and integrated into Baader Bank as part of the merger. The purchase price for the acquisition of this investment was EUR 39,194 thousand.

As part of the first-time consolidation of DBM, the fair values of the acquired, identifiable assets and liabilities on the date of acquisition were calculated for the purposes of distributing the total purchase price of EUR 39,194 thousand (revaluation method). Furthermore, intangible assets not reported to date at DBM must be identified and measured if they fulfil the recognition criteria.

Hidden reserves and charges in the amount of EUR 778 thousand, less deferred tax assets and liabilities of EUR 143 thousand were discovered when the assets and liabilities already reported were revalued. This resulted in revalued equity of EUR 9,829 thousand.

In addition to equity, a premium accounted for by intangible assets not yet reported was paid to acquire shares in DBM. The order books relating to funds, equities and bonds managed by the company were identified as intangible assets eligible for recognition. Based on the currently valid recognition practices for order books and the planning period for the long-term corporate planning of the Baader Group, a useful life of 10 years was recognised for the order books.

The values of the order books were calculated using an acknowledged measurement method – the discounted cash flow method – by discounting the cash flows expected after taxes directly attributable to the order books using a risk-adequate and maturity-matching capitalisation interest rate.

The total value of the order books recognised for the first time as part of the acquisition and the merger amounted to a fair value of EUR 11,589 thousand as at the date of acquisition on 1 January 2008. EUR 3,372 thousand of this amount is attributable to deferred tax liabilities at a tax rate of 29.10%. The costs of acquiring the investment in DBM of EUR 39,194 thousand and the revalued equity of EUR 9,829 thousand yielded goodwill of EUR 21,148 thousand.

The merger of DBM means that Baader Bank AG holds a direct 30% interest in Berlin Asset Management GmbH. Berlin Asset Management GmbH is reported in the Consolidated Financial Statements as an equity-accounted investment. The interest was revalued as part of the purchase price allocation. The revaluation corresponded to the proportionate equity and amounted to EUR 159 thousand. There is thus no goodwill. Berlin Asset Management GmbH operates in the areas of full service consulting on asset management for institutions and portfolio structure, as well as allocation-orientated financial portfolio management for high-net-worth private clients.

In the case of the subsidiary direcct AG, 100% of the shares of which were previously held indirectly via the investment in CCPM, Baader Bank AG registered a capital increase of EUR 1,397 thousand, disapplying subscription rights, thereby acquiring 75% of the shares in direcct AG. The capital increase was filed in January 2008. However, from the point of view of the Group, no changes have occurred in the consolidation.

In June 2008, Baader Bank AG increased its interest in the subsidiary Conservative Concept Portfolio Management AG (CCPM) in Bad Homburg by 4.46% to 59.82%. The purchase price for the share increase of 4.46% amounted to EUR 296 thousand. The cumulative cost of the investment therefore amounts to EUR 3,665 thousand. This acquisition, which does not fall under IFRS 3, was presented as a transaction with minority shareholders. The expenses were charged directly to equity.

In August of the previous financial year, a capital increase of EUR 10 million was carried out at the subsidiary Baader Service Bank GmbH. This strengthened the equity base which had fell as a result of the increased necessity for bad debt allowances charged on loans and advances to customers (EUR -4,252 thousand). Due to the negative earnings contribution and to the merger with the parent company, planned for 2009, the goodwill of EUR 962 thousand that resulted from the first-time consolidation was written off.

In accordance with the *Investmentgesetz* (InvG – German Investment Act), four companies (previous year: three) and interests in two special funds (previous year: five) were included in the consolidated financial statements as associates. The deconsolidation of three special funds can be attributed to the fact that interests of less than 20% were achieved.

In June 2008, Baader Bank AG subscribed to a capital increase of EUR 1,297 thousand of Gulf Baader Capital Markets S.A.O.C. in Oman. The ownership interest remains unchanged at 24.90%. Acquisition costs for the investment increased as a result from EUR 3,589 thousand to EUR 4,886 thousand.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(3) CASH RESERVE	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Cash in hand	1	1	0.0
Deposits with Deutsche Bundesbank	1,178	3,272	-64.0
Total	**1,179**	**3,273**	**-64.0**

(4) LOANS AND ADVANCES	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Loans and advances to other banks	**127,838**	**75,338**	**69.7**
- payable on demand	123,176	56,318	>100.0
- other loans and advances	4,662	19,020	-75.5
Loans and advances to customers	**20,309**	**2,521**	**>100.0**
Allowances for losses on loans and advances	**-4,294**	**-62**	**>100.0**
Total	**143,853**	**77,797**	**84.9**

Other loans and advances (loans and advances to other banks) have a remaining term of up to one year.

Loans and advances to customers are payable on a daily basis. Loans and advances to banks mainly relate to credit balances lodged as collateral for the settlement of stock market transactions and to the investment of customer deposits.

The increase in allowance for losses on loans and advances is attributable to overdrafts.

(5) ASSETS HELD FOR TRADING	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Bonds and other fixed-interest securities	7,374	7,468	-1.3
Equities and other non-fixed-interest securities	51,876	40,149	29.2
Positive fair values of derivatives	8	10	-20.0
Total	**59,258**	**47,627**	**24.4**

(6) AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Equity investments	1,525	3,203	-52.4
Equities and other non-fixed-interest securities	11,757	5,723	>100.0
Bonds and debt securities	407	378	7.7
Total	**13,689**	**9,304**	**47.1**

(7) EQUITY-ACCOUNTED INVESTMENTS	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Associates	6,842	7,898	-13.4
Investment fund units	9,817	30,318	-67.6
Total	**16,659**	**38,216**	**-56.4**

The performance of investments in associates is significantly influenced by a capital reduction followed by a capital repayment by SP AG. As a result of this, the amount due to Baader Bank AG for repayment of EUR 1,553 thousand was deducted from the carrying amount at equity and recorded under loans and advances to customers.

By contrast, a capital increase of EUR 1,297 thousand in Gulf Baader Capital Markets S.A.O.C. in Oman increased the investment in associates. Furthermore, the carrying amount for the investment in Parsoli Corporation Ltd. was written down by EUR 729 thousand. For this reason, various risk positions in the single-entity financial statements for Parsoli Corporation Ltd. have been accounted for from the point of view of the Group.

Fund units carried at equity dropped significantly due to the fact that three funds were deconsolidated as they had exceeded the 20% threshold.

(8) PROPERTY AND EQUIPMENT	**30 Sep. 2008 € thousand**	**31 Dec. 2007 € thousand**	Change in %
Operating and office equipment	1,565	1,524	2.7
Land and buildings	18,682	19,322	-3.3
Total	**20,247**	**20,846**	**-2.9**

(9) INTANGIBLE ASSETS AND GOODWILL	**30 Sep. 2008 € thousand**	**31 Dec. 2007 € thousand**	Change in %
Software	3,608	4,069	-11.3
Order books	16,196	6,459	>100.0
Trading strategies	1,805	1,985	-9.1
Goodwill	24,785	4,600	>100.0
Total	**46,394**	**17,113**	**>100.0**

As part of the acquisition of the shares in Deutsche Börsenmakler GmbH, the two order books relating to funds, equities and bonds present in the company were identified as intangible assets which were previously excluded from recognition as internally generated assets, but must be carried separately from goodwill in the course of the acquisition.

Additions to goodwill are solely attributable to the acquisition of the cash-generating unit Deutsche Börsenmakler GmbH.

The useful life of the order books resulting from earlier corporate acquisitions was reviewed on 1 January 2008 and extended for a further 10 years for order books relating to equities and bonds and 4 years for order books relating to derivatives.

In the case of the order books relating to derivatives, the change in the estimate is due to an extension of the contractual basis. Holdings of order books relating to equities and bonds were confirmed as part of the redistribution of order books by the Frankfurt Stock Exchange in November 2007. The distribution period was extended from what was previously 18 months to 30 months and the distribution criteria were more strictly orientated towards quality and performance. Empirical values show very positive results in the performance benchmarks of Baader Bank AG and market shares that remain the same or have even increased.

Ultimately, changes in the estimated useful lives will only negatively impact the income statement slightly by EUR 1,316 thousand for the 2008 financial year.

(10) INCOME TAX ASSETS	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Current tax claims from overpayment of taxes	11,270	12,071	-6.6
Deferred tax assets	22,652	23,377	-3.1
Total	**33,922**	**35,448**	**-4.3**

The consolidated financial statements of Baader Bank AG recognise deferred tax assets on unused tax loss carryforwards. In accordance with IAS 12, these must be recognised to the extent that it is probable that future taxable income will be available against which the as yet unused tax losses can be offset.

In the 2007 financial year, the tax loss carryforwards of Baader Bank AG expected to be used amounted to EUR 83,075 thousand. This previously included EUR 30,018 thousand, which represented an addition to the taxable income of Baader Bank AG resulting from an addition to income due to the write-downs charged in the past of an investment in a subsidiary. The current version of the provision governing additions laid down in section 12 (2) of the *Umwandlungssteuergesetz* (UmwStG – German Reorganisation Tax Act) was deemed valid by the Federal Constitutional Court on 15 January 2008, notwithstanding the fact that its realisation was unconstitutional. This judgment renders it impossible under revenue law to recognise the EUR 30,018 thousand as a loss carryforward for Baader Bank AG.

In 2007, the valuation allowance of 50% was reduced to 30%, reflecting the diminished but still-existing uncertainty of tax legislation, the difficulty of forecasting trading volumes and share pricing, and the volatility of the profits of the Company. The merger of Deutsche Börsenmakler GmbH with Baader Bank AG has further reinforced the income base and uncertainty has decreased to a point that the valuation allowance has been completely eliminated in the 2008 financial year.

In light of the planned merger of Baader Service Bank GmbH into Baader Bank AG in financial year 2009 and the resulting expiration of unused Baader Service Bank GmbH loss carryforwards, the tax asset of EUR 301 thousand attributable to this subsidiary was written off under tax expenses.

The loss carryforwards attributable to direcct AG amounting to EUR 87 thousand for the current financial year were included for the first time. Corporate planning assumes losses in the first financial year of operation which will be offset by sufficiently taxable income in the following years.

The changes in the revaluation of the tax asset are reflected in the income statement as tax income amounting to EUR 1,830 thousand. This is offset by tax expense arising from the utilisation of the remaining tax loss carryforward of EUR 2,743 thousand as a result of the profit of the first nine months of 2008, causing deferred tax assets from loss carryforwards to fall from the previous year by EUR 913 thousand net.

(11) OTHER ASSETS	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Other assets	14,193	10,959	29.5
Prepaid expenses	638	292	>100.0
Total	**14,831**	**11,251**	**31.8**

Other assets contain an advance payment for a convertible bond issued by Parsoli Corporation Ltd., India, in the amount of EUR 4,959 thousand. The issue has yet to be divided into individual securities and entered in the Bank's security account.

(12) LIABILITIES	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Deposits from other banks	**50,059**	**19,751**	**>100,0**
- payable on demand	37,621	7,004	>100,0
- with agreed maturity	12,438	12,747	-2.4
Amounts due to customers	**103,384**	**41,430**	**>100,0**
- payable on demand	103,384	41,430	>100,0
Total	**153,443**	**61,181**	**>100,0**

Deposits from other banks with agreed maturity relate to a loan for the refinancing of the Group's business premises and have a remaining maturity of more than five years. Amounts due to customers are primarily attributable to margins for futures trading.

(13) LIABILITIES HELD FOR TRADING	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Delivery commitments arising from short sales of securities	12,494	0	-
Negative fair values of derivatives	162	0	-
Total	**12,656**	**0**	**-**

(14) PROVISIONS	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Provisions for pensions	8,884	7,703	15.3
Other provisions	1,843	9,611	-80.8
Total	**10,727**	**17,314**	**-38.0**

The provision, as at 31 December 2007, for special contributions to be expected to the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensatory Fund of Securities Trading Companies) – established by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Federal Financial Supervisory Authority) for the compensation case at Phoenix Kapitaldienst GmbH – amounting to EUR 8,372 thousand (following merger with DBM) was reversed in Q3 of the current financial year. The reason for this is the award of a full banking licence to Baader Bank AG from the BaFin. This means that the Company automatically left the previous compensatory fund and became a member of the BdB and its associated insurance.

(15) INCOME TAX LIABILITIES AND DEFERRED TAX LIABILITIES	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Current tax liabilities	315	2,560	-87.7
Deferred tax liabilities	4,340	1,733	>100,0
Total	**4,655**	**4,293**	**8.4**

(16) OTHER LIABILITIES	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
Other liabilities	14,358	12,723	12.9
Total	**14,358**	**12,723**	**12.9**

This item primarily consists of trade payables and outstanding salary deductions.

(17) SHAREHOLDERS' EQUITY	30 Sep. 2008 € thousand	31 Dec. 2007 € thousand	Change in %
a) Issued capital	45,514	45,503	0.0
b) Share premium	61,082	60,904	0.3
c) Retained earnings	44,570	23,570	89.1
d) Revaluation reserve	-1,817	1,227	-
e) Currency translation reserve	4	-10	-
f) Consolidated net profit	3,388	32,762	-89.7
Total before minority interests	**152,741**	**163,956**	**-6.8**
Minority interests	1,451	1,408	3.1
Total	**154,192**	**165,364**	**-6.8**

At 30 September 2008, the Group's issued capital (share capital) in the amount of EUR 45,908,682.00 was composed of 45,908,682 no-par value bearer shares.

The change in the number of outstanding shares is attributable to the sale of a total of 22,120 shares to employees as part of the stock option programmes as well as share buy-backs by Baader Bank AG of 10,371 shares.

	Pieces
Number of shares outstanding at 1 January 2008	**45,502,738**
Plus: Treasury shares held at 31 December of the previous year	405,944
Number of shares issued at 30 Sep. 2008	**45,908,682**
Less: Treasury shares held at the reporting date	394,195
Number of shares outstanding at 30 Sep. 2008	**45,514,487**

The distribution of a dividend of EUR 0.25 per share was resolved by the Annual General Meeting on 26 June 2008. This resulted in a total distribution of EUR 11,381 thousand. It was also resolved that EUR 21,000 thousand be transferred to retained earnings and the remaining unappropriated surplus be carried forward to new account.

NOTES TO THE CONSOLIDATED INCOME STATEMENTS

(18) NET INTEREST INVOME/EXPENSE	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Interest income from	**2,767**	**1,865**	**48.4**
- lending and money market transactions	2,752	1,852	48.6
- fixed-interest securities	15	13	15.4
Interest expense	**-1,915**	**-867**	**>100.0**
Total	**852**	**998**	**-14.6**

(19) ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Additions to allowance	-4,251	0	-
Reversals	0	0	-
Write-downs	-11	0	-
Total	**-4,262**	**0**	**-**

(20) NET FEE AND COMMISSION INCOME	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Fee and commission income	**40,342**	**51,549**	**-21.7**
- Brokerage fee income	28,710	37,268	-23.0
- Order routing	4,048	5,481	-26.1
- Capital market services	361	2,830	-87.2
- Brokerage commissions	3,103	3,225	-3.8
- Management and performance fees	4,050	2,724	48.7
- Other fee and commission income	70	21	>100.0
Fee and commission expense	**-11,898**	**-14,889**	**-20.1**
- Brokerage fee expenses	-1,768	-3,970	-55.5
- Order routing	-1,126	-1,500	-24.9
- Capital market services	0	-8	-
- Brokerage commissions	-1,001	-490	104.3
- Management and performance fees	-578	-1,280	-54.8
- Settlement fees	-6,365	-7,051	-9.7
- Other fee and commission expense	-1,060	-590	>100.0
Total	**28,444**	**36,660**	**-22.4**

(21) NET TRADING INCOME	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Securities trading	**33,196**	**41,871**	**-20.7**
- Interest and dividends	689	958	-28.1
- Securities	12,370	26,256	-52.9
- Options and futures	17	-76	-
- Price differences	20,120	14,733	36.6
Foreign currencies	**-3**	**-11**	-72.7
Total	**33,193**	**41,860**	**-20.7**

(22) NET INCOME/EXPENSE FROM AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Interest and dividend income	**329**	**1,332**	**-75.3**
- Fixed-interest securities	11	109	-89.9
- Equities/other non-fixed-interest securities	317	34	>100.0
- Equity investments	1	1,189	-99.9
Gain/loss on the disposal of available-for-sale financial instruments	**12**	**2,494**	**-99.5**
- Fixed-interest securities	3	2,494	-99.9
- Equities/other non-fixed-interest securities	9	0	-
- Equity investments	0	0	-
Write-downs	**-780**	**0**	**-**
- Write-downs	-780	0	-
Total	**-439**	**3,826**	**-**

Write-downs are attributable to an available-for-sale financial instrument for which lasting impairment can be assumed.

(23) NET INCOME FROM EQUITY-ACCOUNTED INVESTMENTS	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Write-ups to carrying amount in accordance with the equity method	32	1,699	-98.1
Dividends/share of net income	-186	123	-
Goodwill Amortisation	-729	0	-
Total	**-883**	**1,822**	**-**

The item dividends/share of net income item comprises received dividends and proportionate interest of at investments carried at equity amounting to EUR -175 thousand as well as proportionate loss from the special fund (EUR 11 thousand).

(24) ADMINISTRATIVE EXPENSES	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Staff costs	-33,394	-34,504	-3.2
Other administrative expenses	-23,879	-17,903	33.4
Amortisation and write-downs of intangible assets and depreciation and write-downs of property and equipment	-5,035	-5,250	-4.1
Total	**-62,308**	**-57,657**	**8.1**

(25) OTHER OPERATING INCOME/EXPENSES	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Other operating income	10,422	1,333	>100.0
Other operating expenses	-1,590	-429	>100.0
Total	**8,832**	**904**	**>100.0**

Other operating income is chiefly attributable to the reversal of the EUR 8,732 thousand provision for the compensatory fund of securities trading companies.

(26) INCOME TAXES	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Current tax expense	-483	-5,270	-90.8
Deferred taxes	211	-2,118	-
Total	**-272**	**-7,388**	**-96.3**

The Group tax rate was calculated as 29.59%

Profit from ordinary activities and the Group tax rate yield an expected income tax expense of EUR 1,015 thousand. However, during the first six months of 2008, extraordinary effects in the form of tax refunds received for previous financial years and the changed recognition of the tax asset positively impacted the tax income/expense in the first quarter (see Note 10).

(27) SEGMENT REPORTING

in € thousands	Specialist Activities and Proprietary Trading	Agency Business	Capital Markets Services	Portfolio Management	Other/ Consolidation	Group
Net interest income/expense	-296	1,105	5	37	0	851
Allowance for losses on loans and advances	0	4,252	0	10	0	4,262
Net interest income/expense after allowance for losses on loans an advances	**-296**	**-3,147**	**5**	**27**	**0**	**-3,411**
Net fee and commission income/expense	**20,001**	**4,808**	**340**	**3,341**	**-46**	**28,444**
Net trading income/expense	23,237	10,787	-839	0	8	33,193
Net income/expense from available-for-sale financial instruments	201	0	-1,069	150	279	-439
Net income from equity-accounted investments	0	0	0	0	-883	-883
Net income from investments securities	0	0	0	0	0	0
Net income/expense from financial operations	**23,438**	**10,787**	**-1,908**	**150**	**-596**	**31,871**
Directly attributable administrative expenses	**23,750**	**10,303**	**851**	**2,710**	**-397**	**37,217**
Other operating income/expenses	**10,295**	**-75**	**14**	**11**	**-1,495**	**8,750**
Profit after directly attributable income/expenses	**29,688**	**2,070**	**-2,400**	**819**	**-1,740**	**28,437**
Indirectly attributable administrative expenses	**15,018**	**7,450**	**1,461**	**1,079**	**0**	**25,008**
Profit from ordinary activities	**14,670**	**-5,380**	**-3,861**	**-260**	**-1,740**	**3,429**
Risk-weighted assets in € thousands	328,645	78,230	12,184	14,145		433,204
Allocated capital in € thousands	82,836	48,268	8,626	14,463		154,193
Return on allocated capital based on profit from ordinary activities	17.7%	-11.1%	-44.8%	-1.8%		2,2%
Average number of employees during the period	114	59	9	23	115	320

(28) OFF-BALANCE-SHEET COMMITMENTS	Jan. 1 - Sep. 30 2008 € thousand	Jan. 1 - Sep. 30 2007 € thousand	Change in %
Contingent liabilities	**170**	**170**	**0.0**
- Liabilities from guarantees and warranty agreements	170	170	0.0
- Liabilities from the provision of collateral for third parties	0	0	0.0
Irrevocable loan commitments	**45,044**	**15,196**	**>100.0**
- Current account credits granted to customers	45,044	15,196	>100.0

Lombard loans from the Group company Baader Service Bank GmbH have been granted for the purchase of securities or for the coverage of collateral payments (margin requirements) for listed options and futures trading conducted through the Bank. As a rule, they are made available with a maturity of 6 months. The Lombard loans are backed by valuable collateral, as a rule through the pledging of securities and bank guarantees. As at 30 September 2008, the fair value of the securities pledged to Baader Service Bank GmbH was EUR 61,669 thousand.

(29) Employees

At the reporting date 30 September 2008, the Baader Bank AG Group had a total of 328 employees (previous year: 292 employees).

(30) Share-based payment system for members of the Board of Directors and employees

Baader Bank AG grants the members of the Board of Directors and the Group's employees performance-related remuneration in the form of stock options.

The table below provides an overview of all granted, lapsed and exercised options.

	2007	2006	2005	2004	2003	2002	2001	2000	Gesamt
Options granted (pieces)	418,224	374,600	299,480	299,600	323,000	468,600	517,800	240,382	2,941,686
Exercise prise (EUR)	3.75	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Options forfeited	36,604	40,451	32,920	23,000	19,000	70,000	164,400	223,446	609,821
Options exercised	0	0	0	97,480	193,100	363,600	306,600	16,936	977,716
Options outstanding	**381,620**	**334,149**	**266,560**	**179,120**	**110,900**	**35,000**	**46,800**	**0**	**1,354,149**
Exercisable options	**0**	**0**	**266,560**	**179,120**	**110,900**	**35,000**	**46,800**	**0**	**638,380**
Residual term (in months)	**79**	67	56	44	32	19	7	0	-

To date, the stock options from 2000 have expired from the existing stock option plans. This means that a total of 98,018 stock options have expired.

In comparison to 31 December 2007, the number of stock options has changed as follows:

	30 June 2008 Number of stock options	Average exercise price	31 Dec. 2007 Number of stock options	Average exercise price
As at 1 January	**1,106,152**	**4.44**	**1,017,958**	**3.67**
Commitment (granted options)	418,224	3.75	374,600	5.32
Forfeited options	50,089	3.97	46,446	5.18
Exercised options	22,120	2.60	239,960	2.43
Lapsed options	98,018	5.30	0	0.00
As at 31 Dec. 2007/ 30 Sep. 2008	**1,354,149**	4.21	**1,106,152**	4.44
Exercisable options as of 31 Dec. 2007/ 30 Sep. 2008	**638,380**	**3.90**	**496,218**	**2.97**

Beneficiaries of the stock option plan exercised their options during the period under review. A total of 10,120 shares were subscribed for at an exercise price of EUR 2.34, 2,000 shares at an exercise price of EUR 2.14 and 10,000 shares at an exercise price of EUR 2.96.

This resulted in an expense of EUR 13,344.74 which was charged directly to equity. The stock options were exercised within a period of one month.

1. Period: 20 Feb.2008 – 18 March 2008 Share price: 4.13 Stock option plan: 2004
2. Period: 6 May 2008 – 2 June 2008 Share price: 4.07 Stock option plan: 2000
3. Period: 22 April 2008 – 19 May 2008 Share price: 3.92 Stock option plan: 2004
4. Period: 16 Jul. 2008 - 12 Aug. 2008 Share price: 3.19 Stock option plan: 2004
5. Period: 5 Aug. 2008 - 1 Sep 2008 Share price: 3.16 Stock option plan: 2000

The stock options granted from the Stock Option Plan 2004 (and all the following stock option plans) are accounted for under the provisions of IFRS 2 Share-Based Payment. The stock option plans embody the share-based payment of employees' additional benefits which are settled by equity instruments. The benefits received must be carried at fair value while raising equity. However, as this value cannot be estimated reliably, it and the corresponding increase in equity must be calculated indirectly by reference to the fair value of the equity instruments granted.

	2007	2006	2005	2004	Total
Options accepted	381,620	374,600	282,420	299,600	1,338,240
Options price	1.1642	1.4001	0.9975	0.43	-
Total staff costs	444,282.00	371,504.87	281,713.95	128,828.00	1,226,328.82
Staff costs in the period under review	92,558.75	196,679.05	58,690.41	0.00	347,928.21

The staff costs are distributed over the two-year period during which they are incurred. Proportionate costs were recorded for 9 months for the stock options from 2005 and from 2006 and for 5 months for the stock options from 2007.

(31) RELATED PARTY DISCLOSURES

Board of Directors

In addition to fixed compensation and performance-related variable compensation, the members of the Board of Directors receive options under the Baader Bank AG stock option plan. In the 2008 financial year, new stock options for the 2007 financial year were issued. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2007.

	2007	2006	2005	2004	2003	2002	2001	2000	Total
Options granted	64,250	63,750	75,000	75,000	103,000	170,000	172,000	83,804	806,804
Exercise prise (EUR)	3.75	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Options forfeited	0	0	0	0	0	19,000	58,000	68,564	145,564
Options exercised	0	0	0	37,500	103,000	151,000	114,000	15,240	420,740
Options outstanding	**64,250**	**63,750**	**75,000**	**37,500**	**0**	**0**	**0**	**0**	**240,500**
Exercisable options	**0**	**0**	**75,000**	**37,500**	**0**	**0**	**0**	**0**	**112,500**
Residual term (in months)	**79**	67	56	44	32	19	7	0	-

In the period under review, members of the Board of Directors did not sell Baader shares in excess of the annual exemption limit of EUR 5,000.00 subject to notification and publication requirements under section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

Supervisory Board

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives on the Supervisory Board receive stock options under the conditions of the stock option plans resolved by the General Meetings, these payments are due to their position as employees of Baader Bank AG and are independent of their supervisory function.

In the 2008 financial year, new stock options for the 2007 financial year were issued. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2007.

	2007	2006	2005	2004	2003	2002	2001	2000	Total
Options granted	2,550	2,760	2,400	2,640	5,000	9,600	4,800	1,378	31,128
Exercise prise (EUR)	3.75	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Options forfeited	0	0	0	0	0	0	0	1,272	1,272
Options exercised	0	0	0	1,320	5,000	9,600	4,800	106	20,826
Options outstanding	**2,550**	**2,760**	**2,400**	**1,320**	**0**	**0**	**0**	**0**	**9,030**
Exercisable options	**0**	**0**	**2,400**	**1,320**	**0**	**0**	**0**	**0**	**3,720**
Residual term (in months)	79	67	56	44	32	19	7	0	-

In the period under review, members of the Supervisory Board did not sell Baader shares in excess of the annual exemption limit of EUR 5,000.00 subject to notification and publication requirements under section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

Majority ownership of Baader Bank AG lies with Baader Beteiligungs GmbH, Munich. No transactions were conducted between the two companies in the period under review.

Unterschleissheim, 22 October 2008

Baader Bank AG

The Board of Directors

Uto Baader Dieter Brichmann Stefan Hock Dieter Silmen

Statement by the legal representatives

“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.”

Unterschleissheim, 22 October 2008

Baader Bank AG

Board of Directors

Uto Baader Dieter Brichmann Stefan Hock Dieter Silmen

Review report by the auditiors

to Baader Bank AG

We have reviewed the consolidated interim financial statements (short form) – comprising the balance sheet (short form), income statement (short form), cash flow statement (short form), statement of changes in equity (short form) and selected explanatory notes to the financial statements – and the interim group management report of Baader Bank AG, Unterschleissheim, for the period from 1 January to 30 September 2008 which are part of quarterly financial reports in accordance with Article 37x (3) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). The preparation of the consolidated interim financial statements (short form) in accordance with the International Financial Reporting Standards applicable to interim financial reporting as adopted by the EU and of the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the consolidated interim financial statements (short form) and the interim Group management report based on the results of our review.

We conducted our review of the consolidated interim financial statements (short form) and the interim Group management report in accordance with the generally accepted standards for the review of financial statements promulgated by the Institute Public Auditors in Germany (IDW). Those standards require that we plan and perform our review in order to obtain reasonable assurance by way of a critical evaluation that the consolidated interim financial statements (short form) are materially consistent with the IFRSs applicable to interim financial reporting as adopted by the EU, and that the interim Group management report is materially consistent with the provisions of the German Securities Trading Act applicable to interim Group management reports. A review is largely limited to discussions with employees of the Company and analytical evaluations, and hence does not provide the same level of assurance as a full audit of the financial statements. As our engagement does not extend to a full audit of the financial statements, we cannot issue a corresponding audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements (short form) are materially inconsistent with the IFRSs applicable to interim financial reporting as adopted by the EU or that the interim Group management report is materially inconsistent with the provisions of the German Securities Trading Act applicable to interim Group management reports.

Bremen, 23 October 2008

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Clostermann)	(Lamm)
Auditor	Auditor

Key Figures

		Q3 2008	Q3 2007	Change in %
Net fee and commission income	mln. €	28.4	36.7	-22.6
Net trading income	mln. €	33.2	41.9	-20.7
Administrative expenses	mln. €	-62.3	-57.7	8.0
Net Profit	mln. €	3.0	21.0	-85.7
EPS	€	0.07	0.46	-84.8
Consolidated Balance Sheet		**Sep. 30, 2008**	**Dec. 31, 2007**	Change in %
Shareholders' equity	mln. €	154.2	165.4	-6.7
Total assets	mln. €	350.0	260.9	34.2
Operating figures		**Sep. 30, 2008**	**Dec. 31, 2007**	Change in %
Employees		328	289	13.5
Orderbooks	shares	328,649	156,322	110.2
Share price of Baaderbank		**Q3 2008**	**Q3 2007**	Change in %
Opening price (Jan. 2)	€	4.91	4.19	17.2
Highest price	€	4.91	5.54	-11.4
Lowest price	€	2.45	3.70	-33.8
Closing price (Sep. 30)	€	2.45	4.44	-44.8
Market capitalization (Sep. 30)	mln. €	112.48	203.80	-44.8
Volume (daily average) (Sep. 30)	shares	13,297	26,582	-50.0

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