

Consolidated  
Financial Report  
of Baader Bank AG  
for the Nine-Month  
Period ended 09/30/2015

## KEY FIGURES

FINANCIAL PERFORMANCE		01/01-09/30/2015	01/01-09/30/2014	Change in %
Net interest income	EUR'000	24	1,585	-98.5
Current income	EUR'000	1,487	1,379	7.8
Net commission income	EUR'000	39,205	37,667	4.1
Trading profit/loss	EUR'000	40,351	36,255	11.3
Administrative expenses	EUR'000	-69,485	-75,152	-7.5
Operating result	EUR'000	3,919	-5,430	-
Other result, including risk provisions	EUR'000	-5,280	9,659	-
Result from ordinary activities	EUR'000	-1,362	4,229	-
Profit/loss after taxes	EUR'000	-1,984	2,746	-
Earnings per share	EUR	-0.04	0.02	-
BALANCE SHEET		09/30/2015	31.12.2014	Change in %
Equity	EUR'000	106,358	108,748	-2.2
Own funds	EUR'000	129,608	131,998	-1.8
Balance sheet total	EUR'000	628,801	663,293	-5.2
KEY INDICATORS		09/30/2015	09/30/2014	Change in %
Employees		457	490	-6.7
Order books	No.	831,471	718,248	15.7
BAADER BANK SHARE		01/01-09/30/2015	01/01-09/30/2014	Change in %
Highest price	EUR	2.97	3.03	-1.9
Lowest price	EUR	2.28	2.31	-1.3
Last price (09/30)	EUR	2.85	2.75	3.6
Market capitalization (09/30)	EUR'000	130,840	126,250	3.6
Shares traded (daily average)	No.	10,326	17,714	-41.7

## OPERATING PERFORMANCE AND BUSINESS ENVIRONMENT

### Factors influencing the capital markets

In the first nine months of 2015, international capital markets were influenced by the possible increase in U.S. interest rates and by the economic slowdown in the emerging-market countries and China. The gloomy sentiment was also clearly evident in the decline in the Ifo Business Climate Index for the Manufacturing Sector in Germany. Despite the ECB's bond purchasing program that commenced in March of this year, the economic recovery in the Eurozone has been disappointing. In the second quarter, speculation to the effect that the ECB could limit its bond purchases led to rising yields for Eurozone sovereign bonds and growing deflationary pressure. However, the European Central Bank did not commit to ending the bond purchasing program as planned in September 2016, instead suggesting the possibility that this program could be lengthened and expanded.

Nonetheless, the ECB's measures were successful in quelling the debt crisis in Greece that had flared up again in the first half of 2015. Thus, there was at least no European financial crisis in the third quarter to accompany the upwelling of uncertainty concerning the economic slowdown in China, the associated selling pressure on Eurozone sovereign bonds, and the confusion regarding U.S. interest rate policy.

International monetary policy also acted as a stabilizing factor for the respective economies. In China, the People's Bank of China employed monetary policy as an economic planning instrument to prop up financial markets and support consumer spending on the part of stock market-friendly Chinese investors. Even the U.S. Federal Reserve was reluctant to raise interest rates, citing an absence of economic and inflation-related reasons to do so, both nationally and internationally.

The valuation levels of risk assets were still relatively high in the first three quarters of 2015. The Japanese stock market advanced to the status of top performer, thanks to massive purchases by domestic pension funds and lax monetary policy. U.S. equities benefitted from the diminished probability of an interest rate hike. However, export-sensitive and industry-sensitive equities in Germany and the Eurozone paid heed to the concerns regarding global economic growth. Commodity-related and emerging-market equities sustained the biggest losses. By contrast, gold was lifted by its function as a safe-haven investment.

In Germany, stock prices retreated in the export-sensitive sectors of industry, automotive, and technology. The decline was exacerbated by the VW emissions scandal. Under the influence of global economic uncertainties, the consumer goods sector weakened despite the increased purchasing power of consumers. Utilities continued to suffer adverse consequences related to Germany's transition to a renewable energy system. On the other hand, the pharmaceuticals sector was stable by reason of its defensive orientation.

## **Development of Baader Bank's operating business**

The securities markets in which Baader Bank operates were subject to extremely high volatility and massive declines in stocks and corporate bonds, especially in the third quarter and more specifically in the months of August and September. For this reason among others, investors were noticeably reluctant to trade in certain product segments. By contrast, there was a remarkable increase in trading volumes in exchange-traded funds, ETPs, and foreign equities. These segments were also the main contributors to the improved trading profit of EUR 40.4 million in the first three quarters of 2015, which was 11.3 percent higher than the corresponding figure for the first nine months of 2014. The uncertainties surrounding an interest rate hike in the United States, the Chinese economy, selling pressure on Eurozone sovereign bonds, and the events related to the Greek debt crisis prevented a more positive performance in bond trading.

In its market making activities, Baader Bank acquired yet another prestigious order book, for Deutsche Pfandbriefbank. Baader Bank's assets under management in the white-labeling business registered a relatively small decline of 1.5 percent, to approximately EUR 2.36 billion at the end of September 2015.

The transactions conducted in the business of capital market services in the third quarter attest the strong position that Baader Bank has built up in these market segments. Numerous capital measures were conducted successfully. Baader Bank served as Global Coordinator and Sole Bookrunner for the capital increase of 4SC AG, and as Joint Bookrunners und Joint Global Coordinators on the IPO of elumeo SE. Baader Bank executed a stock buy-back for Rhön-Klinikum AG using tradable put options. Baader Bank also exercised the role of Sole Financial Advisor on this transaction. In addition, Baader Bank successfully conducted the stock buy-back program of WashTec AG in the role of Buy-Back Agent.

In the business with institutional clients, the Baader-Helvea Group launched a new ETF research product in the third quarter, underscoring the Group's strong market position as one of the leading ETF brokers in the German-speaking countries. The new services and products of the ETF Desk were presented at the annual Baader Investment Conference, which was held in Munich from September 22 to 24, 2015. With more than 130 exchange-listed companies from Germany and Austria and more than 600 institutional investors from 27 countries, the Baader Investment Conference increased its attendance for the fourth year in a row.

## FINANCIAL POSITION

Balance Sheet as of September 30, 2015

	09/30/2015	12/31/2014	Change
ASSETS	EUR'000	EUR'000	%
1. Cash reserve	761	7,683	-90.1
2. Loans and advances to banks	114,668	199,321	-42.5
3. Loans and advances to customers	29,355	37,148	-21.0
4. Bonds and other fixed-income securities	264,120	205,483	28.5
5. Equities and other variable-yield securities	33,329	29,507	13.0
6. Trading portfolio	74,687	75,989	-1.7
7. Equity investments	1,440	1,440	0.0
8. Investments in associates	8,275	8,608	-3.9
9. Intangible assets	26,641	30,891	-13.8
10. Property, plant and equipment	44,736	46,608	-4.0
11. Other assets	21,654	11,047	96.0
12. Prepaid expenses and accrued income	2,506	3,118	-19.6
13. Excess of plan assets over pension liability	6,629	6,450	2.8
<b>Total assets</b>	<b>628,801</b>	<b>663,293</b>	<b>-5.2</b>

	09/30/2015	12/31/2014	Change
EQUITY AND LIABILITIES	EUR'000	EUR'000	%
1. Liabilities due to banks	50,179	87,568	-42.7
2. Liabilities due to customers	425,693	416,754	2.1
3. Trading portfolio	5,232	8,684	-39.8
4. Other liabilities	10,073	7,009	43.7
5. Accrued expenses and deferred income	15	8	87.5
6. Provisions	8,001	11,272	-29.0
7. Deferred tax liabilities	0	0	0.0
8. Reserve for general banking risks	23,250	23,250	0.0
9. Equity	106,358	108,748	-2.2
<b>Total equity and liabilities</b>	<b>628,801</b>	<b>663,293</b>	<b>-5.2</b>

At EUR 628.8 million, total assets as of September 30, 2015 were 5.2 percent less than total assets as of December 31, 2014. After a good performance in the early months of 2015, markets were shaken first by the escalation of the Greek debt crisis and then by the Chinese stock market crash. The repercussions, which were painfully felt in all the world's stock markets, worsened the market environment for Baader Bank AG considerably. These adverse developments are clearly reflected in the business volumes and results of the Baader Bank Group in the third quarter of 2015.

The development of portfolio holdings is closely dependent on the current market situation and naturally varies from one reporting date to the next. As of September 30, 2015, total portfolio holdings were 19.7 percent higher than the comparison figure. The changes in the items of loans and advances to banks and liabilities due to banks should also be seen as a consequence of reporting-date valuation.

As of September 30, 2015, the Group's equity amounted to EUR 106.4 million (12/31/2014: EUR 108.7 million). The reserve for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) in the amount of EUR 23.3 million also counts as bank capital. The equity ratio is 16.9 percent. The change in equity is basically equivalent to the net balance of the profit before minority shareholders for the first nine months of financial year 2015 in the amount of EUR -2.0 million, dividends paid to shareholders and subsidiaries in the amount of EUR 1.0 million, and currency translation effects in the amount of EUR 0.8 million.

The Group's overall financial position remains satisfactory.

## FINANCIAL PERFORMANCE

Income Statement for the period from January 1 to September 30, 2015

	01/01 - 09/30/2015	01/01 - 09/30/2014	Change
INCOME STATEMENT	EUR'000	EUR'000	%
1. Net interest income	24	1,585	-98.5
2. Current income from			
a) Equities	1,422	1,379	3.1
b) Equity investments	65	0	>100.0
	1,487	1,379	7.8
3. Net commission income	39,205	37,667	4.1
4. Trading profit/loss	40,351	36,255	11.3
5. Other operating income	2,529	1,602	57.9
6. Administrative expenses			
a) Personnel expenses	-39,945	-44,665	-10.6
b) Other administrative expenses	-29,540	-30,487	-3.1
	-69,485	-75,152	-7.5
7. Depreciation, amortization, and impairments of intangible assets and property, plant and equipment	-7,664	-7,164	7.0
8. Other operating expenses	-1,948	-535	>100.0
9. Write-downs and value adjustments of loans and advances and certain securities, and allocations to loan loss provisions	-5,078	0	>100.0
10. Income from reversals of value adjustments on loans and advances and certain securities, and from reversals of loan loss provisions	0	8,523	-100.0
11. Income from reversals of impairments of equity investments, investments in associates, investments in affiliated companies, and securities classified as non-current assets	1	497	-99.8
12. Result from investments in associates	-784	-428	83.2
<b>13. Result of ordinary activities</b>	<b>-1,362</b>	<b>4,229</b>	-
14. Taxes on income	-502	-1,157	-56.6
15. Other taxes, if not presented in item 8	-136	-100	36.0
<b>16. Profit/loss before minority interests</b>	<b>-2,000</b>	<b>2,972</b>	-
17. Share of profit attributable to minority interests	16	-226	-
<b>18. Profit/loss for the year</b>	<b>-1,984</b>	<b>2,746</b>	-
19. Profit/loss carried forward from prior year	739	660	12.0
<b>20. Consolidated profit/loss</b>	<b>-1,245</b>	<b>3,406</b>	-

The negative trend of the result from ordinary activities observed in the second quarter of 2015 continued in the third quarter. The quarterly loss of EUR 4.8 million was a reflection of the tense, uncertain market environment, which particularly made it necessary to recognize impairment losses in Baader Bank's investment book holdings.

Unlike the comparison period in 2014, the Baader Bank Group posted a positive operating result in the first nine months of 2015, although the trading profit and net commission income registered smaller gains than in the first half of this year, due to the market turmoil.

As expected, net interest income was low and also less than the year-ago figure, mainly as a result of portfolio reallocations into non-interest-bearing assets in financial year 2014.

Net commission income was 4.1 percent higher than the corresponding figure for the first nine months of last year. The increase was mainly driven by gains in the Corporates & Markets Division of Baader Bank AG, specifically in the number and quality of capital market transactions, and by the business activities of the Baader-Helvea companies. The trading profit was likewise higher than the year-ago comparison figure, registering an even greater increase of 11.3 percent, all of which generated in the business activities of Baader Bank.

Total administrative expenses were markedly less, by 7.5 percent, than the year-ago comparison figure. Within this item, personnel expenses declined by 10.6 percent, mainly due to the reversal of provisions for variable compensation components. This development is a reflection of the implementation of the Institution Compensation Systems Regulation, which requires the institution to consider the overall result in the measurement of variable compensation components. In addition, the item of other administrative expenses was 3.1 percent less than the corresponding year-ago figure, thanks to the various cost reduction measures initiated at the start of the current year.

With regard to the bank's subsidiaries, the Helvea Group and the Baader & Heins Group generated positive profit contributions, whereas the CCPM Group contributed a small loss.

About two thirds of the result from associated companies in the total amount of EUR -0.8 million are attributable to the Group's share in the profits of these companies, and one third is attributable to the amortization of goodwill.

Tax expenses represent the Group's actual tax burden.

The Group had 457 employees as of September 30, 2015 (09/30/2014: 490).

Earnings per share came to EUR -0.04 (09/30/2014: EUR 0.02).

## **LIQUIDITY**

As of September 30, 2015, current receivables and available-for-sale marketable securities amounted to EUR 487.6 million, whereas current liabilities amounted to EUR 181.0 million, resulting in a net balance sheet liquidity surplus of EUR 306.6 million. The Group's solvency was assured at all times in the reporting period.

## **OUTLOOK**

China's economic problems and the looming interest rate hike in the United States remain potential stress factors for international equity markets. The measures taken by governments and central banks to quell potential problems in the late summer appear to be yielding early positive results. In the meantime, investors are focused on fiscal policy and monetary policy instruments, which should have the effect of permanently calming the situation in financial markets. Furthermore, the U.S. Fed will delay its first interest rate hike until 2016 in the presence of justified doubts concerning the stability of U.S. economy and to prevent economically damaging capital flight from emerging-market countries. Moreover, the world's most prominent industry label "Made in Germany" is not likely to sustain serious damage as a result of the VW emissions scandal. This conclusion is supported by the outperformance of the MDAX, which is especially sensitive to current economic conditions, compared to the lead index DAX, among other factors.

Finally, the ECB, the Bank of Japan, and the People's Bank of China continue to bear responsibility for counteracting economic and political crises by maintaining generous amounts of liquidity in the markets. Considering the unattractive returns of fixed-income investments, therefore, Eurozone equity markets are still supported by the liquidity argument. However, continued high volatility can be expected in the equity markets.

A sustained upward trend of European and German equities is also supported by fundamental data. First, this region offers considerable economic catch-up potential after having been held back for so long by the restrictive effects of the government debt crisis. The relatively weak euro, which can be expected to stimulate exports, coupled with record-low borrowing rates and very low energy prices provide an excellent environment for stable economic and company data.

Unterschleissheim, October 28, 2015  
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