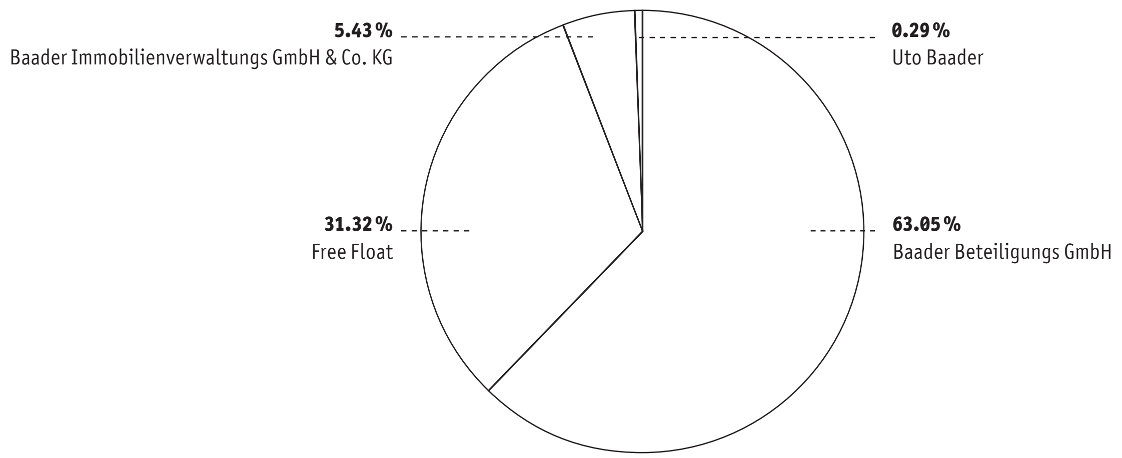
BAADER

2013 Consolidated Financial Statements of Baader Bank Group

Key data

Consolidated Income Statement		2013	2012	Change in %
Net interest and current income	€ mn	6.20	6.50	– 4.8
Net income from commissions	€ mn	49.54	39.19	26.4
Net profit from trading portfolio	€ mn	42.61	35.51	20.0
Administrative expenses	€ mn	– 105.37	– 93.23	– 13.0
Net income	€ mn	– 0.18	8.81	> – 100.0
Consolidated statement of financial position				
Total capital	€ mn	135.30	138.90	– 2.5
Total assets	€ mn	617.87	516.14	19.7
Financial ratios				
Employees (as of 31.12.)		473	430	10.0
Order books (as of 31.12.)	Number	702,015	669,451	4.9
Baader Bank Share price				
Open price (02.01.)	€	1.97	1.85	6.5
High price	€	2.55	2.29	11.4
Low price	€	1.75	1.71	2.3
Close price (30.12.)	€	2.45	1.95	25.6
Market capitalisation (30.12.)	€ mn	112.48	89.52	25.6
Transaction volume (daily average)	Unit	17,159	14,912	15.1

Shareholder structure



Contents

1 Information about the Baader Bank Group

The financial statements of the Baader Bank Group for the 2013 financial year include eight consolidated subsidiaries in addition to the parent institution Baader Bank AG. The Helvea Group joined the Group during the year. Baader Management AG's name was changed to Skalis AG in the fourth quarter of the year. The head office of the independent, owner-managed group of institutions is situated in Unterschleissheim, near Munich. At the end of 2013, the Baader Bank Group employed a total of 473 people. The development of the Group's business is essentially determined by Baader Bank. Baader Bank holds a full banking licence and is a member of the Deposit Protection Fund of the Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken).

Two areas form the mainstay of the Baader Bank Group's business model. In market making, the Bank offers its customers long-standing expertise and high-quality services for pricing, trading and settlement of financial instruments on the global capital markets. With its innovative technology, it supports exchange-based and OTC trading in over 700,000 securities, making it Germany's leading securities specialist.

In **investment banking**, the Bank specialises in German, Austrian and Swiss equities. It offers institutional investors a highly efficient trading and distribution unit for equities, bonds, futures and options. A team of more than 20 experienced senior analysts assesses companies from the German-speaking countries.

The Baader Bank Group develops independent solutions across the entire corporate finance spectrum for SMEs from these countries that are active in the capital markets. It supports companies in the performance of equity and debt capital market transactions such as IPOs, corporate actions, bond issues and the structuring and placement of promissory notes. Moreover, in its role as a corporate broker, the Baader Bank Group provides a comprehensive range of services for enhancing investor dialogue and improving secondary market liquidity.

The Baader Bank Group's range is further complemented by the products and services offered by its **subsidiaries**. These include brokering promissory notes and money market investments, as well as managing client monies in hybrid funds and absolute return strategies. The Bank's holding in Clueda AG opens up new possibilities for analysing information on pricing, and big data applications have now been implemented in securities trading as part of a joint project. Both institutions were awarded the "Best Big Data Project 2013" prize by Computerwoche magazine.

2 Economic report

2.1 Overall economic and sector-specific environment

The markets in 2013 – driven by monetary policy

The central banks' monetary policy had a profound impact on global financial markets in 2013. In the United States, the Federal Reserve – the US central bank – implemented a generous liquidity policy in the first half of the year to counteract the automatic spending cuts and tax increases aimed at consolidating the budget. In April, the Bank of Japan's decision to buy up securities with a value equivalent to USD 70 billion each month led to a considerable weakening of the yen and a marked improvement in sentiment on the Japanese stock market. The persistently loose monetary policy provided the basis for robust government bond and equity markets – even in struggling eurozone countries. The ECB made its position on monetary policy abundantly clear, cutting its key interest rate twice and closing the year on a rate of 0.25%.

In a surprise move halfway through the year, the US central bank announced its intention to begin reducing its programme of bond buying in a process known as "tapering" – a move which dampened momentum on the capital markets. Concerns that the days of a liquidity policy from the US central bank favourable to the financial markets and the economy were coming to an end were reflected in interest rate rises, some of them significant, that continued until September. This trend also spread to the German market. The current yield on German government bonds rose from 0.98% in May – its lowest point in the year – to 1.67% in September.

Nonetheless, it eventually became clear that there would still be an ample supply of liquidity, and investor sentiment improved noticeably as the year went on. The Fed's commitment to keep interest rates effectively at zero for a long time to come also had a calming effect.

From the start of the year, equities were the clear winners on the financial markets – based on MSCI indices in euros. American shares grew by some 24% over the year as a whole. While the DAX rose by an impressive 25.5%, the MDAX once again proved even more successful, ending the year up by 39.1%.

By contrast the long-standing boom experienced by German government bonds came to an end, although they continued to be seen as a safe haven. Nevertheless, thanks to the easing of the sovereign debt crisis in the eurozone, government securities from the peripheral eurozone countries took centre stage for foreign investors, and risk premiums on Bunds fell appreciably. Yield premiums on five-year Italian and Spanish government securities fell over the course of the year; having begun the year at 3.8 and 3.0 percentage points respectively, they both ended the year on 1.8. In spite of this, concerns that the Fed would reduce the supply of liquidity had a considerably greater negative impact on government bonds issued by emerging countries. Bonds from emerging markets with current account deficits and high levels of foreign debt were particularly hard hit.

2.2 Business development

Market position of the Baader Bank Group

As a **market maker** on exchanges in Berlin, Bern, Düsseldorf, Frankfurt, Munich and Stuttgart, Baader Bank continued to build on its leading position during 2013. The Bank was an active supporter of the introduction of a quality guarantee for trading on the Frankfurt Stock Exchange. The guarantee ensures that investors can buy or sell at a price equivalent to that on the respective reference market or better. By taking over the Xetra specialist equity mandates in Frankfurt from Schnigge Wertpapierhandelsbank, Baader Bank made an active contribution to the ongoing consolidation in the "lead broker" or "specialist" sector. There are currently still 11 active specialists at the Frankfurt Stock Exchange.

Of the companies quoted on the stock exchange for the first time, the RTL Group, Deutsche Annington and Osram Licht chose Baader Bank as their specialist on the Frankfurt Stock Exchange.

In international business, Baader Bank became the partner for the Swiss stock exchange, BX Berne eXchange. Since 20 November 2013, Swiss investors have had a simple, affordable way to trade in foreign equities in Swiss francs in Bern.

At €1.16 trillion, overall turnover on the spot markets on the Deutsche Börse was only able to match the previous year's levels. Given that equity prices were significantly higher, stock market turnover was very disappointing. Institutional and private investors in Germany remained reluctant to invest in equities. The Stuttgart Stock Exchange reported record turnover in equities trading. In the international equities segment, where Baader Bank acts as the sole market maker, trading volumes were some 40% higher than in the previous year.

Baader Bank greatly expanded its OTC trading activities during the past year, concluding cooperation agreements with additional major online banks and brokers, such as Brokerjet, dwp Bank AG and Cortal Consors. Overall turnover was more than double the previous year's level.

Market making in fixed-income securities was adversely affected by the low interest rates in 2013, as well as the fact that many investors turned to other asset classes. The "Baader Bondboard" platform for bond investors improved considerably, with the aim of providing investors with an appealing focal point for information, with extensive search capabilities.

Market making turnover in funds/ETFs increased significantly during the year. Baader Bank's renewed mandate as a mutual fund specialist and the expansion of its existing range of products meant that the number of order books managed in Frankfurt almost doubled. In contrast, turnover in securitised derivatives fell. The Bank won one new issuer as a customer.

In **investment banking**, the Bank is increasingly perceived and used by investors and corporate customers as an efficient, specialised broker for the Germanspeaking countries, particularly since it acquired the Swiss broker Helvea in August 2013. Helvea has relationships with institutional investors all over the world, built up over more than ten years, and focuses particularly on Switzerland, the United Kingdom and the USA. Thanks to Helvea's offices in Geneva, Zurich, London, Montreal and New York, the Bank now has direct access to investors and corporate customers in these cities.

There was also a welcome increase in equities business, again thanks to the Helvea integration. The number of investors using the Baader Bank Group as a broker rose appreciably. Customers now have access to a team of more than 20 experienced senior analysts providing analysis of individual stocks and sectors, technical market assessments and global investment strategies. In future, the team will be able to provide regular analysis of around 220 companies from Germany, Austria and Switzerland. Baader Bank's investment banking team was recognised with top rankings in the Thomson Reuters EXTEL Awards. In the Trading and Execution segment for German equities, the team was awarded second place – an outstanding result. These awards reflect how much investors value the Bank's services, both in Germany and abroad.

Baader Bank further expanded its capital market financing activities during the year. The full range of products and services for equity and debt financing is now also available to Swiss companies.

In July 2013, the Bank was involved in the issue of €75 million of bonds by DIC Asset, as joint bookrunner. Baader Bank was once again one of the top players in equity transactions for companies from the German-speaking countries, ranking third as measured by the number of transactions. There was a considerable increase in activity among SMEs, particularly around the end of the year. This enabled the Bank to add a further issue of more than €25 million to the successful placement of mandatory convertible bonds issued by VIB Vermögen during the year. At the end of the year, the Bank successfully worked with Allgeier SE to place treasury shares for the company. As a corporate broker, Baader Bank won designated sponsor mandates from ten German and Austrian listed companies.

Institutional bond trading suffered as a result of the low prevailing interest rates, which were reflected in declining turnover and revenues across the whole sector.

The second Baader Investment Conference once again provided an attractive platform for institutional investors and corporate customers to exchange ideas. More than 700 representatives of listed companies met with institutional investors from 25 countries in Munich between 24 and 26 September 2013. In addition to group presentations, around 1,250 individual meetings were organised. The Baader Bank Group also organised more than 380 roadshow days during 2013, spread across nearly 20 countries.

The Bank's Asset Management Services section provides a wide range of services for fund investment companies and asset managers, and performed very well during the year. Assets under management grew by 26% to €1.7 billion, and the number of managed mandates rose by 8 to 36.

Among the Group's **subsidiaries**, Baader & Heins Capital Management AG achieved a very good result in 2013. In a volatile market environment, the company benefited from the continuing high level of liquid assets held by institutional investors and their search for attractive investment opportunities in the money markets. Promissory notes also remained very popular in the current phase of low interest rates, owing to their accounting advantages for certain groups of investors.

As expected, Helvea Holding SA's contribution to Group results was negative in the first year of consolidation.

The contribution made by Conservative Concept Portfolio Management AG, a specialist provider of absolute return strategies, was positive. However, despite this good performance, assets under management fell.

Gulf Baader Capital Markets S.A.O.C. benefited from a marked recovery on the region's equity markets and the resulting activity on the capital markets, going on to achieve a record result.

Fleischhacker AG was merged into the parent company during 2013.

Baader Management AG has now been renamed Skalis AG and was sold to Baader & Heins Capital Management AG in the third quarter of 2013. Skalis AG focuses on the management of hybrid funds, launching its first, Skalis Evolution Flex, at the end of 2013.

2.3 Results of operations and financial position

2.3.1 Results of operations

The results of the Baader Bank Group's operations (including earnings components/financial performance indicators) for the 2013 financial year compared with the previous year were as follows: → **Table 1**

Net interest income is largely attributable to interest income from the investment of liquid assets in fixed-income securities and money market products (€14,288 thousand), interest expenses from the issue of own promissory notes (€8,891 thousand) and loans taken out to refinance the Group's headquarters (€1,061 thousand).

Current income increased by €110 thousand over the previous year. This increase was mainly due to higher dividend income from the portfolio of equities and other variable-rate securities, which rose to €1,671 thousand in the 2013 financial year.

Net fee and commission income increased considerably in the reporting year, by €10,346 thousand, or 26.4%. The Helvea Group subsidiaries which became part of the Baader Bank Group during the year contributed net fee and commission income of €12,545 thousand to consolidated net profit in their first year of consolidation. Income from brokerage of promissory notes at the subsidiary Baader & Heins AG also increased.

Net income from the trading portfolio increased by €7,100 thousand compared to the previous year, largely as a result of increased income from market making activities.

Administrative expenses comprise personnel expenses, general administrative expenses and depreciation and amortisation on intangible assets and property, plant and equipment. Personnel expenses increased by €4,941 thousand, of which €6,152 thousand was attributable to the initial consolidation of the Helvea companies. Variable remuneration components fell by €345 thousand compared to the previous year. A reduction in the required additions to provisions for pension obligations resulted in a fall of €1,554 thousand in personnel expenses. Other administrative expenses increased by €5,414 thousand, or 15.6%, over the previous year. €6,918 thousand of this increase related to the Helvea Group. Expenses for fees, compulsory contributions and legal costs were reduced by €1,701 thousand. Depreciation and amortisation increased by €1,788 thousand compared with the previous year and, in addition to depreciation on the administrative building, primarily comprised depreciation and amortisation on purchased order books, goodwill and software.

Table 1 Results of operations

	2013	2012	Change	
	€ thousand	€ thousand	€ thousand	%
Net interest income	4,515	4,934	–419	–8.49
Current income	1,680	1,570	110	7.01
Net fee and commission income	49,536	39,190	10,346	26.40
Net profit from the trading portfolio	42,613	35,513	7,100	19.99
Administrative expenses	–105,371	–93,227	–12,144	13.03
Partial operating loss	**–7,027**	**–12,020**	**4,993**	**41.54**
Other expenses (–) and income (+) (including risk provisions)	6,384	20,355	–13,971	–68.64
Income from amounts released from the fund for general banking risks	2,130	2,800	–670	–23.93
Operating profit	**1,487**	**11,135**	**–9,648**	**–86.65**
Net tax result	–1,269	–1,852	583	–31.48
Third-party share of net income	–400	–473	73	–15.43
Net profit/loss for the year	**–182**	**8,810**	**–8,992**	**>–100.00**

Table 2 Net assets

Assets	2013 € thousand	2012 € thousand	Change € thousand	%
Cash and cash equivalents	94,477	62,133	32,344	52.06
Loans and advances to customers	34,665	34,950	– 285	– 0.82
Debt securities and other fixed-income securities	288,849	245,177	43,672	17.81
Equities and other variable-rate securities	33,641	11,109	22,532	> 100.00
Trading portfolio	51,708	59,750	– 8,042	– 13.46
Equity investments and interests in associates	10,243	5,709	4,534	79.42
Intangible assets and property, plant and equipment	82,970	83,197	– 227	– 0.27
Other assets	10,864	8,883	1,981	22.30
Prepaid expenses and accrued income	2,347	1,121	1,226	>100.00
Excess of plan assets over pension liabilities	8,101	4,108	3,993	97.20
Total assets	**617,865**	**516,137**	**101,728**	**19.71**
Equity and liabilities				
Liabilities to banks	109,576	65,194	44,382	68.08
Liabilities to customers	352,653	297,071	55,582	18.71
Trading portfolio	4,754	1,619	3,135	> 100.00
Other liabilities	5,481	3,919	1,562	39.86
Provisions	10,018	9,410	608	6.46
Fund for general banking risks	25,170	27,300	– 2,130	– 7.80
Shareholders' equity	110,213	111,624	– 1,411	– 1.26
Total assets	**617,865**	**516,137**	**101,728**	**19.71**

The decline in other income (including risk provisions) compared with the previous year (€13,971 thousand) is mainly due to lower contributions from financial investments and the liquidity reserve. The item also includes non-cash benefits from company cars (€440 thousand), income from the reversal of provisions (€115 thousand) and income and expenses relating to other periods (€205 thousand).

In the 2013 financial year, €2,130 thousand was released from the fund for general banking risks in accordance with Section 340e (4) No. 2 of the HGB.

The partial operating result improved substantially compared with the previous year. Nonetheless, thanks to lower income from financial investments and the liquidity reserve, operating profit was restricted to €1,487 thousand.

The net tax result essentially comprises income taxes for the past financial year amounting to €1,010 thousand.

As at 31 December 2013, the total net loss reported for the year was €– 182 thousand.

2.3.2 Financial position

At the reporting date the Bank had cash reserves and short-term loans and advances to banks and customers of €115,927 thousand and available-for-sale marketable securities of €355,487 thousand, against short-term liabilities to banks and customers amounting to €157,358 thousand. This results in a net liquidity surplus on the balance sheet of €314,056 thousand (previous year: €289,887 thousand).

As at 31 December 2013, Baader Bank AG's liquidity ratio stood at 4.36. The liquidity ratio in accordance with the German Liquidity Regulation represents the ratio of cash and cash equivalents to payment obligations with a maturity of up to one month. Baader Bank AG's payment obligations may not exceed the level of cash and cash equivalents. This implies that the liquidity ratio may not fall below 1.0.

At the reporting date, there were unused credit line agreements at a German bank amounting to €80 million. There were no special loan covenants.

Liquidity was guaranteed through the entire reporting period and is also ensured in the future by risk monitoring.

2.3.3 Net assets

As at 31 December 2013, the net asset and capital structure of the Baader Bank Group compared with the previous year was as follows: → **Table 2**

As at 31 December 2013, the Baader Bank Group's total assets stood at €617,865 thousand, €101,728 thousand (19.71%) higher than the previous year. The main reasons for this increase were the rise in liabilities to banks (€+44,382 thousand) and the increase in customer deposits (€+55,582).

Cash and cash equivalents

The increase of €32,344 thousand in cash and cash equivalents is due to the investment of higher levels of customer deposits.

Securities

Items presented under the securities heading rose by a total of €58,162 thousand. → **Table 3**

The increase in debt securities and other fixed-income securities is mainly attributable to the inflow of funds on the liabilities side and the need to meet liquidity regulations. Newly acquired holdings were allocated in full to the liquidity reserve.

The equities and other variable-rate securities balance reported at the balance sheet date increased by €22,532 thousand. Of this amount, €13,595 thousand relates to a reclassification from the trading portfolio to the investment portfolio which occurred during the 2013 financial year. The remainder of the increase is due to a change in the use of cash inflows on the liabilities side as a result of timing factors prevailing at the reporting date. Newly acquired holdings were allocated in full to the liquidity reserve.

The fall of €8,042 thousand in the trading portfolio is mainly the result of the reclassification referred to above (€-13,595 thousand), along with the corresponding outflow of funds (increase in liabilities).

Table 3 Securities

	2013 € thousand	2012 € thousand	Change € thousand	%
Debt securities and other fixed-income securities	288,849	245,177	43,672	17.81
Equities and other variable-rate securities	33,641	11,109	22,532	> 100.00
Trading portfolio	51,708	59,750	– 8,042	– 13.46
Securities portfolio	**374,198**	**316,036**	**58,162**	**18.40**

As at 31 December 2013, the securities portfolio contained bonds and debt securities from issuers in the "GIIPS" countries (Greece, Italy, Ireland, Portugal, Spain) in the following amounts: → **Table 4**

Table 4 BONDS AND DEBT SECURITIES FROM ISSUERS IN THE "GIIPS" COUNTRIES IN € THOUSAND

	Other issuers	Public issuers
Greece	0	2
Italy	0	0
Ireland	13,561	2,190
Portugal	0	0
Spain	7,052	10,000
GIIPS countries 31.12.2013	**20,613**	**12,192**

Equity investments and interests in associates
The carrying value of equity investments and interests in associates rose by €4,534 thousand during the financial year to €10,243 thousand. The increase relates to acquisitions of €4,577 thousand, an increase in the share of profit from these of €186 thousand and depreciation of €229 thousand.

Intangible assets and property, plant and equipment
The fall of €227 thousand in intangible assets and property, plant and equipment to €82,970 thousand is due to depreciation and amortisation of €9,976 thousand posted during the 2013 financial year, offset by investments of €7,018 thousand. A further €2,746 thousand is due to changes in the scope of consolidation.

Investments in intangible assets are largely attributable to the expansion of implemented trading systems (€1,825 thousand) and the acquisition of order books (€525 thousand). Investments in property, plant and equipment relate mainly to work to extend the Group's headquarters (€2,897 thousand) and operating equipment and office equipment (€935 thousand). Depreciation on property, plant and equipment was €2,716 thousand, and amortisation on intangible assets was €7,260 thousand (goodwill €2,508 thousand; order books €2,551 thousand; software €2,098 thousand).

Other assets
Other assets increased by €1,981 thousand to €10,864 thousand. This is primarily attributable to receivables due from the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) as a result of advance payment of contributions in accordance with the German Act Establishing the Federal Financial Supervisory Authority (Finanzdienstleistungsaufsichtsgesetz – FinDAG) (€1,346 thousand), the increase in receivables due in relation to brokerage fees, price differences and transaction fees (€+918 thousand), and the rise in other tax receivables (€+989 thousand). At 31 December 2013, total other assets were as follows: → **Table 5**

Excess of plan assets over pension liabilities
The excess of plan assets over pension liabilities increased by €3,993 thousand to €8,101 thousand compared with the previous year. → **Table 6**

The increase is largely attributable to the higher level of cover assets (fair value), which rose to €17,791 thousand, and was made up as follows as at 31 December 2013: → **Table 7**

Table 5 OTHER ASSETS

	2013	2012		Change
	€ thousand	€ thousand	€ thousand	%
Corporation tax credits (discounted)	5,814	7,307	– 1,493	– 20.43
Amounts due from the Federal Financial Supervisory Authority	1,346	0	1,346	n/a
Receivables from brokerage fees and price differences	1,157	239	918	> 100.00
Other tax receivables	1,146	157	989	> 100.00
Sales tax receivables	427	424	3	0.71
Reinsurance claims from life insurance policies	18	18	0	0.00
Other receivables	956	738	218	29.54
Other assets	**10,864**	**8,883**	**1,981**	**22.30**

Table 6 EXCESS OF PLAN ASSETS OVER PENSION LIABILITIES

	2013	2012		Change
	€ thousand	€ thousand	€ thousand	%
Pension obligations	– 10,857	– 11,373	516	– 4.54
Cover assets (fair value)	17,791	14,722	3,069	20.85
Pension provisions	1,167	759	408	53.75
Excess of plan assets over pension liabilities	**8,101**	**4,108**	**3,993**	**97.20**

Table 7 COVER ASSETS

	2013	2012		Change
	€ thousand	€ thousand	€ thousand	%
Loans and advances to banks, and equities and other variable-rate securities	15,396	12,109	3,287	27.15
Reinsurance cover	2,395	2,613	– 218	– 8.34
Cover assets (fair value)	**17,791**	**14,722**	**3,069**	**20.85**

Liabilities to banks and customers

Liabilities to banks and customers increased by 27.6% during the 2013 financial year, reaching a total of €462,229 thousand. This represents an increase of €99,964 thousand in absolute terms. Liabilities can be broken down as follows: → **Table 8**

Liabilities from trading activities

Liabilities from trading activities increased by €3,135 thousand to €4,754 thousand in comparison with the 2012 financial year. The increase is mainly due to derivative financial instruments with a negative market value.

Other liabilities

Other liabilities as at the balance sheet date were €1,562 thousand higher than in the previous year as a result of timing factors prevailing at the reporting date. They can be broken down as follows: → **Table 9**

Fund for general banking risks and shareholders' equity

The fund for general banking risks includes amounts deemed necessary, based on a prudent commercial assessment, to cover special risks. Separate allocations are also made to the fund out of net income from the trading portfolio, pursuant to Section 340e (4) of the HGB. As at 31 December 2013, the Baader Bank Group held reserves of this sort amounting to €25,170 thousand. Allocations to these reserves were made solely out of net income from the trading portfolio. In accordance with Section 340e (4) No. 2 of the HGB, an amount of €2,130 thousand was released from the fund for general banking risks in the 2013 financial year.

Movements in shareholders' equity in Baader Bank Group's were as follows: → **Table 10**

The change of €-1,410 thousand in shareholders' equity is the result of the overall consolidated loss for 2013 (€– 102 thousand), changes in the scope of consolidation (€– 58 thousand), dividends paid (€– 2,389 thousand) and the sale of treasury shares (€1,138 thousand).

Baader Bank AG's equity ratio was as follows: → **Table 11**

The above changes result mainly from the increase in total assets by 19.7% to €617,865 thousand. The Baader Bank Group's asset position remains stable overall.

2.4 Non-financial performance indicators

2.4.1 Employees

In the reporting year the number of staff employed within the Baader Bank Group increased from 430 to 473 as at the reporting date. There are 121 female employees and 352 male employees within the Group, from a total of 22 countries.

The Baader Bank Group places particular emphasis on staff training, and a high level of qualifications.

In view of this, HR work in 2013 again focused on supporting specialists and junior managers.

The range of additional social benefits for staff members enhances the appeal of the Baader Bank Group as an employer. For example, Baader Bank AG and the HELVEA Group grant all members of staff voluntary financial support of €10 thousand when they have a child, which resulted in the payment of €222 thousand in 2013.

With its own provident fund, Baader Unterstützungskasse e.V., the Group has an independent social institution that can guarantee occupational pensions to all Group employees.

The management would like to thank all employees for the commitment and loyalty they have shown over the past financial year.

2.4.2 Environmental report

The activities of Baader Bank and its subsidiaries have no material impact on the environment in any way. Within the Bank, great emphasis is placed on conserving resources (copy machines, printers and other office equipment) and consumables. The head office in Unterschleissheim was built in accordance with state-of-the-art environmental principles, especially with regard to water, heat and air-conditioning, and is managed accordingly.

Table 11 Equity ratio in %

	2013	2012
Equity ratio	17.84	21.63
Modified equity ratio (including fund for general banking risks)	21.91	26.92

Table 8 Liabilities to banks and customers

	2013	2012	Change	
	€ thousand	€ thousand	€ thousand	%
Liabilities payable on demand	145,772	107,892	37,880	35.11
Borrowing from Eurex Clearing AG (GC pooling)	51,030	20,109	30,921	> 100.00
Promissory notes/bank loans used to refinance company headquarters	256,631	233,784	22,847	9.77
Other liabilities	8,796	480	8,313	> 100.00
Liabilities to banks and customers	**462,229**	**362,265**	**99,964**	**27.59**

Table 9 Other liabilities

	2013	2012	Change	
	€ thousand	€ thousand	€ thousand	%
Trade payables	2,372	1,491	881	59.10
Tax liabilities	1,383	979	404	41.27
Miscellaneous liabilities	1,726	1,449	277	19.12
Other liabilities	**5,481**	**3,919**	**1,562**	**39.86**

Table 10 Movements in shareholders' equity

	2013	2012	Change	
	€ thousand	€ thousand	€ thousand	%
Issued capital	45,632	45,049	583	1.29
Capital reserve and retained earnings	61,323	56,286	5,037	8.95
Retained profit	1,116	8,439	– 7,323	– 86.78
Minority interests	2,142	1,850	292	15.78
Shareholders' equity	**110,213**	**111,624**	**– 1,411**	**– 1.26**

3 Subsequent events

No significant events occurred after the end of the Bank's financial year.

4 Risk report

4.1 Risk management in the Baader Bank Group

The Baader Bank Group's risk management system is organised so as to comply with the regulatory framework, in accordance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) as set out by Germany's Federal Financial Supervisory Authority, and to meet the internal economic requirements within the Group. It brings together the tools required in comprehensive risk management and control processes. Only risks are considered in this section; opportunities are discussed in the Forecast report.

4.1.1 Objectives of risk management

The overriding objective of the Baader Bank Group's risk management system is to guarantee its risk-bearing capacity at all times, thereby ensuring that the Baader Bank Group can continue to operate. As a result, newly emerging risks must be identified systematically and promptly, while existing risks and their possible financial consequences must be captured. Only by doing this is it possible to manage the Group's business activities while maintaining an awareness of risk. This means assuming quantifiable risks after full consideration, taking into account the Group's risk-bearing capacity, while categorically excluding risks that could threaten its existence.

To ensure that the Group always satisfies this principle, Group management is provided with a regular overview of the nature of all significant risks and the Baader Bank Group's risk-bearing capacity. This means that particular attention is paid to risk-bearing capacity, especially when defining the business and risk strategy.

4.1.2 Risk-bearing capacity

The Baader Bank Group's risk-bearing capacity is regularly reviewed by Baader Bank AG's Risk Control department (the parent company). This department is responsible for risk control at Group level. In the review, available risk cover is compared with the risk capital requirement. A going concern approach, examining a particular period of time, is used to establish the risk cover potential and manage risk-bearing capacity. Under this approach, the equity capital requirements set out under banking supervisory law in accordance with the German Solvency Regulation (Solvabilitätsverordnung – SolvV) may not be used for risk cover purposes. The aim of the going concern approach is therefore to ensure that business activities can continue, even if the risks examined under the approach should crystallise, while also fulfilling the secondary requirement of ensuring that the minimum capital requirements are met at all times.

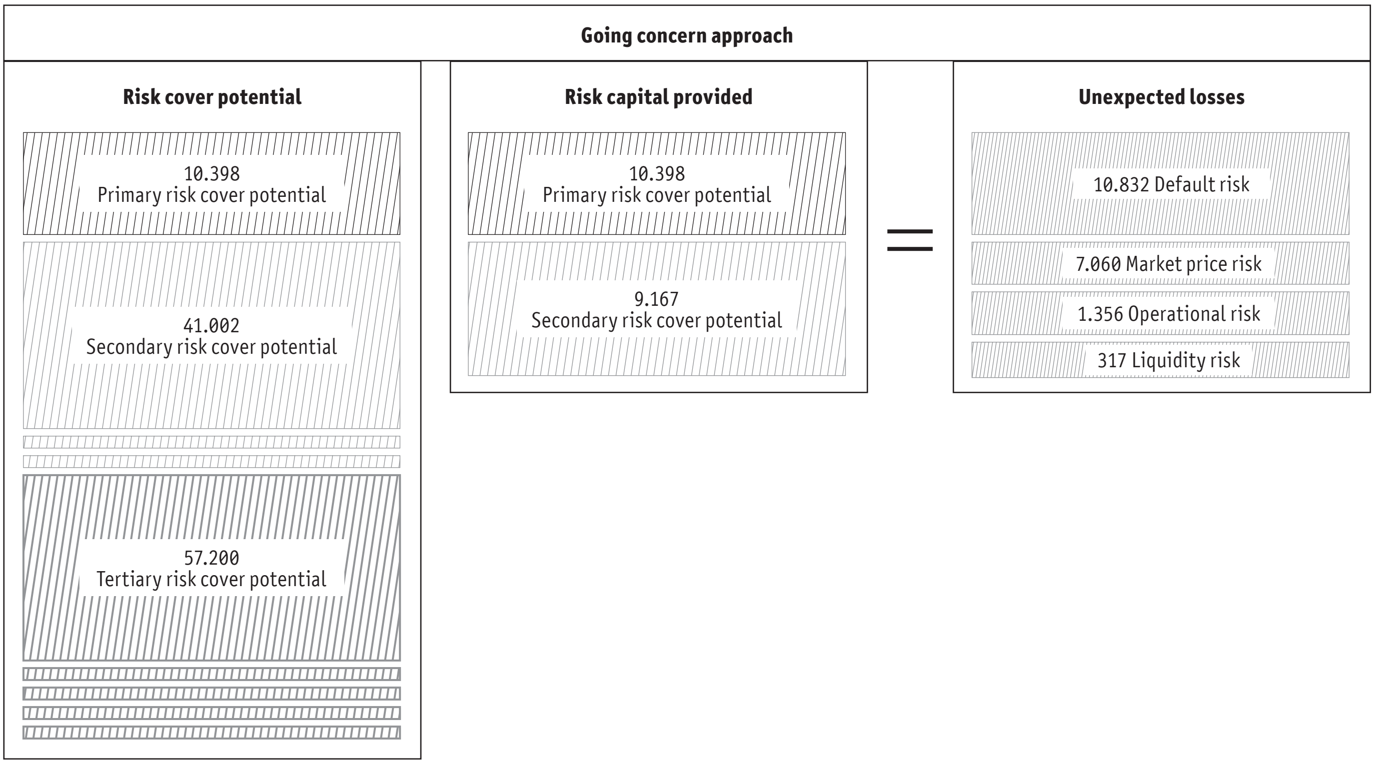
In addition, since primary and secondary risk cover potential within the Baader Bank Group are made up of forecast profits and items on the balance sheet, the method for establishing risk-bearing capacity is referred to as an income-statement and balance-sheet-oriented approach. The available risk cover potential is compared with the risks identified (risk potential). This means losses which occur have an effect on the income statement, for example within net trading income.

The overall risk that the Group can bear is limited by the risk capital that is made available for the purpose. Specifically, the available risk capital is allocated to the various risk types or the relevant business divisions/profit centres in a "top-down" process, and serves to limit risk. This means that a system of risk limits is in place to systematically restrict the extent of any losses that arise. As part of this process, maximum limits are set for unexpected risks. Risk cover potential and risk potential are reviewed at least once a quarter so as to incorporate any differences between the income statement forecast and the actual values into the model. Extraordinary adjustments are also made immediately to take account of any major losses that occur. As a rule, Group management only makes a portion of the risk cover potential available for the acceptance of risks, in order to ensure that risk-bearing capacity is guaranteed at all times. The risk capital requirement must not exceed the available risk cover potential.

The diagram below shows the Baader Bank Group's risk-bearing capacity as at 31 December 2013: → **Chart 1**

In summary, the policies and measures outlined above show that the Baader Bank Group's risk-bearing capacity was not in danger at any time in the 2013 financial year. This provides an excellent starting point for 2014.

Chart 1 Baader Bank Group's risk-bearing capacity in € thousand



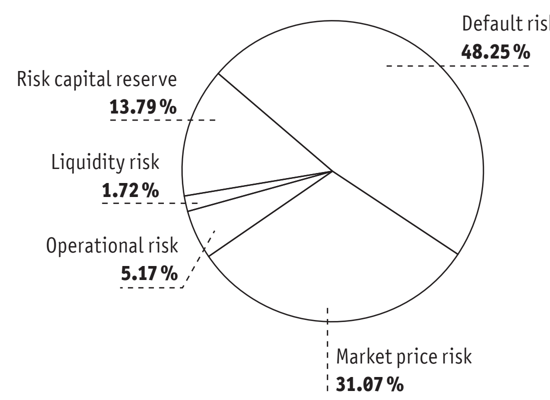
4.1.3 Risk inventory and risk strategy

The business strategy and the goals for the Baader Bank Group's main business activities are defined at the Baader Group management's annual strategy meeting. Strategic considerations take into account external factors, the assumptions underlying those factors and internal factors such as risk-bearing capacity, results of operations, liquidity, etc.

Based on the business strategy and taking into account internal factors, Group management establishes a risk strategy for the coming year that is consistent with the business strategy. In order to do this it is necessary to carry out a risk inventory for the Baader Bank Group, taking into account the business strategy.

The risk strategy established as a result of this process is broken down into sub-strategies according to the material types of risk. The principal objective of the risk policy strategy is to ensure that the Baader Bank Group's risk-bearing capacity is guaranteed at all times. Accordingly, a specific amount of the risk capital is made available by Group management for all material types of risk; this amount represents the maximum limit for losses in connection with a given type of risk. The risk capital made available by Group management for 2014 is allocated to the individual types of risk as follows: → **Chart 2**

Chart 2 Individual types of risk (MaRisk AT 2.2 Tz. 1)



As part of the regular Supervisory Board meetings, the approved business and risk strategy for the coming financial year is presented to and discussed with the parent institution's Supervisory Board.

4.1.4 Risk management structures and processes

The parent company's Risk Control department is responsible for risk control within the Baader Bank Group. In contrast, risk control for the individual institutions is decentralised within the Group. The Baader Bank Group's risk management system involves the identification, assessment, management, and monitoring and communication of the key risks in accordance with the requirements of MaRisk. These processes are as follows:

- The **identification** of new risks forms part of the "Activities in new products or new markets" process, in which the relevant business segments examine planned activities and identify the risks associated with them. Existing activities are reviewed on an ongoing basis. The parent company's Risk Control department also carries out a risk inventory for the Baader Bank Group at least once a year. The key types of risk for the Baader Bank Group are set out below: → **Chart 3**

- The risk **assessment** is carried out based on detailed analyses in the parent institution's Risk Control department, which works with the Trading/Market area to develop a concept for managing and monitoring these risks, before presenting it to Group management. Identified risks are quantified using a value-at-risk concept and any unexpected losses are compared with the risk cover available. The assessment is subject to a rolling 12-month time horizon, i.e. unexpected losses for the coming 12 months are compared with the risk capital available for that period. The procedure is presented in detail under point 4.2 for each type of risk.

- In accordance with MaRisk, risks are **managed** using a system of limits to mitigate the key risks involved. The limits are established by a majority decision made by Group management, based on the risk-bearing capacity. Limits may also be adjusted independently of this process if the Baader Bank Group's business activities and/or results make this necessary. The limits are loss limits, i.e. if a loss occurs, the limit is reduced by that amount. Profits have no effect on the limits. The system of limits therefore restricts potential losses, while also setting an upper limit for losses.

- Adding risks to the various levels of the limit system on an ongoing basis enables Risk Control to **monitor** risk appropriately. If a limit is breached, Risk Control is able to identify this immediately and take appropriate action. Risk Control has also established an early warning system for risks, in accordance with MaRisk.

- Group management is responsible for the proper organisation of the Group's business and its ongoing development. This responsibility includes all essential elements of risk management, including establishing risk policy. To ensure that Group management is able to meet this responsibility, a complex risk control reporting system is in place, which ensures that the **communication** requirements under MaRisk are met. This takes the form of daily reporting to and prompt notification of Group management in the event that limits are exceeded.

Chart 3 Key types of risk

Baader Bank Group

Material types of risk / included in risk-bearing capacity

Market price risk	Default risk	Operational risk	Liquidity risk
✓ Price risk ✓ Interest rate risk ✓ Currency risk	✓ Credit risk ✓ Counterparty risk ✓ Issuer risk (including migration risks) ✓ Shareholding risk	✓ Systems ✓ People ✓ Internal procedures ✓ External events	✓ Structural and ✓ Market liquidity risk

Material types of risk / included in risk-bearing capacity

Short-term liquidity risk

Structural limits established to prevent concentration risks

Credit-rating risk	Sector risk	Country risk

Immaterial types of risk: Reputational risk, property risk

In addition, Risk Control carries out stress tests for all material types of risk at least once a quarter. The results of the stress tests are passed to Group management in the MaRisk report and are also taken into consideration in the review of risk-bearing capacity.

The processes described ensure that key risks are identified early, fully captured and managed and monitored in an appropriate manner. Additionally, the processes are regularly reviewed and quickly adapted to changing circumstances. The methods and procedures applied are also subject to regular validation which examines whether the procedures and the underlying assumptions are appropriate, making changes if necessary.

The technical features of the risk monitoring and management systems are adequate with regard to the risk management system. Moreover, the Group takes care at all times to ensure that staff are appropriately qualified. As a department that is independent of the process involved, Internal Audit examines the risk management process at least once annually.

4.1.5 Significant changes compared with the previous year

The method for establishing risk-bearing capacity (going concern approach) was expanded in 2013 to include the liquidation approach for the first time. This approach focuses on protecting creditors in the event of a hypothetical liquidation. The objective here is to ensure that sufficient assets are held to settle claims from creditors, even if risks should crystallise.

Additionally, the risk of default by an issuer was quantified during the financial year for the first time, using a credit value at risk approach. The risk of a rating downgrade/upgrade (rating migration) was also measured for the first time, and both of these changes were taken into account in the calculation of risk-bearing capacity.

The principle used to determine the country to which a borrower unit is allocated was altered too. Previously, the country in which a borrower's registered office is located was the deciding factor for allocating exposures to country limits. This has now changed, so that the country of risk is now generally the relevant factor. This brings the principle into line with Risk Control's other limits relating to the structure of risk concentrations.

The stress tests for market price risks as at 31 December 2013 included "stressing" the existing portfolios in each profit centre for the first time.

4.2 Risks in the Baader Bank Group

Default risk, market price risk, operational risk and liquidity risk were identified as key risk types during the financial year. These risk types are discussed and assessed in detail below (and quantified on a net basis, taking into account any risk-reducing effects). The steps taken to mitigate risk are also explained. The business segments affected by the risks are outlined too. Where significant changes occurred during the reporting period, these are discussed.

4.2.1 Market price risk

Market price risks are generally understood to be any risks that arise as a result of a change in the market price of a financial position over a given period of time. Depending on the factor that changes, this may be equity price risk, interest rate risk or currency risk. Equity price risk refers to the risk that arises from changes in the price of equities; interest rate risk is the risk that the present value of a financial position that is sensitive to interest rates might be reduced as a result of changes in market rates of interest; currency risk (also exchange rate risk) refers to the risks arising from uncertainty about future changes in exchange rates.

In principle, the market price risks described are restricted to proprietary trading activities and do not arise from brokerage business. As a result, Market Making, Executive Board Proprietary Trading and Treasury are particularly susceptible to this risk at Baader Bank AG. At the end of the year, the trading and banking book (liquidity reserve) contained the following risk positions, measured at market value: → **Table 12**

No significant foreign currency risks arose within the Baader Bank Group during the financial year.

Market price risks are measured in the central trading system using a value at risk (VaR) model based on Monte Carlo simulations. The first step is to definite potential risk parameters, i.e. factors which would influence market price risk when they change, such as equity indices, yield curves, volatility surfaces and exchange rates. A variance-covariance matrix (VC matrix) is then calculated based on the Bank's own historical data on the defined risk factors, and the parameters underlying the normal distribution are determined. The VaR is then calculated with a confidence level of 99% for the applicable holding period (usually 1 – 11 days).

However, interest-rate risk in the banking book is determined with the aid of historical simulations in a separate system. Here, too, the VaR is calculated as the 99% quantile of the various changes in value.

The following VaR figures were calculated in previous years for the trading book and banking book (liquidity reserve), in € million: → **Table 13**

Table 13 VaR figures in € million

Value at risk of trading segments	2013	2012	2011	2010	2009
Year-end VaR	4.41	8.92	8.47	2.62	1.48
Minimum VaR	4.41	8.32	2.37	1.30	1.15
Maximum VaR	10.46	11.75	11.04	3.96	3.60
Average VaR	7.95	9.63	5.91	2.25	1.91

As at 31 December 2013, the worst-case scenario resulted in a VaR of €17.08 million.

In accordance with MaRisk, the quality of the VaR model is constantly reviewed as part of a backtesting (clean backtesting) process using the ratio of VaR figures to changes in a given position's market value based on actual price changes. If the number of "outliers" from backtesting exceeds the limit defined as critical, the parent institution's Risk Control department makes corresponding adjustments to the VaR model. The model is also reviewed on the basis of "dirty backtesting". Here, the actual daily earnings are compared with the value-at-risk figures in the trading segments.

An extensive system of limits has been set up in the Baader Bank Group's front office system to mitigate the impact of market price risk. All positions entered into by the profit centres are allocated to the relevant limits on an ongoing basis in this system. Within each business division, it is up to the board member responsible for trading to allocate the limit across the individual profit centres.

Limit overruns are immediately flagged in the monitoring system. Risk Control then reports this overrun to the board member responsible without delay, as part of the daily report to Group management. The action to be taken is communicated to Risk Control and its implementation is monitored.

The Baader Bank Group's exposure to market price risk fell considerably during the past financial year. The risk capital made available for market price risks was sufficient to cover potential unexpected losses arising as a result of market price risks at all times. Risk Control has therefore assessed the risk potential arising from market price risks as non-critical and does not consider that any action needs to be taken.

Table 12 Risk positions in € million market value

Spot market		Forward market	
Equities	49.58	Options	0.00
Bonds	279.46	Futures	– 7.42
Securitised derivatives	1.17	Swaps	0.00
Funds, index-linked and fund-linked certificates	26.20		

4.2.2 Default risk

Two methods are used to mitigate and monitor exposure to default risks – the available risk capital is used as a limit for overall default risk (default risk limit), and limits are set for individual borrower unit exposures. If a market area intends to incur a default risk in connection with a borrower unit that is not yet known, it must present a request in writing to Risk Control at the parent institution. Risk Control determines a credit rating category using an internal rating procedure, comes to a decision and submits it to the board member responsible for trading and monitoring. In order to mitigate cluster risk for a borrower unit, a corresponding limit for the borrower concerned is issued, taking into account the internal credit rating category, the type of asset and the applicable large loan ceiling in accordance with the German Large Exposure Regulation (Groß- und Millionenkreditverordnung – GroMiKV). Exposures in connection with all transactions involving credit risk are allocated to the limit for the borrower unit on an ongoing basis within the monitoring system. Risk Control monitors the extent to which these limits are utilised and reports this to Group management once a day, as part of the Group risk report. If a limit is exceeded during the course of any given trading day (both the default risk limit and the individual limit for a borrower unit are considered here), Risk Control reports this immediately to the board members responsible for markets and monitoring. The action to be taken is communicated to Risk Control and its implementation is monitored.

Every credit rating category is allocated to an external rating category, and hence to the corresponding probabilities of default (PD) for expected losses. IRBA risk weightings for unexpected losses are determined in accordance with the Bank's internal procedures for each of these credit rating categories, using the internal rating-based approach (IRBA) as set out in the version of the German Solvency Regulation in force on 31 December 2013. In this process, a loss ratio of 100% (loss given default, or LGD) is always assumed in the event of a default by the borrower unit concerned. Multiplying the resulting risk weightings by the weighting factor specified by the regulator gives the probability of unexpected losses for each credit rating category. "IRBA exposures", on the other hand, are obtained by multiplying the amount at risk by the corresponding unexpected loss factor, taking the credit rating category into account. These can then be compared with a VaR (value at risk) approach.

The overall IRBA exposure across all borrower units at Group level, comprising every risk type included in the process, must not exceed the risk capital available for default risk. This overall default risk limit is set by Group management as part of a quarterly exercise to fix risk limits and risk-bearing capacity.

When considering default risk, a distinction is made between credit risk, counterparty risk, issuer risk and investment risk. The individual types of risk are described in detail below:

As part of the lending business as defined in Section 1 (1) No. 2 of the German Banking Act (Kreditwesengesetz – KWG), private and corporate customers are granted Lombard and Lombard-like loans against collateral. This collateral generally consists of listed securities whose collateral value is set at an extremely conservative level, or bank guarantees.

The table below shows customer lending commitments as at 31 December 2013:
→ **Table 14**

As at 31 December 2013, the IRBA exposure for lending business stood at €0.19 million.

Specific loss provisions are created for all loans where an assessment of the customer's ability to repay the loan determines that they are non-performing. Loans are considered to be non-performing if it is unlikely to be possible to collect all interest and repayments due from the customer in line with the contractually agreed credit terms. At the reporting date of 31 December 2013, total risk provisions for all customer loans stood at €1.87 million.

Furthermore, the Treasury department makes money market investments at banks as part of the lending business. As at 31 December 2013 the total IRBA exposure for loans and advances to banks was €0.83 million.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all of its obligations. A distinction is made between replacement risk and advance payment risk here. Replacement risk is the risk of default by the counterparty concerned, leading to non-performance of the transactions concluded. Under MaRisk, stock exchange transactions and spot transactions where an amount equivalent to the transaction value has been acquired or is to be acquired on a delivery-versus-payment basis, or for which appropriate cover is available, are excluded for the purposes of counterparty risk. As a result, only OTC derivative transactions are affected. The Baader Bank Group, and more specifically Baader Bank AG, only trades in derivatives on derivatives exchanges. However, as the Bank is not a clearing member of these exchanges, transactions between Baader Bank AG and the clearing member concerned must be settled. A default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk. As at 31 December 2013, the IRBA exposure for replacement risk in connection with both derivatives held for hedging purposes in market making and Baader Bank AG's customer portfolios of derivatives was €0.08 million.

Where transactions are not settled concurrently as delivery-versus-payment transactions, the relevant risk is advance payment risk. When brokering promissory note loans where Baader Bank AG takes on the role of counterparty under the purchase agreement, an advance payment risk arises because payment and transfer of the instrument (certificate), including the declaration of assignment, do not take place at the same time. For the Bank, this risk only exists vis-à-vis the seller of the promissory note loan and lasts for the period between the payment and the transfer of the instrument. As at 31 December 2013, the IRBA exposure for advance payment risk stood at €0.38 million.

Issuer risk means the risk of a downgrade in the creditworthiness of an issuer, or default by an issuer. A loss from an issuer risk results in the impairment of the securities from this issuer. The credit rating of the issuer concerned thus represents a corresponding default risk. As at 31 December 2013, the IRBA exposure for issuer risk, particularly in connection with treasury positions, stood at €8.64 million.

The term 'equity investments' refers to investments pursuant to Section 19 (1) Sentence 2 No. 7 and No. 8 of the KWG (affiliated companies). Within the Baader Bank Group, equity investments are typically allocated to the banking book and measured as investments. In the case of equity investments, a risk arises from a downgrade in the creditworthiness of the issuer concerned, or a default by that issuer, and results in a corresponding impairment. As at 31 December 2013, the IRBA exposure for shareholding risk stood at €0.46 million.

In addition, there were no default risks associated with off-balance-sheet transactions.

Table 14 Customer lending commitments as at 31 December 2013 in € million

	Total lending commitments	Drawdowns	Overdrafts	Total drawdowns	Unutilised lending commitments	Collateral (measured)	Risk provision
Private customers	12.58	7.80	2.00	9.45	4.78	7.22	1.87
Corporate customers	16.78	10.06	0.20	10.85	6.72	13.75	0
Banks	0	0	0.10	0.10	0	0	0
Total	**29.36**	**17.86**	**2.30**	**20.40**	**11.50**	**20.97**	**1.87**

Default risk also comprises monitoring of concentration risks arising from credit risk, sector risk and country risk to identify and monitor possible risk concentrations (cluster risks) for the Baader Bank Group. However, no risk capital is allocated to cover these risks individually, so as to avoid multiple offsetting.

The default risk positions with reference to the said concentration risks as at 31 December 2013 compared with year-end 2012 are shown below:
→ **Table 15, 16 and 17**

Table 15 Positions by Credit rating Categories

	2013 Market value		2012 Market value	
Credit rating category	**€ million**	**%**	**€ million**	**%**
Credit rating category 1	22.30	5.18	9.46	2.50
Credit rating category 2	115.44	26.83	95.19	25.16
Credit rating category 3	235.74	54.80	235.18	62.15
Credit rating category 4	55.01	12.79	38.56	10.19
Credit rating category 5	1.71	0.40	0.00	0.00
Credit rating category 6	0.00	0.00	0.00	0.00
Credit rating category 7	0.00	0.00	0.00	0.00

Table 16 Positions by Sectors

	2013 Market value		2012 Market value	
Sector	**€ million**	**%**	**€ million**	**%**
Foreign government bonds	18	4.29	24.77	6.55
Automotive industry	30.73	7.14	27.06	7.15
Banks, savings banks, fin. institutions	177.91	41.36	162.81	43.02
Construction industry	22.89	5.32	162.81	5.99
Energy	25.95	6.03	22.67	6.39
Healthcare, pharmaceuticals	16.31	3.79	24.19	4.26
Retail	14.82	3.45	16.14	4.89
Capital goods	10.93	2.54	18.50	3.59
Consumer goods	8.79	2.04	13.57	2.37
Public sector	19.18	4.46	8.98	0.00
Raw materials & chemicals	23.06	5.36	0.00	4.05
Technology	26.11	6.07	15.33	0.84
Telecommunications & media	12.59	2.93	3.17	6.04
Tourism	0.00	0.00	22.85	0.00
Transport	9.50	2.21	0.00	3.51
Insurance	12.95	3.01	13.28	1.35

Table 17 Positions by Countries

	2013 Market value		2012 Market value	
Country	**€ million**	**%**	**€ million**	**%**
Belgium	2.82	0.66	0.04	0.01
Brazil	8.66	2.01	0.00	0.00
Germany	186.73	43.41	135.54	35.82
Denmark	21.11	4.91	20.41	5.39
Finland	8.79	2.04	8.98	2.37
France	18.22	4.24	11.90	3.15
United Kingdom	22.07	5.13	0.05	0.01
India	0.00	0.00	0.02	0.00
Ireland	2.25	0.52	6.85	1.81
Italy	6.64	1.54	4.32	1.14
Canada	4.38	1.02	4.22	1.12
Croatia	4.86	1.13	5.29	1.40
Luxembourg	34.45	8.01	47.34	12.51
Netherlands	3.17	0.74	53.68	14.19
Norway	15.21	3.54	0.00	0.00
Oman	4.37	1.02	4.55	1.20
Austria	1.19	0.28	13.31	3.52
Poland	2.05	0.48	1.20	0.32
Portugal	16.40	3.81	0.0	0.00
Switzerland	1.51	0.35	0.99	0.26
Spain	17.09	3.97	23.71	6.27
USA	48.22	11.21	35.99	9.51

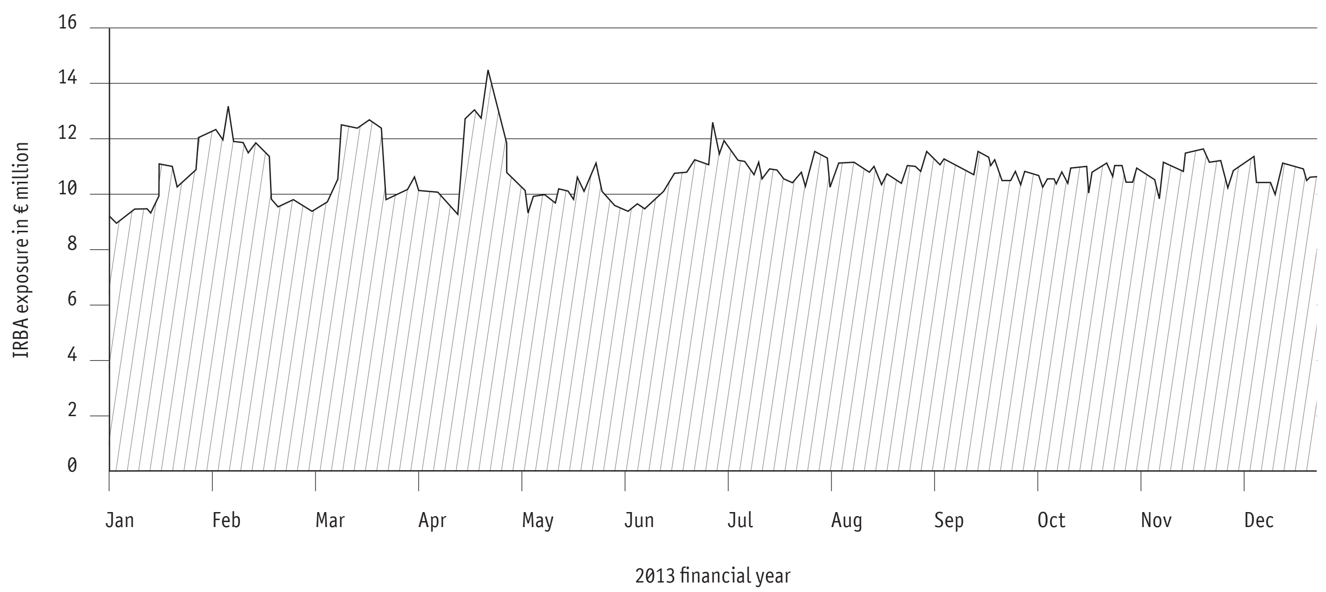
The majority of country risk arises in connection with bond holdings in the treasury portfolio.

The chart below shows additional information in relation to changes in default risk during the 2013 financial year: → **Chart 4**

As at 31 December 2013, the worst-case scenario resulted in a loss of €29.29 million.

The Baader Bank Group's exposure to default risk remained very stable during 2013, with no serious fluctuations. Exposure from GIIPS countries was reduced from 9.22% as at 31 December 2012 to 6.52%. A small improvement in the creditworthiness of borrowers was also achieved. Risk Control therefore deems current default risk to be reasonable and does not consider that any action needs to be taken.

Chart 4 changes in default risk



4.2.3 Operational risk

Operational risk is the risk of loss which results if internal control procedures, people or systems are inadequate or fail, or from external events. It also includes legal risks, but not strategic and reputational risks.

The parent company's Risk Control department evaluates the risk potential, i.e. operational risks across the Group are identified and assessed each year using questionnaires to be completed by operational risk managers and special self-assessments. The results of these questionnaires are presented to the Baader Bank Group's Security Committee for discussion. The Security Committee examines the steps proposed by Risk Control and considers whether any other measures are necessary, before making its recommendation to Group management. Group management makes the ultimate decision as to whether or not any such steps will be carried out and, where necessary, instructs the Security Committee to implement them. The results from the questionnaires are presented to Group management and the Supervisory Board in the quarterly MaRisk report.

In addition to completing the questionnaires, the operational risk managers are responsible for reporting any losses sustained as a result of operational risks. Operational risk managers have access to an application for this purpose, in which they must record any losses of €1,000 or more. For these purposes, "loss" is defined as follows: A loss is a financial loss greater than €1,000 that has a direct connection to operational risk. This also includes unrealised losses in the form of liabilities and provisions.

The causes of significant losses are immediately analysed. For this reason, Group management has charged Risk Control with forwarding details of loss events arising from operational risks to the chairman of the Baader Security Committee if such events meet any of the following criteria:

- Loss events where the loss is equal to at least €50,000, or
- Loss events that share the same cause, if they occur at least ten times in a quarter, or
- Loss events that share the same cause and for which the total loss is equal to at least €100,000 in a quarter.

Any resultant measures are also reported on a quarterly basis in the MaRisk report. In the 2013 financial year, losses totalling €0.92 million were reported. The highest individual loss amounted to €0.75 million and can be classified under the Basel III category of "Clients, Products and Business Practices".

In addition, as at the end of 2013, two significant legal disputes involving material financial risks are known. Even if the amount in dispute were awarded wholly to the other party, the financial impact on the Baader Bank Group's risk-bearing capacity would not be significant.

Unexpected losses from operational risks are quantified each quarter on the basis of losses recorded historically in the Baader Bank Group. The procedure uses the loss distribution approach, whereby the parameters of severity distribution and frequency distribution are estimated in accordance with the maximum likelihood method to determine a total loss per year. This approach assumes that loss amounts have a log-normal distribution, the number of losses follows a Poisson process and losses are independently and identically distributed. The aggregate loss distribution is estimated using statistical software based on the Monte Carlo simulation. For unexpected losses, the 99% quantile is used to determine the amount that must be covered by risk capital. The table below shows the VaR for operational risk over the past financial year for the Baader Bank Group: → **Table 18**

Table 18 VaR for operational risk for the financial year 2013 in € million

Value at risk operational risk	March	June	September	December
VaR at end of quarter	1.66	1.47	1.40	1.36

As at 31 December 2013, the worst-case scenario resulted in a loss of €6.99 million.

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

Quarterly stress tests are also carried out for operational risk. The procedure for quantifying losses using stress tests works in the same way as the procedure for determining unexpected losses. However, the 99.9% quantile is used in the stress scenario. The results of the stress tests are reported to Group management in the MaRisk report and are taken into consideration in the review of risk-bearing capacity.

Overall, Risk Control considers that operational risk is not critical, since there have been considerable improvements in processes and procedures during the past financial year. In addition, the VaR for operational risk has declined steadily. The available risk capital was sufficient at all times. The technical resources available for risk systems were deemed to be appropriate at all times during the past financial year.

4.2.4 Liquidity risk

The objective of managing liquidity risk is to ensure that payment obligations can be met at any given time. A distinction is made between market liquidity risk, short-term liquidity risk and structural liquidity risk.

Short-term liquidity risk (liquidity risk in the strictest sense) refers to the risk that credit commitments could be drawn down unexpectedly or deposits could be withdrawn unexpectedly (call risk). In addition to unexpected outflows, delays may occur in the receipt of payments, which means that the capital commitment periods of lending transactions are extended without notice (scheduling risk). This can have an effect on the Bank's ability to meet its payment obligations.

The Bank's ability to meet its payment obligations is managed and protected as part of the short-term provision of liquidity and is the responsibility of the Treasury department. Trading staff work closely with Treasury to ensure that daily cash flows are coordinated between these departments. Any particular demands on liquidity from other areas are raised immediately. The Payments and Treasury departments are responsible for ensuring that liquidity management functions effectively. A daily liquidity status report showing the current liquidity position is also prepared. Levels of surplus liquidity over the medium to long-term are calculated and reported on a regular basis, and the results of this are used to establish ways to use surplus liquidity and make decisions on how to invest it.

Various credit lines, and participation in the GC pooling market, are used to ensure that short-term liquidity requirements are met. Treasury also produces a comprehensive liquidity plan each month, which compares expected cash inflows and outflows. Monitoring of the liquidity ratio pursuant to Section 11 of the KWG, in conjunction with the Liquidity Regulation, is part of the reporting process on each trading day.

However, due to the unique nature of this risk it is not practical to quantify it and cover it with risk capital. The emphasis here is placed on the quality of risk management processes.

Structural liquidity risk (refinancing risk) refers to the risk that (present value) refinancing costs could increase on account of a possible increase in spreads for individual institutions. If there is a fall in creditworthiness, it is only possible to conclude deposit transactions under worse terms and conditions. In addition, market-driven changes can have a major influence. If the market interest rate rises, refinancing tends to become more expensive. Liabilities are managed at the operational level by issuing promissory notes on the capital markets. The liquidity obtained in this way is mainly invested in maturity-matched bonds eligible as collateral at the ECB, which in turn may be deposited at the Deutsche Bundesbank as refinancing facilities under the open market policy, or on the GC pooling market.

Possible refinancing losses are quantified through the preparation of liquidity progress reports and the calculation of potential liquidity shortfalls. Each quarter, a comparison is made between refinancing under current market conditions and the refinancing position if the unexpected were to occur. If unforeseen events were to occur, it is assumed both that refinancing would be significantly more expensive, and that there would be unexpected cash outflows. The resulting difference represents the refinancing loss if the unexpected were to occur; this difference is taken into account in determining risk-bearing capacity and, if necessary, covered with risk capital. As at 31 December 2013, the value at risk for structural liquidity risk was calculated at €0.00 million, since there was no shortfall in the normal case scenario and hence no refinancing was required. However, the risk in the worst case scenario was calculated as €3.79 million.

In addition, securities have different levels of market liquidity, and those with limited liquidity give rise to a liquidity risk. Low market liquidity in individual trading products means that transactions in these products are limited or impossible, both when opening and closing positions, because of the low level, or absence, of market liquidity. To mitigate this risk, the Risk Control department prepares assessments at regular intervals and communicates them to the corresponding board member. These assessments serve as the basis for decisions on what steps must be taken. Each quarter, the risk potential for the market liquidity risk is calculated, based on expert estimates, and risk capital is allocated accordingly to cover it. As at 31 December 2013 the relevant experts estimated the risk of unexpected losses at €0.32 million, and the loss in the worst case scenario at €0.93 million. As well as the calculation of this risk amount, there are various risk management and control processes that have an impact on the operational management of market liquidity risk, which is considered to be a significant risk category.

The Risk Control department carries out quarterly reviews to ensure that the risk capital provided is sufficient to cover unexpected losses from liquidity risks; this monitoring is part of the daily report to Group management.

In addition, liquidity risks are subject to quarterly stress tests. The procedure for quantifying losses using stress tests works in the same way as the procedure for determining unexpected losses. The results of the stress tests are reported to Group management in the MaRisk report and are taken into consideration in the review of risk-bearing capacity.

In addition, work during the financial year has focused on implementing regulatory requirements relating to liquidity ratios (LCR and NSFR), as a significant component of liquidity management. From March 2014 onwards, the Bank will report the LCR ratio to the regulator.

Overall, no potential losses were identified for structural liquidity risk in the event of unexpected circumstances. The risk potential for market liquidity risk is negligible when compared with the risk coverage capital. In addition, the Baader Bank Group holds only immaterial exposures in markets where liquidity is in short supply. As a result, Risk Control considers that the Baader Bank Group's liquidity risk is not critical.

4.3 Summary of the Baader Bank Group's risk position

The Baader Bank Group uses a structured risk management and control process and effective risk management tools to identify, measure and mitigate significant risks that arise. Our proactive approach to identifying risks and evaluating their consequences aims to mitigate the negative consequences of such risks on our financial results and our long-term strategic objectives. The central Risk Control unit, which quantifies and monitors all risks within the Baader Bank Group, ensures that interactions between the different types of risk are identified immediately and that action can be taken to counteract the risks at all times.

Stricter regulation was introduced in 2013 for the financial services sector. As a result, we are also focusing on taking proactive steps to identify political or regulatory changes and assess the potential effects these may have on our business model or processes.

As part of our risk strategy, only a portion of the available risk capital was made available by Group management to cover unexpected losses during the 2013 financial year. The allocation of risk capital to individual types of risk takes particular account of the current risk potential within each risk category, the business strategy for the coming years and market expectations. No risk-reducing correlation effects are assumed to exist between the risk types, i.e. the Baader Bank Group also takes an extremely conservative approach here. Given that the Baader Bank Group's risk-bearing capacity is assured at all times in these circumstances, in spite of the condition that the minimum capital requirements under banking supervisory regulations in accordance with SolvV must not be put at risk, Risk Control considers that the overall risk faced by the Baader Bank Group does not present cause for concern.

Although market conditions remain difficult and regulatory requirements continue to increase, the Baader Bank Group's risk position is considered to be very stable. The Baader Bank Group is prepared for the challenges of the coming years, thanks to its secure financial position and the huge technical and procedural strides it has made in its risk management and control processes.

5 Forecast report

Outlook for the market In 2014

Now that the budget dispute in the US has been resolved, the question of national bankruptcy will no longer be an issue for the financial markets in 2014. Although investors have been persistently expressing concerns as to the nature and extent of tapering, these worries have now subsided. The reduction in the US central bank's bond-buying programme from USD 85 billion to USD 65 billion each month as of January 2014 means that concrete information is now available. The Fed will only reduce its aggressive policies to promote economic recovery in very small stages, so as not to endanger America's incipient economic recovery. Depending on the data, it is even possible that it may resume higher levels of bond buying. As a result, the supply of liquidity in the USA will continue to increase for the time being. The fact that the Fed is continuing to keep interest rates low indefinitely has led to a general improvement in sentiment on the bond and equity markets.

In the eurozone, the ECB's monetary policy measures have yet to peak, as it notes with concern the deflationary trend in the peripheral states. The options available to it range from further interest-rate cuts to negative interest rates for funds on deposit and buying up government bonds to reduce yields further. Under extreme circumstances, the ECB could even take extraordinary steps to provide liquidity and stimulate commercial bank lending. As a by-product of this monetary policy, the euro would also be prevented from becoming too strong. The Bank of Japan is set to step up its efforts to provide liquidity too, so as to reach its goal of 2% inflation by 2015.

In the past, liquidity bubbles on the equity markets, such as the dotcom boom in 2000 or the property bubble in 2008, were burst by interest rate rises. However, given that many countries are still facing an economic crisis, there will be no major changes in liquidity and interest rates of this sort this time around, so the positive mood surrounding equities will continue. The excellent supply of liquidity is manifesting itself in share buybacks, higher dividend payout ratios and increased merger and acquisition activity.

Improving fundamentals are another factor in favour of equities. Economic forecasts from the ifo Institute for Economic Research suggest that the German economy is gaining strength. This usually means that company profits will improve too, although the effect tends to be delayed by a period of roughly six months. This in turn will improve share valuations.

Development of business segments within the Baader Bank Group

Market making activities should be able to take advantage of the improved climate in 2014, in particular the rising trend in share prices and higher turnover in exchange-based and OTC trading. The environment reflects the accelerating US economy and continuing growth in the eurozone – particularly in Germany. Baader Bank expects Germany's GDP to grow by 1.7%. Given that the central banks' monetary policy will continue to mean an excellent supply of liquidity, investors are likely to become less reluctant to take risks. From the Bank's point of view, the focus for investments will continue to be on equities in 2014. In contrast, bonds will continue to suffer as a result of low nominal and real interest rates, as well as growing fears of a turnaround in interest rates. Baader Bank believes that there is a risk that the bond markets could be subject to a massive bubble, unlike equities and property. The positive mood on the stock markets should attract more and more companies, thereby opening up opportunities to win more specialist mandates.

The Bank will continue to support the optimisation of the existing exchange-based trading model, and actively work towards consolidation in the lead broker/specialist sector. The partnership with BX Berne eXchange is expected to provide an initial boost in this area. In OTC trading, we aim to continue our focus on increasing the number of affiliated online banks and brokers and enhancing the range of services on offer. The Bank expects to see positive effects from the extensive use of the Clueda AG big data analysis applications that were introduced in autumn 2013.

The improved economic environment should also bring benefits in **investment banking**. The capital market environment provides a strong basis for the take-up of equity and debt issues. The Bank's focus on its role as a broker for the German-speaking countries brings with it an opportunity for the Bank to be used even more by institutional investors for trading activity and by Swiss companies for corporate finance transactions. The investors that Helvea caters to will in future benefit from the ability to trade not just in Swiss equities, but also German and Austrian stocks, as well as bonds, funds, ETFs and derivatives, while the investors that Baader Bank supports will also have access to Swiss products.

Bond trading for institutional customers will continue to suffer as a result of low interest rates in 2014. Investors are still searching for more attractive classes of investment. It is therefore not very likely that income from this sector will increase in 2014.

The Bank's focus on its role as a broker for the German-speaking countries brings with it an opportunity for it to be used even more than expected by companies and institutional investors for trading in capital market instruments. Mandates for IPOs or debt issues would be particularly attractive, and would be reflected in higher levels of commission income.

The Bank expects the subsidiary Baader & Heins Capital Management AG to continue performing well. Its product range is being steadily expanded to include brokerage of corporate promissory notes, so as to meet the investment preferences of institutional investors. We expect significant cash flows to be generated by Skalis AG and Conservative Concept Portfolio Management AG, which will also launch new funds.

The high levels of profits from Gulf Baader Capital Markets are expected to stabilise at that level.

Baader Bank's investment in Ophirum ETP GmbH enhances the range of services the Bank has to offer. The company is a vehicle for issues and there are plans for it to issue secured bearer bonds based on precious metals, in the form of exchange-traded products. This is expected to start in the first half of 2014.

Given the ongoing challenging conditions, the Baader Bank Group will continue to make a substantial investment in staff training and qualifications, while also investing to ensure that the Group retains its leadership in terms of technology. The favourable mood in the markets and stock exchanges is expected to lead to substantial growth in net trading income. Increased trading volumes in German and international equities will make the largest contribution to this. We expect net fee and commission income to be slightly above the previous year's level. Net interest income is not expected to change significantly. The reasons for this are the continuation of the low prevailing interest rates and the reduction in country risk brought about by the sale of foreign government bonds. The contribution made by subsidiaries to the Group's result is expected to increase. However, the cost of implementing the numerous regulatory requirements and the integration of Helvea will continue to have a negative impact on results in 2014. Nevertheless, we expect profit after tax will rise slightly in 2014 compared with the previous year. Provided there are no extraordinary unforeseen events with an impact on the Group's profitability, we currently expect that the 2015 financial year will see a clear increase in profits.

Unterschleissheim, 12 March 2014

Baader Bank AG
The Executive Board

Uto Baader Nico Baader Dieter Brichmann

Report of the Supervisory Board

In the past financial year the Supervisory Board fulfilled its responsibilities as defined by law and in the Articles of Association. It was regularly informed by the Executive Board about the position of Baader Bank AG and the Group, whilst monitoring and supporting the work of the Executive Board. The Executive Board informed the Supervisory Board of and consulted with it on business policy, fundamental future management issues, the financial position and strategic developments, the risk position and risk management as well as key business transactions. This took place both in conversations and in written form, and in a timely manner. Deviations in the progress of business and in earnings performance from plans and targets were explained individually and reviewed by the Supervisory Board. The Supervisory Board was included in decisions of major importance.

The Supervisory Board was also closely involved in determining the strategic focus aimed at generating additional revenues, the restructuring of existing business segments and the launch of new activities. In addition, the Executive Board regularly informed the Supervisory Board in its monthly reports about key financial performance indicators and the risk position of Baader Bank AG and the Group. Regular consultations were held on business data, changes in Group earnings and employee numbers, including subsidiaries, as well as the performance of all business segments. Where required by law, the Articles of Association or the rules of procedure, the Supervisory Board approved individual transactions requiring its consent after thorough examination and discussion.

The Supervisory Board convened five times during the reporting year. The focus of the discussions between the Executive Board and the Supervisory Board was primarily on the development of the new Investment Banking business segment, risks in the treasury portfolio and the acquisition of strategic equity investments. The Supervisory Board was closely involved in the process to acquire the Swiss company Helvea; it also ensured that it was informed on an ongoing basis about the progress of the acquisition and the integration of the Helvea companies. Other areas discussed during the year were emergency management, responsibilities for lending and limit-setting and remuneration systems for the Executive Board and employees. The positioning of Baader Bank AG, its financial performance and that of its subsidiaries, key business events and current changes in the stock market climate, particularly on the Frankfurt Stock Exchange, were also discussed. The compliance officer presented his half-yearly detailed report to the Chairman of the Supervisory Board.

A detailed discussion of Baader Bank's business and risk strategy and its enterprise planning also took place at the meeting held on 13 December 2013.

In addition, the Supervisory Board was informed between meetings about important plans and, where necessary, circular resolutions were passed in writing.

The Chairman of the Supervisory Board was also informed about important decisions and key business events in regular discussions with the Executive Board, and the minutes of Executive Board meetings were provided to him in a timely manner.

The financial statements and management report of Baader Bank AG for the year ended 31 December 2013, together with the consolidated financial statements and the consolidated management report for the year then ended, were audited in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) by the auditors appointed by the General Meeting of Shareholders, Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen. The consolidated financial statements and the consolidated management report were prepared in accordance with the provisions of the HGB, most recently amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute – RechKredV). The auditors conducted the audit in line with the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW).

All members of the Supervisory Board were sent the annual financial statement documents and auditors' report, together with the Executive Board's proposal for the appropriation of net earnings, in good time. In its meeting held today to discuss the annual results, the Supervisory Board carefully examined the annual financial statements and management report of Baader Bank AG presented by the Executive Board as well as the consolidated financial statements, the consolidated management report and the report on affiliated companies, including the audit report. The audit reports were available to all members of the Supervisory Board and were dealt with in detail in today's Supervisory Board meeting in the presence of the auditors. During the meeting, the Executive Board explained the financial statements of Baader Bank AG and the Group as well as the risk management system. The auditors presented the scope and the focal points of the audit and reported on the main findings of the audit, stating that there were no significant weaknesses in the internal control and risk management system.The Supervisory Board approved the auditors' findings. Following the conclusion of its examination the Supervisory Board raised no objections.

In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive Board prepared a report on affiliated companies. The auditors, Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, audited the Executive Board's report on affiliated companies in accordance with legal regulations and expressed the following unqualified:

"Having conducted a proper audit and appraisal, we hereby confirm that

1. the facts set out in the report are correct,
2. payments by the company in connection with the legal transactions referred to in the report were not unduly high and
3. the measures mentioned in the report do not give rise to an assessment substantially different from that of the Executive Board."

The Supervisory Board approved the financial statements and consolidated financial statements for 2013 in its meeting today. The 2013 financial statements are thus adopted. The Supervisory Board concurs with the Executive Board's proposal to pay a dividend from retained profit of €0.01 per dividend-bearing share and carry the remaining amount forward.

During 2013, the Supervisory Board elected to appoint Uto Baader to the Executive Board for a further term of three years. By mutual consent, Dieter Silmen resigned from the Executive Board on 31 December 2013.

The Supervisory Board would like to thank the Executive Board and all employees for their conscientious work and success in the past financial year.

Unterschleissheim, 21 March 2014

Supervisory Board

Dr. Horst Schiessl
Chairman

Consolidated annual financial statements

Contents of the consolidated annual financial statements

Consolidated balance sheet
as at 31.12.2013

Assets in €		**31.12.2013**		**31.12.2012**
1. Cash reserves				
a) Cash in hand	312.50		1,787.68	
b) Deposits at central banks	11,152,426.18	**11,152,738.68**	1,370,740.47	1,372,528.15
including:				
at the Deutsche Bundesbank € 11,152,426.18				
2. Loans and advances to banks				
a) Payable on demand	70,109,125.29		51,634,423.63	
b) Other loans and advances	13,214,964.87	**83,324,090.16**	9,126,063.70	60,760,487.33
3. Loans and advances to customers		**34,665,120.27**		34,949,761.92
including:				
secured by property liens € 0.00				
municipal loans € 0.00				
4. Debt securities and other fixed-income securities				
a) Bonds and other debt securities				
aa) from public issuers	24,892,519.84		23,855,157.55	
including:				
eligible as collateral at Deutsche Bundesbank € 20,038,254.26				
ab) from other issuers	263,956,065.99	**288,848,585.83**	221,322,149.09	245,177,306.64
including:				
eligible as collateral at Deutsche Bundesbank € 147,773,535.50				
5. Equities / other variable-rate securities		**33,641,399.76**		11,109,010.65
5a. Trading portfolio		**51,707,689.46**		59,749,677.63
6. Equity investments		**2,057,970.13**		1,440,083.31
including:				
in banks € 0.00				
in financial services institutions € 0.00				
7. Investments in associates		**8,184,741.54**		4,268,743.53
including:				
in banks € 0.00				
in financial services institutions € 0.00				
8. Intangible assets				
a) Purchased concessions, trademark rights and similar rights and assets, as well as licences to such rights and assets	22,726,012.60		24,048,025.96	
b) Goodwill	11,705,343.09		11,695,018.00	
c) Advance payments made	847,150.94	**35,278,506.63**	1,607,044.13	37,350,088.09
9. Property, plant and equipment		**47,691,658.43**		45,847,040.11
10. Other assets		**10,864,021.36**		8,882,541.17
11. Prepaid expenses and accrued income		**2,347,537.31**		1,121,439.54
12. Excess of plan assets over pension liability		**8,101,086.15**		4,108,204.37
Total assets		**617,865,145.71**		**516,136,912.44**

Equity and liabilities in €			**31.12.2013**		**31.12.2012**
1. Liabilities to banks					
a) Payable on demand		18,042,846.46		7,265,670.92	
b) With agreed term or period of notice		91,533,324.77	**109,576,171.23**	57,928,406.80	65,194,077.72
2. Liabilities to customers					
a) Other liabilities					
aa) Payable on demand		127,729,394.09		100,625,967.99	
ab) With agreed term or period of notice		224,923,189.96	**352,652,584.05**	196,444,709.34	297,070,677.33
3. Trading portfolio			**4,754,137.28**		1,619,373.58
4. Other liabilities			**5,480,786.83**		3,919,208.36
5. Provisions					
a) Provisions for pensions and similar commitments		1,284,049.33		859,976.08	
b) Tax provisions		682,477.83		441,210.89	
c) Other provisions		8,051,627.08	**10,018,154.24**	8,108,250.99	9,409,437.96
6. Fund for general banking risks			**25,170,000.00**		27,300,000.00
7. Shareholders's equity					
a) Issued capital					
aa) Subscribed capital	45,908,682.00			45,908,682.00	
ab) Nominal amount of treasury shares	– 276,996.00	45,631,686.00		– 859,658.00	
b) Capital reserve		31,431,265.61		31,431,265.61	
c) Retained earnings					
ca) Other retained earnings	30,015,103.03			24,657,870.87	
cb) Currency translation reserve	– 122,585.83	29,892,517.20		197,371.13	
d) Minority interests		2,141,498.59		1,850,031.30	
e) Retained profit		1,116,344.68	**110,213,312.08**	8,438,574.58	111,624,137.49

Total equity and liabilites	**617,865,145.71**	**516,136,912.44**
Contingent liabilities		
a) Liabilities from guarantees	**7,583.00**	7,583.00
Other obligations		
a) Irrevocable loan commitments	**1,747,488.89**	866,587.96

Consolidated income statement

FOR THE PERIOD FROM 01.01.2013 TO 31.12.2013

in €			31.12.2013		31.12.2012
1. Interest income from					
a) Lending and money market transactions	974,313.13			1,256,379.73	
b) Fixed-income securities and government securities	14,288,279.12	15,262,592.25		13,909,461.14	
2. Interest expenses		– 10,747,475.92	**4,515,116.33**	– 10,231,746.88	4,934,093.99
3. Current income from					
a) Equities and other variable-rate securities		1,670,537.72		1,555,271.20	
b) Equity investments		9,639.00	**1,680,176.72**	14,458.50	1,569,729.70
4. Fee and commission income		71,044,975.53		54,825,614.20	
5. Fee and commission expenses		– 21,508,589.80	**49,536,385.73**	– 15,635,260.21	39,190,353.99
6. Net profit from the trading portfolio			**42,612,558.11**		35,513,580.48
7. Other operating income			**1,922,887.26**		1,420,373.74
8. General administrative expenses					
a) Personnel expense					
aa) Wages and salaries	– 50,152,202.24			– 44,668,743.34	
ab) Social security contributions and expenses for pension provision and for support	– 5,132,176.52	– 55,284,378.76		– 5,674,219.23	
including:					
for pension provision € – 929,783.92					
b) Other administrative expenses		– 40,110,558.41	**– 95,394,937.17**	– 34,696,855.78	– 85,039,818.35
9. Depreciation, amortisation and write-downs on intangible assetes and property, plant and equipment			**– 9,975,881.56**		– 8,187,631.71
10. Other operating expenses			**– 1,218,591.94**		– 870,427.32
11. Income from the revaluation of loans and advances and certain securities as well as reversals of loan loss provisions			**5,712,542.20**		20,029,721.95
Amount carried forward			**– 609,744.32**		8,559,976.47

in €		31.12.2013		31.12.2012
Amount carried forward		**– 609,744.32**		8,559,976.47
12. Income from amounts released from the fund for general banking risks		**2,130,000.00**		2,800,000.00
13. Write-offs and write-downs on equity investments, interests in affiliated companies and securities treated as investments		**0.00**		– 119,602.76
14. Income from the revaluation of equity investments, interests in affiliated companies and securities treated as investments		**9,999.00**		0.00
15. Loss from investments in associates		**– 43,264.38**		– 105,405.17
16. Profit from ordinary activities		**1,486,990.30**		11,134,968.54
17.Taxes on income		**– 1,035,076.67**		– 1,744,371.66
18. Other taxes, unless reported under item 10		**– 233,649.93**		– 107,291.48
19. Net income for the period		**218,263.70**		9,283,305.40
20. Minority interest in net income		**– 399,828.54**		– 472,988.85
21. Retained earnings brought forward		**656,990.28**		1,030,181.15
22. Withdrawals from retained earnings				
a) from other retained earnings	2,699,007.45	**2,699,007.45**	617,303.98	617,303.98
23. Transfers to retained earnings				
a) to other retained earnings	– 2,058,088.21	**– 2,058,088.21**	– 2,019,227.10	– 2,019,227.10
24. Retained profit		**1,116,344.68**		**8,438,574.58**

Statement of changes in equity

AS AT 31.12.2012 AND 31.12.2013

2013 financial year			Parent company	
	Subscribed capital		Consolidated earnings	
in € thousand	Common shares	Capital reserve	Retained earnings	Retained profit
As at 1 January 2012	**45,909**	**31,431**	**23,830**	**2,388**
Issuance of shares	0	0	0	0
Purchase/withdrawal of treasury shares	0	0	– 234	0
Dividends paid	0	0	0	– 1,357
Change in scope of consolidation	0	0	0	0
Other changes	0	0	– 340	0
Consolidated net profit for the year	0	0	0	8,810
Other consolidated earnings	0	0	0	0
Total consolidated earnings	**0**	**0**	**0**	**8,810**
Non-operating changes in earnings	0	0	1,402	– 1,402
As at 31 December 2012	**45,909**	**31,431**	**24,658**	**8,439**

2013 financial year			Parent company	
	Subscribed capital		Consolidated earnings	
in € thousand	Stammaktien	Capital reserve	Retained earnings	Retained profit
As at 1 January 2013	**45,909**	**31,431**	**24,658**	**8,439**
Issuance of shares	0	0	0	0
Purchase/withdrawal of treasury shares	0	0	555	0
Dividends paid	0	0	0	– 2,282
Change in scope of consolidation	0	0	– 58	0
Other changes	0	0	5,501	– 5,500
Consolidated net profit for the year	0	0	0	– 182
Other consolidated earnings	0	0	0	0
Total consolidated earnings	**0**	**0**	**0**	**– 182**
Non-operating changes in earnings	0	0	– 641	641
As at 31 December 2013	**45,909**	**31,431**	**30,015**	**1,116**

Treasury shares	Shareholders' equity	Equity difference from currency translation	Minority shareholders: Minority equity	Consolidated equity
−582	**102,976**	**190**	**1,865**	**105,031**
0	0	0	0	0
−278	−512	0	0	−512
0	−1,357	0	−373	−1,730
0	0	0	0	0
0	−340	0	−115	−455
0	8,810	0	473	9,283
0	0	7	0	7
0	**8,810**	**7**	**473**	**9,210**
0	0	0	0	0
−860	**109,577**	**197**	**1,850**	**111,624**

Treasury shares	Shareholders' equity	Equity difference from currency translation	Minority shareholders: Minority equity	Consolidated equity
−860	**109,577**	**197**	**1,850**	**111,624**
0	0	0	0	0
583	1,138	0	0	1,138
0	−2,282	0	−107	−2,389
0	−58	0	0	−58
0	1	0	−1	0
0	−182	0	400	218
0	0	−320	0	−320
0	**−182**	**−320**	**400**	**−102**
0	0	0	0	0
−277	**108,194**	**−123**	**2,142**	**110,213**

Cash flow statement

in € thousand	2013	2012
1. Net profit for the period (incl. net profit attributable to minority interests)	**218**	**9,283**
Non-cash items and reconciliation to the cash flow from ordinary activities contained in net profit for the period:		
2. Depreciation and amortisation, write-downs and reversals of impairments on loans and advances and assets	9,511	10,353
3. Changes in provisions	375	558
4. Other non-cash expenses	– 2,786	– 5,507
5. Profit and loss from the sale of assets	6	501
6. Other adjustments (net)	– 4,124	– 9,758
7. Sub-total	**3,200**	**5,430**
Changes to assets and liabilities from operating activities:		
8. Loans and advances		
8a. to banks	– 6,917	15,048
8b. to customers	5,426	– 14,759
9. Securities (excluding securities held as investments)	– 57,284	17,033
10. Other operating assets	– 6,447	2,268
11. Liabilities		
11a. to banks	12,810	– 19,473
11b. to customers	22,309	– 21,021
12. Liabilities from trading activities	3,135	– 290
13. Other operating liabilities	506	274
14. Interest and dividends received	16,049	19,738
15. Interest paid	– 10,099	– 10,113
16. Income taxes paid	– 1,826	133
17. Cash flow from operating activities	**– 19,138**	**– 5,732**
18. Proceeds from disposals of		
18a. Financial assets	10	55
18b. Property, plant and equipment and intangible assets	0	0
19. Payments made for investments in		
19a. Financial assets	– 4,577	0
19b. Property, plant and equipment and intangible assets	– 7,019	– 20,842
20. Payments made for the acquisition of consolidated companies and other business units	– 13,563	– 455
21. Cash flow from investment activities	**– 25,149**	**– 21,242**
22. Payments to business owners and minority shareholders		
22a. Dividend payments	– 2,389	– 1,730
22b. Other payments	1,138	– 512
23. Changes in assets from other external capital (net)	57,759	16,324
24. Cash flow from financing activities	**56,508**	**14,081**
25. Net change in cash and cash equivalents (The sum of 17, 21 and 24)	**12,221**	**– 12,893**
26. Effect of changes in exchange rates, scope of consolidated companies and measurement on cash and cash equivalents	13,204	7
27. Cash and cash equivalents at start of period	**8,746**	**21,631**
28. Cash and cash equivalents at end of period	**34,171**	**8,745**

Notes to the consolidated financial statements

I. Basis of preparation

The consolidated financial statements of Baader Bank AG for the 2013 financial year were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). The provisions of the German Stock Corporation Act (Aktiengesetz – AktG) were observed.

The consolidated financial statements are also based on the standards issued by the German Standardisation Committee (Deutscher Standardisierungsrat – DSR) and published by the German Ministry of Justice (Bundesministerium der Justiz – BMJ) in accordance with Section 342 (2) of the HGB.

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

For the purposes of clarity, all amounts are reported in thousands of euros.

The reporting date is 31 December 2013 and the financial year is the calendar year.

II. Accounting policies

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

In the interests of improved clarity, all information relating to items in the balance sheet, income statement and notes which is required in accordance with the statutory provisions, as well as all information whose inclusion in the balance sheet, the income statement or the notes is optional, is included in the notes. Individual items that are summarised in the balance sheet and the income statement are broken down in the notes.

The following accounting policies were applied:

Cash reserves

Cash reserves are measured at their nominal value.

Loans and advances

Loans and advances to banks and customers are generally recognised at their nominal amount or cost and are reduced by adequate write-downs where necessary.

Securities (excluding trading portfolio)

Securities that are held for trading purposes are measured as described in the separate “Trading portfolio” section.

Securities that are intended to be used in business operations on an ongoing basis are recognised as financial assets under the modified lower of cost or market principle pursuant to Section 253 (1 and 3) of the HGB at amortised cost. Any impairments which are expected to be permanent are taken into account. If necessary, revaluations are made in accordance with the reversal requirement (Section 253 (5) of the HGB). Offsetting permitted in accordance with Section 340c (2) of the HGB is applied. The measurement option pursuant to Section 340e (1) Sentence 3 of the HGB in conjunction with Section 253 (3) Sentence 4 of the HGB is not used. On the reporting date, Baader Bank AG had non-current securities in its portfolio with a carrying value of €23,595 thousand. These are reported under debt securities and other fixed-income securities, as well as under equities/other variable-rate securities.

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

Fair value in accordance with Section 255 (4) of the HGB generally corresponds to market price. If no market price can be determined on the reporting date, the fair value of debt securities and other fixed-income securities as well as equities and other variable-rate securities is derived from their theoretical price. The theoretical price for interest-bearing products is calculated using the AIBD-ISMA method. The discounted cash flow method and peer group analysis are used for equities and other variable-rate securities, and equity investments and interests in affiliated companies. If there is no active market for derivative financial instruments, fair value is calculated based on the market price of the individual components of the derivative using the Black-Scholes model. If no fair value can be calculated, the cost is amortised as set out in Section 255 (4) Sentence 4 of the HGB.

Trading portfolio

Financial instruments in the trading portfolio are initially measured at cost. Subsequent measurement is carried out in accordance with Section 340e (3) of the HGB at fair value less a risk discount for financial assets or plus a risk premium for financial liabilities. Information about the calculation of fair value is presented in the “Securities (excluding trading portfolio)” section.

The starting point for calculating a risk discount or risk premium is the value at risk (VAR). Value at risk refers to a risk measurement that indicates the level of loss on the portfolio that will not be exceeded with a given probability over a given time horizon. Baader Bank AG uses the Monte Carlo simulation approach to calculate the market price risk (VAR). A confidence level of 99% is assumed for the calculation and up to 100 observation days are taken into account. As at 31 December 2013, based on a quarterly parameter review, the calculation assumes that individual portfolios are held for a period of between six hours and 16 days. The parameters were revised as at 31 December 2013; no material changes to risk discounts arose as a result.

Value at risk is calculated at the end of every month for all proprietary trading portfolios. In addition to value at risk, risk contributions are added to the risk discount for issuance and customer trading portfolios.

Reclassification

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

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

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

During the 2013 financial year the Baader Bank Group carried out a test to evaluate whether the market for an equity holding that had previously been part of the trading portfolio was inactive. The evaluation was based on the following criteria:

- High bid-ask spread,
- Low trading volume,
- Market prices fluctuate significantly over time,
- Free float volume, and
- Number of buyers present in the market.

The DAX (Deutscher Aktienindex – German share index) was used as a highly liquid reference market.

The Group’s Executive Board elected to reclassify the evaluated holding from the trading portfolio to the investment portfolio (securities measured as investments) based on the statutory regulation, statements issued by the IDW (Institut der Wirtschaftsprüfer - Institute of Public Auditors in Germany) and the prevailing opinions expressed in publications on this subject, because of the presence of an inactive market and the fact that there was no longer an intention to hold it for trading purposes, as part of the strategic realignment of the portfolio.

The holding was measured at cost at the time of acquisition in accordance with Section 340e (1) of the HGB, in conjunction with Section 255 (1) of the HGB. Subsequent measurement was carried out in accordance with Section 340e (3) of the HGB at fair value less a risk discount. The risk discount was determined on the basis of value at risk. The holding was reclassified using the fair value at the time of reclassification. The risk discount was not taken into account in the reclassification. The reclassification was effective as of midnight on 1 January 2013 (2013 opening balance sheet). The fair value of €13,595 thousand when the reclassification took place was used as the acquisition cost for the purposes of subsequent measurement. This procedure is in accordance with Section 255 (4), Sentence 4 of the HGB. An immaterial part of the holding with a value of €245 thousand was disposed of during the 2013 financial year. The liquidity available to the Baader Bank Group means that it is in a position to continue holding the equities for an indefinite period.

The reclassification had no impact on the Baader Bank Group's net profit for the year.

Derivative financial instruments
Derivative financial transactions are recognised and measured as follows:

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

Equity investments and interests in associates
Equity investments and interests in associates are recognised at amortised cost in accordance with the regulations applying to assets. If impairment appears to be long term, unscheduled amortisation is recorded. If the reasons that led to a write-down no longer exist, they are revalued up to a maximum of the cost. See also the "Securities (excluding trading portfolio)" section for more information.

Intangible assets and property, plant and equipment
The Baader Bank Group reports its standard computer software under intangible assets. Purchased intangible assets are measured at cost net of straight-line amortisation. If impairment appears to be long term, unscheduled amortisation is recorded.

Property, plant and equipment are measured at cost net of straight-line depreciation. Depreciation is recorded on a pro rata basis. Low-value assets with a cost of up to €150.00 (net) are recognised immediately in the income statement under expenses. In addition, low-value assets with a cost of up to €1,000.00 are recognised in an annual compound item and depreciated over five years using the straight-line method. No account is taken of the actual useful lives of low-value assets that are pooled into a compound item, or of any disposals of such assets.

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

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

Liabilities and provisions
Liabilities are recognised at their settlement amount.

Pension provisions are measured using the pro rata degressive projected unit credit method, applying the average market interest rate resulting from an assumed remaining maturity of 15 years. As at the reporting date, the Deutsche Bundesbank had set this interest rate at 4.88%.

Where the amount of pension obligations is determined by the fair value of securities held in the liquidity reserve or the fair value of a reinsurance claim, they are recognised at the fair value of those securities or the fair value of the reinsurance claim, provided it exceeds a guaranteed minimum amount. Assets that are used exclusively to meet pension obligations are netted against these pursuant to Section 246 (2) Sentence 2 of the HGB.

Other provisions are measured at the amount which would be required to settle the obligation, which is determined in line with Section 253 (1) of the HGB and in accordance with the principles of a prudent commercial assessment. If the expected remaining term of a provision is more than one year, the provision is discounted using the interest rate published by the Deutsche Bundesbank at that time.

Fund for general banking risks
The fund for general banking risks includes amounts deemed necessary, based on a prudent commercial assessment, to cover special risks. Separate allocations are also made to the fund out of net income from the trading portfolio, pursuant to Section 340e (4) of the HGB. On the reporting date, in accordance with Section 340e (4) No. 2 of the HGB, the balance within the fund for general banking risks was equivalent to 50% of the average annual net income from the trading portfolio for the last five years.

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

In accordance with the option under Section 306 of the HGB, any resulting surplus is not recognised on the balance sheet.

Acquisition of treasury shares
The imputed value of treasury shares acquired is shown in the first column, clearly separated from subscribed capital. Taken together, the two values constitute issued capital. The difference between the imputed value and the acquisition cost of treasury shares is offset against freely available reserves (retained earnings) directly in equity.

If treasury shares are resold, the disposal is shown in the first column. Any difference arising from the sales proceeds in excess of the imputed value is allocated to the appropriate reserves, subject to a maximum amount equal to the amount that was offset against freely available reserves. Any difference in excess of this amount is allocated to the capital reserve, while any loss arising on sale is charged to retained earnings.

Currency translation
Currencies are translated in accordance with the principles set out in Sections 256a and 340h of the HGB.

Assets denominated in foreign currency and treated as investments are recognised at their historical cost, unless they are specifically hedged in the same currency. Other assets and liabilities and outstanding cash transactions that are denominated in foreign currency are translated at the average spot rate on the reporting date. Forward exchange transactions are translated at the forward rate on the reporting date.

As at the reporting date, assets dominated in foreign currency and treated as investments totalled €5,280 thousand.

The treatment of the results from foreign currency translation depends on whether they arise from foreign currency transactions in the trading portfolio and whether or not the transactions are specifically hedged. If the results arise from the trading portfolio or if the transactions are specifically hedged, both the expenses and income from the currency translation are recognised in the income statement. The same holds true for foreign currency items without specific hedges which have a remaining maturity of up to one year. In contrast, for foreign currency items which are not specifically hedged and which have a remaining maturity of more than one year, only the expenses from the currency translation are recognised in the income statement, in accordance with the imparity principle.

As at the reporting date, there were no foreign currency items which were not specifically hedged and which had a remaining maturity of more than one year.

III. Changes in accounting policies

There were no changes in accounting policies in the 2013 financial year.

IV. Consolidated companies

In addition to Baader Bank AG as the parent company, the consolidated financial statements for the year ended 31 December 2013 comprise eight subsidiaries (previous year: five subsidiaries), in which Baader Bank AG holds a direct or indirect interest of more than 50% or a controlling influence (Baader Bank Group). Three of these companies are based in Germany, and five are headquartered abroad.

The following companies were included in the consolidated financial statements as at 31 December 2013, and were consolidated in full: → Table 19

Baader Bank AG reached an agreement to acquire Helvea Holding SA, Geneva, with its management and the majority of its shareholders on 30 November 2012, in a friendly takeover. The purchase agreement was subject to authorisation by the regulatory authorities and other conditions usual for such transactions. Once authorisation was received from the regulatory authorities, the transaction was completed on 2 August 2013 and all of the shares in the company (100.00%) were transferred to Baader Bank AG. Since 31 August 2013, the company has been fully consolidated and included in the financial statements of the Baader Bank Group.

By means of a purchase agreement dated 6 August 2013, Baader Bank AG sold all of its shares in Baader Management AG, Unterschleissheim to Baader & Heins Capital Management AG, Unterschleissheim. With effect from 25 November 2013, the company's name was changed to Skalis AG, Unterschleissheim. Until the date of the transfer, Baader Bank AG held a direct interest in 100.00% of the company's share capital.

In accordance with a notarised merger agreement dated 26 April 2013, N.M. Fleischhacker AG, Unterschleissheim was merged into Baader Bank AG with effect from 1 January 2013. Until the date of the merger, Baader Bank AG held a direct interest in 100.00% of the company's share capital. The transaction constituted a merger by way of absorption (Section 2 et seq. of the German Reorganisation Act (Umwandlungsgesetz – UmwG), in conjunction with Sections 46 et seq. and 60 et seq. of the UmwG). In accordance with Section 54 (1) No. 1 of the UmwG, the merger did not involve a capital increase. The assets and liabilities of N.M. Fleischacker AG were included in Baader Bank AG's balance sheet at book value. The transaction has no effect on the consolidated financial statements.

Baader Bank AG holds an investment in Baader Unterstützungskasse e.V., Unterschleissheim, which is a special-purpose vehicle as defined in Section 290 (2) No. 4 of the HGB. In principle, this company must be included in the consolidated financial statements. For reasons of materiality, it was not consolidated on 31 December 2012, as permitted by Section 296 (2) Sentence 1 of the HGB.

The following associated companies were included in the consolidated financial statements: → Table 20

Table 19 Fully consolidated companies in € thousand

Name / Registered office	Equity interest in %	Share capital	Equity capital	Total assets	Net profit/ loss for the year	First consolidated
Helvea Holding SA, Geneva (Switzerland) [4]	100.00	10,918	1,711	8,428	– 1,018	31 August 2013
Helvea SA, Geneva (Switzerland) [1,4]	100.00	8,284	12,279	17,990	– 797	31 August 2013
Helvea Inc., New York (United States of America) [1,5]	100.00	277	4,359	4,688	– 176	31 August 2013
Helvea Ltd., London (United Kingdom) [1,6]	100.00	0	1,065	1,169	14	31 August 2013
Skalis AG, Unterschleissheim [3]	100.00	50	169	252	– 425	31 December 2003
Baader & Heins Capital Management AG, Unterschleissheim	75.00	50	5,446	8,639	1,733	1 January 2005
Conservative Concept Portfolio Management AG, Bad Homburg	66.07	140	2,527	2,849	289	1 October 2006
Conservative Concept AG, Zug (Switzerland) [2,4]	100.00	62	873	919	– 83	1 October 2006

1 Indirect holding via the investment in Helvea Holding SA, Geneva (Switzerland).
2 Indirect holding via the investment in Conservative Concept Portfolio Management AG, Bad Homburg.
3 Indirect holding via the investment in Baader & Heins Capital Management AG, Unterschleissheim.
4 The figures for the financial year to 31 December 2013 have been translated (€/CHF 1.2276).
5 The figures for the financial year to 31 December 2013 have been translated (€/USD 1.3791).
6 The figures for the financial year to 31 December 2013 have been translated (€/GBP 0.8337).

Table 20 Associated companies in € thousand

Name / Registered office	Equity interest	Carrying value of interest	Equity capital	Total assets	Net profit/ loss for the year	Market value of interest
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	30.00	4,538	13,370 [1]	17,805 [1]	916 [1]	n/a [4]
Ophirum ETP GmbH, Frankfurt am Main	25.00	1,872	515 [2]	520 [2]	– 10 [2]	n/a [4]
Clueda AG, Munich	10.00	1,775	– 139 [3]	695 [3]	– 189 [3]	n/a [4]

1 Figures based on the unaudited financial statements for the period ending 31 December 2013. Equity, total assets and net profit for the year to 31 December 2013 have been translated (€/OMR 0.5292).
2 Figures based on the unaudited financial statements for the period ending 31 December 2013.
3 Figures based on the unaudited financial statements for the period ending 31 December 2012.
4 No public market price available as at 31 December 2013.

Under a purchase agreement dated 19 August 2013, Baader Bank AG acquired 25.00% of the shares in Ophirum ETP GmbH, Frankfurt am Main.

Baader Bank AG acquired a 10.00% interest in the share capital of Clueda AG, Munich on 4 February 2013 under a participation agreement. Under this transaction, Baader Bank AG acquired extensive rights which permit it to exercise significant influence over Clueda AG's business and financial policies.

As at 31 December 2013, Baader Bank AG continued to hold 21.93% of the shares in Parsoli Corporation Ltd., Mumbai (India). The departure of Baader Bank AG's representatives from Parsoli Corporation Ltd's Managing Board in 2009 means that Baader Bank AG can no longer be presumed to exert significant influence on the company. The interest is therefore recognised under the item Equity investments.

V. Consolidation methods

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

Subsidiaries

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

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

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

The accounting policies used in preparing the financial statements for the companies included in the Baader Bank Group are applied consistently across the Group.

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

Article 66 (3) Sentence 4 of the Introductory Act of the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) provides for the option of using the carrying value method for capital consolidation of subsidiaries (acquired before 31 December 2009), depending on the method of acquisition. In addition, for subsidiaries acquired from 1 January 2010 onwards, Section 301 (1) of the HGB requires that the revaluation method be used.

The Baader Bank Group makes use of this option and continues to use the carrying value method for all subsidiaries acquired up to 31 December 2008. The revaluation method is used for subsidiaries acquired from 1 January 2009. No further acquisitions have been made since 1 January 2010.

Carrying value method

Consolidation is based on the carrying values reported in the individual financial statements. The proportion of equity attributable to the consolidated subsidiary is offset against the carrying value of the investment which the Group companies hold in the subsidiary. Information about the calculation of the carrying value of investments is presented in the "Equity investments" section.

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

Revaluation method

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

Amortisation of goodwill generally takes place over a scheduled useful life of 10 years, since historical observations have shown that a useful life of five years is significantly too short. Any negative goodwill is immediately released to the income statement.

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

At the reporting date there was no goodwill from the consolidation of subsidiaries.

If a subsidiary is consolidated for the first time on the reporting date, the balances in the subsidiary's income statement are fully incorporated into the Group income statement. If a subsidiary is consolidated for the first time during the course of the year, the balances are incorporated on a pro rata basis.

Baader Bank AG recognises at amortised cost any interests in subsidiaries not included in the consolidated financial statements because of limited options for exercising rights or for reasons of materiality (Section 296 (1 and 2) of the HGB). See also the "Equity investments" section for more information.

The Group's interests in subsidiaries changed in the 2013 financial year. As at the reporting date, all subsidiaries were included in the consolidated financial statements. For reasons of materiality, one special-purpose entity was not consolidated on 31 December 2013. Refer to the section "Consolidated companies" for more information.

Associates

An associate is a company over which the Group exercises a significant influence, but over which it has no controlling influence on decisions concerning financial and operational policy. As a rule, significant influence is presumed if the Group holds between 20% and 50% of the voting rights. In assessing whether the Group has the ability to exercise significant influence on another company, the existence and the effect of potential voting rights that are currently exercisable or convertible is taken into account.

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

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

On the reporting date, only companies in which the Group holds more than 20% of the voting rights were deemed to be associates.

In accordance with Section 315a of the HGB, interests in associates are initially recognised at cost using the equity method. In subsequent years, profits and losses and other changes in the net assets of the associate increase or decrease the acquisition cost ("equity value").

The Group reviews equity value for impairment at least once a year, at the end of each financial year. If equity value exceeds fair value, an unscheduled impairment is recorded. If the reason for the unscheduled impairment no longer exists, it is reversed.

No such impairments were necessary on the reporting date.

Results from transactions between Group companies and associates are eliminated, where appropriate, in accordance with the level of investment.

If the Group sells all or part of its interest in an associate, the profit on disposal is determined by comparing the sales proceeds with the equity value attributed to the interest being sold. If the Group loses significant influence over an associate but there is no change in the interest held by the Group, the equity value is amortised using the cost method.

The Group's interests in associates changed in the 2013 financial year. More information is available in the separate "Consolidated companies" section.
The Group also continued to have significant influence on its associates as at 31 December 2013.

VI. Notes to the balance sheet

Foreign currency

On the reporting date, the Group had assets denominated in foreign currency amounting to the equivalent of €77,180 thousand (previous year: €54,416 thousand). Liabilities denominated in foreign currency totalled €60,334 thousand (previous year €38,231 thousand). This involved the following balance sheet items: → **Table 21**

Net income resulting from currency translation amounted to €106 thousand and is reported under net profit from the trading portfolio.

Loans and advances to banks

Loans and advances to banks consist of bank deposits of €31,902 thousand and other loans and advances of €51,422 thousand. They do not include any loans and advances to companies in which a participating interest is held.

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities totalled €288,849 thousand and did not include any loans and advances to affiliated companies. → **Table 22**

As at 31 December 2013, the Baader Bank Group's debt securities and other fixed-income securities included a bond that is assigned to the category of "assets treated as investments". No market price was available at 31 December 2013. The theoretical price at the reporting date was €11,374 thousand. It is measured at cost in the amount of €10,000 thousand in accordance with Section 253 (3) Sentence 3 of the HGB (under the modified lower of cost or market principle). No long-term impairment is expected in view of the issuer's creditworthiness and the intention to hold the bond to maturity. The positions have been placed in a portfolio which is separate from marketable securities valued according to the strict lower of cost or market principle.

In the coming year, bonds and other debt securities totalling €41,784 thousand will fall due.

Equities and other variable-rate securities

As at 31 December 2013, the Baader Bank Group's equities and other variable-rate securities included an equity holding that is assigned to the category of "assets treated as investments". No valid quoted price was available as at 31 December 2013 as there was no active market. The theoretical price at the reporting date was €15,867 thousand. It is measured at amortised cost in the amount of €13,595 thousand in accordance with Section 253 (3) Sentence 3 of the HGB (under the modified lower of cost or market principle). An evaluation of the issuer and consideration of its creditworthiness did not give rise to any grounds for a long-term impairment. The positions have been placed in a portfolio which is separate from marketable securities valued according to the strict lower of cost or market principle.

Table 22 Debt securities and other fixed-income securities in € thousand

	31.12.2013	31.12.2012
Bonds and other debt securities	282,251	239,458
Accrued coupon income	6,598	5,719
Debt securities and other fixed-income securities	**288,849**	**245,177**

Table 21 Foreign currency in € thousand

Currency	Loans and advances to customers and banks	Securities, equity investments and associates	Other assets	Liabilities to customers and banks	Other liabilities
AUD	66	0	0	74	0
BRL	72	0	0	67	0
CAD	164	0	0	186	0
CHF	7,890	627	1,229	1,778	789
DKK	12	0	0	0	0
GBP	1,920	0	125	1,057	103
HKD	1,678	0	0	1,677	0
INR	16	0	0	0	0
JPY	1,292	295	0	1,586	1
MYR	64	0	0	62	0
NOK	147	0	0	146	0
OMR	18	6,733	0	0	0
PLN	41	0	0	41	0
SEK	105	165	0	261	0
SGD	67	0	0	67	0
TRY	34	0	0	34	0
USD	53,696	0	654	51,792	543
ZAR	70	0	0	70	0
	67,352	**7,820**	**2,008**	**58,898**	**1,436**

TABLE 23 MATURITIES OF THE ASSETS AND LIABILITIES IN € THOUSAND

	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years
Other loans and advances to banks	3,944	1,271	0	8,000
Loans and advances to customers	32,782	434	748	701
Liabilities to banks with an agreed term or notice period	9,475	14,365	41,350	26,343
Liabilities to customers with an agreed term or notice period	18,344	34,080	72,000	100,500

TABLE 24 BREAKDOWN OF MARKETABLE SECURITIES IN € THOUSAND

	Non-marketable	Marketable		Marketable securities not valued at the lower of cost or market
		Listed	Unlisted	
Bonds and other debt securities	0	278,691	10,158	0
Equities and other variable-rate securities	0	33,641	0	0
Investments in associates	8,185	0	0	0

Maturity structure
The maturities of the assets and liabilities reported in the balance sheet are as follows: → **TABLE 23**

Breakdown of marketable securities into listed and unlisted securities: → **TABLE 24**

Non-current assets
Capitalised goodwill from the merged companies DBM Deutsche Börsenmakler GmbH and Baader Service Bank GmbH is being amortised over 10 years using the straight-line method.

The actual useful life of goodwill acquired in the past has shown that the assumption of a useful life of five years is significantly too low, and that the assumption of a useful life of more than five years is therefore appropriate.

All of the properties and buildings shown in the table of assets were used by the Baader Bank Group as part of its operations. No internally generated intangible assets were capitalised.

The composition of and movements in non-current assets are shown in the following table of assets: → **TABLE 25**

Shareholdings
Shareholdings are shown under figure X.

Other assets
Other assets include: → **TABLE 26**

TABLE 26 OTHER ASSETS IN € THOUSAND

	31.12.2013	31.12.2012
Corporation tax credits (discounted)	5,814	7,307
Amounts due from the Federal Financial Supervisory Authority	1,346	0
Receivables from brokerage fees and price differences	1,157	239
Other tax receivables	1,146	157
Sales tax receivables	427	424
Reinsurance claims from life insurance policies	18	18
Other receivables	956	738
Other assets	**10,864**	**8,883**

No receivables due from members of the Executive Board or the Supervisory Board are included within other assets.

TABLE 25 TABLE OF ASSETS IN € THOUSAND

	Cost of acquisition or production					
	As at 01.01.2013	Additions	Changes in the scope of consolidation	Pro rata result	Transfers	Disposals
A. Intangible assets						
1. Purchased concessions, commercial rights and similar rights and assets, and licences to such rights and assets	58,542	2,669	0	0	760	–483
2. Goodwill	22,560	0	2,518	0	0	0
3. Advance payments for intangible assets	1,607	0	0	0	–760	0
	82,709	**2,669**	**2,518**	**0**	**0**	**–483**
B. Property, plant and equipment						
1. Land and buildings	23,874	2,897	0	0	28,630	–45
2. Furniture, fixtures and office equipment	6,271	1,452	228	0	44	–472
3. Advance payments made on property, plant and equipment and assets under construction	28,778	0	0	0	–28,674	0
	58,923	**4,349**	**228**	**0**	**0**	**–517**
C. Financial assets						
1. Equity investments	5,592	618	0	0	0	–120
2. Associates	4,747	3,959	0	186	0	–478
3. Non-current securities	10,000	0	0	0	13,595	0
	20,338	**4,577**	**0**	**186**	**13,595**	**–598**

Prepaid expenses and accrued income
Prepaid expenses totalling €38 thousand relate to differences arising from the issue of two promissory notes in accordance with Section 250 (3) of the HGB.

Liabilities to banks
Liabilities to banks serve mainly to finance the office building in Unterschleissheim and to refinance the securities trading business.

Liabilities to customers
At the reporting date, there were customer deposits payable on demand amounting to €127,729 thousand and liabilities to customers from promissory note loans raised totalling €224,923 thousand.

Other liabilities
Other liabilities include: → **Table 27**

Table 27 Other liabilities in € thousand

	31.12.2013	31.12.2012
Trade payables	2,372	1,491
Tax liabilities	1,383	979
Miscellaneous liabilities	1,726	1,449
Other liabilities	**5,481**	**3,919**

Pension provisions
Pension obligations at 31 December 2013 stood at €11,036 thousand and were calculated using the process described in the "Liabilities and provisions" section. Bank accounts, securities accounts and reinsurance are available to cover these obligations. An interest expense of €419 thousand was recorded for the 2013 financial year. The actuarial calculations are based on the following parameters: → **Table 28**

Table 28 Actuarial calculations in %

	31.12.2013	31.12.2012
Interest rate	4.88	5.04 bzw. 5.07
Changes in salaries	0.00 bis 3.00	0.00 bis 3.00
Pension adjustments	2.00	2.00

In addition, the Klaus Heubeck "Richttafeln" 2005G tables were used as the basis for the calculations in both the commercial financial statements and the statements used for tax purposes as at 31 December 2013.

Depreciation, amortisation and write-downs			Carrying value	
Cumulative	of which 2013	of which disposals	As at 31.12.2013	As at 31.12.2012
–38,762	–4,752	483	22,726	24,048
–13,373	–2,508	0	11,705	11,695
0	0	0	847	1,607
–52,135	**–7,260**	**483**	**35,278**	**37,350**
–10,603	–1,871	45	44,753	15,097
–4,688	–845	457	2,835	1,972
0	0	0	104	28,778
–15,291	**–2,716**	**502**	**47,692**	**45,847**
–4,032	0	120	2,058	1,440
–229	–229	478	8,185	4,269
0	0	0	23,595	10,000
–4,261	**–229**	**598**	**33,838**	**15,709**

Cover assets
→ **Table 29**

Table 29 Cover assets in € thousand

	31.12.2013	31.12.2012
Cost	13,296	12,694
Fair value	17,853	14,779
Offset liabilities	9,752	10,671

Bank deposits, reinsurance policies and securities accounts qualifying as cover assets are netted against the pension obligations. In addition, an excess of plan assets over pension liabilities totalling €8,101 thousand is reported within assets. Overall, this means that total pension provisions stood at €1,284 thousand.

Other provision
Other provisions consist of the following: → **Table 30**

Table 30 Other provision in € thousand

	31.12.2013	31.12.2012
Provisions for personnel expenses	4,956	5,699
Legal, audit and consultancy costs	592	584
Administrative expenses	999	888
Sundry provisions	1,505	770
Other provision	**8,052**	**8,108**

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

In accordance with Section 340e (4) No. 2 of the HGB, €2,130 thousand was released from this special item on 31 December 2013. This is presented in the income statement under "Income from amounts released from the fund for general banking risks".

Trading portfolio
Assets held for trading and liabilities from trading activities as at 31 December 2013 were as follows: → **Table 31**

Table 31 Assets held for trading and liabilities from trading activities in € thousand

Assets held for trading	**31.12.2013**	**31.12.2012**
Derivative financial instruments	37	5
Loans and advances	0	0
Debt securities and other fixed-income securities	1,747	1,383
Equities and other variable-rate securities	50,702	58,976
Other assets	0	0
Risk discount	–778	–614
Assets held for trading on the balance sheet	**51,708**	**59,750**
Liabilities from trading activities	**31.12.2013**	**31.12.2012**
Derivative financial instruments	58	68
Liabilities	4,696	1,548
Risk premium	0	3
Liabilities from trading activities on the balance sheet	**4,754**	**1,619**

Valuation units
No valuation units as defined by Section 254 of the HGB were created in the 2013 financial year.

Derivative financial instruments
FUTURES
At the reporting date of 31 December 2013, the Baader Bank Group held the following categories of derivative financial instruments in the trading portfolio:

- Index-based transactions,
- Interest-rate-based transactions.

These transactions involved futures.

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

FORWARD TRANSACTIONS
At the reporting date, there was only one outstanding forward contract, which is a forward exchange contract as defined by Section 36 No. 1 of the RechKredV.
→ **TABLE 32**

TABLE 32 FORWARD TRANSACTIONS IN BRL THOUSAND, CHF THOUSAND, USD THOUSAND

Maturity	Currency	Amount
30 December 2013 to 2 January 2014	BRL	– 6
3 December 2013 to 6 January 2014	CHF	– 285
10 December 2013 to 6 January 2014	CHF	– 41
16 December 2013 to 6 January 2014	CHF	– 82
30 December 2013 to 2 January 2014	USD	– 6
30 December 2013 to 2 January 2014	USD	6

TABLE 33 LIABILITIES FROM TRADING ACTIVITIES IN €

Portfolio	Description	Category	Maturity
Eurex FB	DAX® Future (FDAX)	Eurex equity index future	1 March 2014
Eurex FB	EURO STOXX 50® Index Future (FESX)	Eurex equity index future	1 March 2014
Eurex SV	Euro-Bobl Future 5 years (FGBM)	Fixed income future	1 March 2014

The above transaction relates exclusively to a forward contract originated by a customer.

The chart below depicts the extent and type of each category of derivative financial instruments valued at fair value (market value), including significant conditions that could influence the amount, timing and certainty of future cash flows:
→ **TABLE 33**

Interests in investment funds
As at 31 December 2013, the Baader Bank Group held more than 10% of the following German investment funds within the meaning of Section 1 of the German Investment Act (Investmentgesetz – InvG) or comparable foreign investment units within the meaning of Section 2 of the German Investment Act: → **TABLE 34**

Units of the investment fund were assigned to the liquidity reserve in the amount of €10,000 thousand. The carrying amounts correspond to the market values of the units. Information about the fair value measurement is presented in the "Securities (excluding trading portfolio)" section.

Investment fund units can be redeemed on a daily basis.

TABLE 34 INTERESTS IN INVESTMENT FUNDS IN € THOUSAND

Instrument	Investment objective (applicable to all investment units)	Volume	Market value	Carrying value	Distribution
SKALIS Evolution Flex AK S [1] (A1W9A0)	The combination of different classes of investment and investment markets is intended to achieve long-term, stable growth in value. The majority of the fund is made up of interest-bearing securities from European issuers. These include a wide range of bond classes, with a preference for debt instruments from public issuers (such as government bonds and municipal bonds), Pfandbriefe and corporate bonds. The aim is for the equity component of the fund to be between 20% and 30%, and to be managed dynamically using derivatives.	80,000 Number	8,000	8,000	0
SKALIS Evolution Flex AK R [1] (A1W9AA)		10,000 Number	1,000	1,000	0
SKALIS Evolution Flex AK I [1] (A1W9AZ)		10,000 Number	1,000	1,000	0

1 Investment fund within the meaning of the UCITS directive, in accordance with Sections 192 et seq. of the German Investment Code (Kapitalanlagegesetzbuch – KAGB); mutual funds

TABLE 35 ASSETS TRANSFERRED AS COLLATERAL IN € THOUSAND

	Mortgages	Securities (liquidity reserve)	Bank deposits
Liabilities to banks	26,200	51,000	20

Assets transferred as collateral
For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2013: → **TABLE 35**

Deferred taxes
Deferred taxes arise from differences in the amounts calculated under commercial and tax law in their approach to carrying forward losses, taxable goodwill, cover assets, capitalised order books, pension provisions, provisions for anticipated losses, and in the discounting of other provisions. A tax rate of 29.22 % is applied. In accordance with the option under Section 274 (1) of the HGB, the resulting surplus is not recognised on the balance sheet.

Market price	Contracts	Market value	Carrying value	Risk factors	Cash flows
9,605.50	5 Number	1,200,687.50	1,172,684.75	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (25 euros per index point)	- Daily: reconciliation of movements - Cash settlement on the first exchange trading day after the final settlement day.
3,108.00	40 Number	1,243,200.00	1,213,586.00	Fluctuations in the cash flow result primarily from changes in the value of the Euro Stoxx 50 index (10 euros per index point)	- Daily: reconciliation of movements - Cash settlement on the first exchange trading day after the final settlement day.
124.43	40 Number	4,977,200.00	5,015,190.00	Fluctuations in the cash flow result primarily from changes in the value of medium-term German debt securities (multiplier of 1,000)	- Daily: settlement price (volume-weighted average of all transactions at 5:14 pm, if more than five transactions were made) - Fulfilment by delivery

Baader Bank Group equity

SUBSCRIBED CAPITAL AND CAPITAL RESERVE

The subscribed capital (share capital) of Baader Bank AG as at 31 December 2013 amounted to €45,909 thousand, comprising 45,908,682 no-par-value bearer shares.

1. Authorised capital

By a resolution of the General Meeting of Shareholders on 30 June 2011, the resolution of 26 June 2007 (Authorised Capital 2007/I) was revoked. Under the same resolution of 30 June 2011, new Authorised Capital 2011 was created. The Executive Board was thereby authorised, with the consent of the Supervisory Board, to increase the Bank's share capital by up to €22,954 thousand by 29 June 2016 via the issue of new no-par-value bearer shares on one or more occasions in return for cash and/or non-cash considerations. In principle, the shareholders will be granted the right to subscribe for these shares. However, with the approval of the Supervisory Board, the Executive Board may:

a) exclude fractional amounts from the subscription right;
b) choose not to allow shareholders to subscribe, in order to issue new shares for cash contributions at an issue price that is not significantly lower than the quoted market price of shares already listed at the time the issue price is finalised (Section 186 (3) Sentence 4 of the AktG), whereby this exclusion of subscription rights may only affect shares whose imputed value does not exceed 10% of the share capital;
c) rule out the subscription right of shareholders in order to issue shares for non-cash considerations to acquire companies or equity interests in companies or parts of companies or assets – including by means of share swaps – and in the event of business combinations (Authorised Capital 2011).

2. Contingent capital

By a resolution of the General Meeting of Shareholders on 29 June 2012, the resolutions of 19 July 2006 (Contingent Capital 2004) and 26 June 2007 (Contingent Capital 2005) were revoked. Under the same resolution of 29 June 2012, the Bank's share capital was increased by up to €20,754 thousand on a contingent basis via the issue of up to 20,754,431 new bearer shares (Contingent Capital 2012). The contingent capital is designed to grant rights to holders or creditors of convertible debt securities and/or warrants from partial debt securities, issued by 29 June 2016 on the basis of the resolution of the General Meeting of Shareholders of 30 June 2011, by Baader Bank AG or by a company in which Baader Bank AG holds a direct or indirect majority interest.

The new shares are issued at the conversion or option price determined on each occasion. The contingent capital increase will only take place to the extent that the holders of the convertible debt securities and/or warrants which the Bank issues by 28 June 2017, on the basis of the authorising resolution of 29 June 2012, make use of their conversion rights or options, or the holders of convertible debt securities who are obliged to convert their securities fulfil their conversion obligation and as long as treasury shares are not utilised to service these securities. The new shares carry dividend rights from the beginning of the financial year in which they are created through exercise of conversion rights or options or through fulfilment of conversion obligations. Subject to the approval of the Supervisory Board, the Executive Board is authorised to determine the further details of executing the contingent capital increase. The Supervisory Board is authorised to amend article 4 of the Articles of Association in line with the respective utilisation of the contingent capital. This resolution of the General Meeting of Shareholders was entered in the Commercial Register by the registration court on 2 August 2012.

3. Buyback of treasury shares

By a resolution of the General Meeting of Shareholders on 29 June 2010, the resolutions of 3 July 2009 pursuant to Section 71 (1) Nos. 7 and 8 of the AktG were revoked and authorisations valid until 28 June 2015 pursuant to Section 71 (1) Nos. 7 and 8 of the AktG were issued as follows:

a) Authorisation to buy and sell treasury shares for the purposes of securities trading at prices that do not exceed or fall short of the average closing price for the shares in floor trading on the Frankfurt Stock Exchange by more than 10% on the three preceding trading days. The stock of shares acquired for such purposes may not exceed 5% of the share capital of Baader Bank AG.
b) Authorisation to acquire shares of Baader Bank AG, in particular so as to be able to offer them to third parties in the context of the acquisition of companies, parts of companies or equity interests or assets – including by means of share swaps – and in the event of business combinations.
c) Authorisation to offer shares to beneficiaries under Baader Bank AG's share option plans of 1999, 2004 and 2006 in accordance with the authorisations of the General Meetings of Shareholders held on 18 June 1999, 14 July 2004 and 19 July 2006, or to withdraw said shares.

This authorisation is limited to the acquisition of treasury shares up to a maximum of 10% of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, and in order to pursue one or more of the stated goals. The authorisation remains valid until 28 June 2015. Shares will be acquired on the stock markets. The price paid by Baader Bank AG per share may not exceed the average closing price for the no-par value shares of Baader Bank AG in floor trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares (excluding ancillary acquisition costs) by more than 5%. With the approval of the Supervisory Board, the Executive Board is authorised to offer shares of Baader Bank AG that were acquired as a result of this authorisation to third parties when companies, parts of companies, equity interests or assets are acquired – including by means of share swaps – and in the event of business combinations. Subject to the agreement of the Supervisory Board, the Executive Board is authorised to offer the Bank's own shares acquired on the basis of this authorisation to holders of options under the 1999, 2004 and 2006 Share Option Plans approved by the General Meeting of Shareholders. Shareholders' rights to subscribe to these own shares are excluded in so far as such shares are used in accordance with the authorisations referred to above. With the approval of the Supervisory Board, the Executive Board is also authorised to withdraw own shares of Baader Bank AG that were acquired as a result of this authorisation, without such withdrawal or the execution thereof being subject to another resolution of the General Meeting of Shareholders. The authorisation to withdraw shares may be exercised in full or in part.

At the reporting date, 276,996 treasury shares were held.

Retained earnings
The change in retained earnings is presented in the "Statement of changes in equity of the Baader Bank Group", which forms a separate component of the consolidated financial statements.

Retained profit
→ **Table 36**

Table 36 Retained profit in € thousand

	31.12.2013	31.12.2012
Net income before minority interests	218	9,283
Minority interest in net income	– 400	– 473
Total consolidated earnings	**– 182**	**8,810**
Retained earnings brought forward	657	1,030
Withdrawal from retained earnings	2,699	618
Transfer to retained earnings	– 2,058	– 2,019
Retained profit	**1,116**	**8,439**

Treasury shares
In the reporting year no treasury shares were allocated to persons eligible for the Baader Bank Group's share option plans. The number of treasury shares held was reduced by 582,662 during the reporting period, and represented 0.60% of share capital as at 31 December 2013. The share capital held as treasury shares amounts to €277 thousand.

In the financial year, shareholders acquired no shares for the account of Baader Bank AG or for any dependent company or company in which the company holds a majority interest. → **Table 37**

Table 37 Treasury shares

Position 31.12.2012	Additions (Number)	Ø-Price in €	Disposals (Number)	Ø-Price in €	Position 31.12.2013
859,658	11,338	1.80	594,000	1.95	276,996

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

Treasury shares were acquired for the purpose of offering these shares to beneficiaries under Baader Bank AG's 1999, 2004 and 2006 Share Option Plans in accordance with the authorisations of the General Meetings of Shareholders held on 18 June 1999, 14 July 2004 and 19 July 2006, or for the purpose of withdrawing said shares.

Contingent liabilities
The Baader Bank Group regularly assumes credit guarantees. Under these agreements, the Baader Bank Group is required to make payments to the beneficiary if another party does not meet its obligations or provide contractual services. The Bank is not aware of any details regarding whether, when and in what amount claims will be filed under these guarantees.

Contingent liabilities of €8 thousand existed on the reporting date.

Other obligations
In addition, there were irrevocable open loan commitments to customers totalling €1,747 thousand. The item includes open loan commitments to members of the Executive Board. The open loan commitments to members of the Executive Board total €300 thousand, €3 thousand of which has been drawn.

VII. Transactions not included in the balance sheet

Information in accordance with Section 285 No. 3 of the HGB
The following financial obligations existed as at 31 December 2013: → **Table 38**

Table 38 Financial obligations in € thousand

	Due	Financial obligation
Rental contracts for office space, utility spaces and car parking spaces	3 to 85	6,720
Vehicle leases and lease contracts for operating and office equipment	1 to 51	4,947
Other contracts for services	3 to 44	255

The main purpose and the intended benefit of these transactions is to refinance acquisitions in a way which preserves liquidity. The Bank is not aware of any significant risks arising from transactions not included in the balance sheet that could have a negative impact on liquidity or the Baader Bank Group's ability to fulfil its existing obligations in the foreseeable future.

Operating leases generally preserve the capital base and increase financial flexibility.

There were no material purchase commitments as at 31 December 2013.

The type and extent of transactions does not present a risk at present.

Information in accordance with Section 285 No. 3a of the HGB
There are no other significant financial obligations that are not included in the balance sheet and that are not required to be reported under Sections 251 or 285 No. 3 of the HGB.

VIII. Notes to the income statement

Other operating income
Other operating income mainly includes income relating to other periods (€450 thousand), income from non-cash benefits (company cars) (€440 thousand), income from the reversal of provisions (€115 thousand) and income from internet advertising (€102 thousand).

Income relating to other periods mainly consists of refunds of contributions from the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) amounting to €332 thousand.

Other operating expenses
Other operating expenses consist mainly of additions to provisions for legal risks amounting to €750 thousand, and expenses of €245 thousand relating to other periods.

The main components of expenses relating to other periods are interest expenses (€70 thousand), amounts paid as settlement (€53 thousand) and other expenses attributable to administrative expenses (€122 thousand).

Taxes on income
Taxes reported for the 2013 financial year comprise income taxes for the past financial year amounting to €1,011 thousand and an expense arising from the discounting of corporate tax credits totalling €24 thousand. The resulting tax on income amounts to €1,035 thousand.

€1,011 thousand of the taxes on income relates to the profit from ordinary activities.

IX. Additional information

Controlling interests

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

Employees

In the 2013 financial year, the average number of staff employed was 478 (previous year: 426). Thirty-nine of these held executive positions.

Total remuneration of the Executive Board and Supervisory Board

The members of the Executive Board received total remuneration of €1,798 thousand for their activities during the financial year.

The members of the Supervisory Board received total remuneration of €277 thousand for their activities during the financial year.

Audit fees

The Baader Bank Group and all German subsidiaries requiring an audit were audited by Clostermann & Jasper Prüfungsgesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen. A Swiss subsidiary was subject to an audit of limited scope, carried out by AUDITCO AG, Zug. The Helvea sub-group was audited by local PricewaterhouseCoopers member firms.

Fees paid to the auditors in the 2013 financial year were as follows:
→ Table 39 and 40

Table 39 Audit fees for the Baader Bank Group in € thousand

	31.12.2013		31.12.2012	
Services	**net**	**gross**	**net**	**gross**
Annual audit services	423	511 [1]	471	558
Other certification services	50	60	69	83
Tax advisory services	57	68	84	100
Other services	5	6	38	45
Total fees	**535**	**645**	**662**	**786**

1 Annual audit services in the amount of €22 thousand relate to the 2012 financial year. In addition, annual audit services in the amount of €8 thousand do not relate to the auditor of the consolidated financial statementsr.

Table 40 Audit fees for the Helvea sub-group in € thousand

Services	**31.12.2013**
Annual audit services	301
Other certification services	10
Tax advisory services	0
Other services	55
Total fees	**366**

The audit fees to local PricewaterhouseCoopers member firms were translated using the applicable euro reference rate quoted by the European Central Bank as at 31 December 2013.

Executive bodies in the Baader Bank Group

Executive Board

Uto Baader, Munich
Occupation: Economist, Chairman of the Executive Board of Baader Bank AG

Nico Baader, Gräfelfing
Occupation: Banker, Member of the Executive Board of Baader Bank AG

Dieter Brichmann, Penzberg
Occupation: Businessman, Member of the Executive Board of Baader Bank AG

Dieter Silmen, Baldham (until 31 December 2013)
Occupation: Banker, Member of the Executive Board of Baader Bank AG

Supervisory Board

Dr. Horst Schiessl, Munich (Chairman)
Occupation: Lawyer

Dr. Christoph Niemann, Meerbusch (Deputy Chairman)
Occupation: Banker

Karl-Ludwig Kamprath, Munich
Occupation: Savings bank director (retired)

Helmut Schreyer, Munich
Occupation: Banker

Theresia Weber, Emmering (employee representative)
Occupation: Bank employee

Jan Vrbsky, Darmstadt (employee representative)
Occupation: Bank employee

Table 41 Appointments in accordance with Section 340a (4) No. 1 of the HGB

Appointee	Company/institution in which appointment held	Appointment
Uto Baader	Bayerische Börse AG, Munich	Member of the Supervisory Board
	Corona Equity Partner AG, Grünwald	Deputy Chairman of the Supervisory Board
	Clueda AG, Munich (since 23 April 2013)	Member of the Supervisory Board
	Gulf Baader Capital Markets, S.A.O.C.,Muscat (Oman)	Deputy Chairman of the Managing Board
	STEICO SE, Feldkirchen	Deputy Chairman of the Managing Board
Nico Baader	Conservative Concept Portfolio Management AG, Bad Homburg	Member of the Supervisory Board
	Gulf Baader Capital Markets S.A.O.C., Muscat (Oman)	Member of the Managing Board
	Helvea Holding SA, Geneva (Switzerland) (since 7 October 2013)	Chairman of the Managing Board
	Helvea SA, Geneva (Switzerland) (since 12 December 2013)	Chairman of the Managing Board
	U.C.A. AG, Munich (since 4 July 2013)	Member of the Supervisory Board
Dieter Brichmann	Baader & Heins Capital Management AG, Unterschleissheim	Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Bad Homburg	Chairman of the Supervisory Board
	Baader Management AG, Unterschleissheim (until 12 September 2013)	Chairman of the Supervisory Board
	Skalis AG, Unterschleissheim (since 12 September 2013)	Deputy Chairman of the Supervisory Board
Dieter Silmen	Baader & Heins Capital Management AG, Unterschleissheim	Deputy Chairman of the Supervisory Board
	Baader Management AG, Unterschleissheim (until 12 September 2013)	Member of the Supervisory Board
Christine Schiedermaier	Baader & Heins Capital Management AG, Unterschleissheim	Member of the Supervisory Board
Christian Bacherl	Helvea Holding SA, Geneva (Switzerland) (since 7 October 2013)	Member of the Managing Board
	Helvea SA, Geneva (Switzerland) (since 12 December 2013)	Member of the Managing Board

Appointments in accordance with Section 340a (4) No. 1 of the HGB

As at 31 December 2013, the following persons were members of the statutory supervisory bodies of major German and foreign companies: → **Table 41**

X. List of Baader Bank Group shareholdings

The Baader Bank Group directly holds more than 5% of the shares in the following companies, which were not subsidiaries or associates as at 31 December 2013: → **Table 42**

Table 42 More than 5% of the shares in the following companies in € thousand

Name / Registered office	Equity interest in %	Most recent interim/ annual financial statements	Equity (total)	Net profit/ loss for the year
Parsoli Corporation Ltd., Mumbai (India)	21.93	No current data available as at 31 December 2013.		
U.C.A. AG, Munich	13.81	31 December 2012	9,789	– 2,529
Trading Systems Portfolio Management AG, Bad Homburg [1]	9.64	31 December 2012	1,318	4

1 Formerly Fonds Direkt AG, Bad Homburg.

Baader Bank AG disposed of all its shares in Conquest Investment Advisory AG, Feldkirchen in December 2013. Until the date of the disposal, Baader Bank AG held an interest of 13.30% in the company's share capital.

Unterschleissheim, 12 March 2014
Baader Bank AG

The Executive Board

Uto Baader Nico Baader Dieter Brichmann

Auditors' Report

We have audited the consolidated financial statements of **Baader Bank Aktiengesellschaft**, Unterschleissheim for the financial year from 1 January to 31 December 2013, comprising the consolidated balance sheet, consolidated income statement, the notes, cash flow statement and statement of changes in equity, as well as the Group management report. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law is the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (Handelsgesetzbuch – HGB) using the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). These standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of assets, financial position and results of operations in the consolidated financial statements, compiled in accordance with generally accepted accounting standards, and in the Group management report, are detected with reasonable assurance. In determining the audit procedures, we take into account our knowledge of the Group's business activities and its economic and legal environment, together with our expectations of possible misstatements. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied and the significant estimates made by legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a sufficiently reliable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the statutory requirements and give a true and fair view of the assets, financial position and results of operations of the Group in accordance with generally accepted accounting principles. The Group management report is consistent with the consolidated financial statements, provides an accurate view of the Group's position overall, and accurately presents the opportunities and risks of future development.

Bremen, 12 March 2014

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Jasper)	(Clostermann)
Auditor	Auditor

Imprint

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