BAADER

Consolidated Financial Results for 2005 (IFRS)

Baader Wertpapierhandelsbank AG

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Group Management Report

The market

Record prices in the case of oil, terrorist attacks, natural disasters and fear of rising interest rates were unable to stop the upward trend on the capital markets in 2005. Leading indices closed the year with positive figures, after adjustment for currency effects, worldwide. The Dow Jones Industrial Average was up 14% while the NASDAQ 100 Index gained 16%. The Japanese NIKKEI-225 climbed sharply by 41%. The barometer thus reached its highest level since autumn 2000. The DJ Stoxx 50 increased by 24%.
The transitional economies recorded substantially higher growth rates. The new EU countries of the Czech Republic, Poland and Hungary saw ongoing positive index development of more than 40%. At over 65%, the growth rates of Brazil and Mexico were surprising. Thailand, which suffered share price losses in 2004, recorded an increase of 18% to the year-end.
Germany’s leading index, the DAX, gained 27% compared with 7% in the previous year. The development of the MDAX and SDAX was more pleasing still, as in previous years. They generated rates of increase of 36% and 35% respectively. The TecDAX, which dropped 4% in the previous year, rose 15% in the past year. The REX Performance Index (German government bonds) stagnated at the previous year’s level.

The total revenue on German stock exchanges increased by 15% to EUR 3.8 trillion. EUR 1.2 trillion (up 26% on the previous year) was attributable to shares, EUR 76 billion of which was accounted for in turn by foreign shares (up 18% on the previous year).

In 2005, the percentage of shareholders and equity fund shareholders of the population rose 0.5 percentage points to 16.7% (source: DAI).

As a result of the generally positive mood on the capital markets, 23 companies took the step of going public in the past year. This enabled a total issue volume of over EUR 4.1 billion to be placed.

Baader Wertpapierhandelsbank AG's market position

After Baader Wertpapierhandelsbank AG used the year 2004 as an opportunity to expand its core competencies further – specialist activities and the institutional agency business – it focused on developing new business areas in 2005. Within this context, Baader Wertpapierhandelsbank AG acquired a 19.96% stake in the Conservative Concept Portfolio Management Group (CCPM) in Bad Homburg. CCPM's core business area is designing and implementing alternative investment strategies. Here, the company specialises in the use of futures and options in the form of single hedge funds, managed accounts and certificates. In August 2005, together with Citigroup Investment Deutschland KAG, Frankfurt and Bank Medici AG, Vienna, Baader Service Bank GmbH launched its first equity long/short single hedge fund under the terms of the *Investmentgesetz* (InvG – German Investment Act). This makes Baader Wertpapierhandelsbank AG, together with its wholly owned subsidiary Baader Service Bank GmbH, one of the larger independent service providers in the area of hedge funds in Germany.

The interest in the subsidiary Heins & Seitz Capital Management GmbH, Unterschleissheim, was increased from the previous 50% to 70% as at 1 January 2005.

In financial year 2001, the Board of Directors resolved to withdraw from the investment business. The sale of five equity investments in January 2005 to a fund advised by Ventizz Capital Partners Advisory GmbH systematically implemented this strategic direction.

Baader Wertpapierhandelsbank AG has been providing specialist activities in the EUWAX segment of the Stuttgart Stock Exchange since 1 December 2005. Since then, all newly issued leverage products of Deutsche Bank have been managed by Baader Wertpapierhandelsbank AG.

The Bank managed a total of 61,552 order books on the balance sheet date of 31 December 2005. 9,018 of the order books related to equities, 45,533 to warrants, certificates and ETFs, and 7,001 to bonds and profit participation certificates. In terms of revenue, Baader Wertpapierhandelsbank AG achieved a market share of over 30% on the Frankfurt Stock Exchange. On the Munich Stock Exchange, the market share is approximately 60%.

In financial year 2005, Baader Wertpapierhandelsbank accompanied 25 capital measures with a total volume of approximately EUR 90 million. This included 3 IPOs – Sunline AG, VIB Vermögen AG and Plan Optik AG.

Baader Wertpapierhandelsbank AG's equity improved in 2005, thus providing a sound basis for further expansion.

To summarise, it can be said that Baader Wertpapierhandelsbank AG can be optimistic for the future thanks to its focus on – and strategic extension of – its core competencies.

Subsidiaries and associates

As in financial year 2004, the 100% interests in Baader Management AG and Baader Service Bank GmbH were fully consolidated in the consolidated financial statements of Baader Wertpapierhandelsbank AG.

Upon acquiring a further 20% of the shares in Heins & Seitz Capital Management GmbH, Baader Wertpapierhandelsbank AG has held a 70% interest in the company since 1 January 2005. The company is thus a subsidiary under IAS 27 and is also fully consolidated.

As associates, the investment in SPAG St. Petersburg Immobilien- und Beteiligungs AG (35.98%), Darmstadt and the fund shares held by Baader Wertpapierhandelsbank AG and Baader Service Bank GmbH in the Herald Europe-CI (25.87%) and Globe CC AMI (48.36%) funds were included in the consolidated financial statements using the equity method in accordance with IAS 28.

Key events after the balance sheet date

Baader Wertpapierhandelsbank held an 18.29% interest in KST Beteiligungs AG, Stuttgart, as at 31 December 2005. After KST's share price started to increase significantly from the beginning of 2006, the shareholding was reduced while largely maintaining its value. In so doing, considerable capital gains were realised. These will be reflected in the income statement for 2006.

On 13 February 2006, Baader Wertpapierhandelsbank AG raised its interest in Conservative Concept Portfolio Management GmbH, Bad Homburg, from 19.96% to 49.96%. The increase in the interest firstly documents the excellent cooperation to date and also intensifies it.

Business and earnings developments

The following overview comprises the main elements of the income statements for 2005 and 2004, together with the respective changes.

	2005 EUR thousand	2004 EUR thousand	Change EUR thousand	%
Net interest expense	-481	-424	-57	n.a.
Allowance for losses on loans and advances	-2	-34	+32	n.a.
Net fee and commission income	24,387	14,386	+10,001	+69.5
Net trading income	34,891	30,028	+4,863	+16.2
Net income from available-for-sale financial instruments and equity-accounted investments	1,550	4,598	-3,048	-66.3
Administrative expenses	50,412	45,333	+5,079	+11.2
Profit from operations	**9,933**	**3,221**	**+6,712**	**+208.4**
Other income and expenses, net	1,215	827	+388	+46.9
Profit from ordinary activities	**11,148**	**4,048**	**+7,100**	**+175.4**
Tax expense	-3,146	172	+3,318	n.a.
Net profit for the period before minority interest	**8,002**	**4,220**	**+3,782**	**+89.6**

As a result of our strengthened competitive position and the high volatility of the markets, revenue increased and profit from operations clearly trebled by EUR 6,712 thousand. In addition, a positive value for other income and expenses contributes to the fact that profit from ordinary activities of EUR 11,148 thousand was generated. Compared with the previous year, this corresponds to an increase of 175.4%. This repeated considerable improvement in profit is impressive confirmation of the corporate strategy pursued over the past few years of investing in our core business areas in counter-cyclical fashion.

The net interest expense is mainly due to the interest expense from refinancing the administration building in Unterschleissheim.

The positive development in net fee and commission income from EUR 14,386 thousand to EUR 24,387 thousand is particularly pleasing. All the business segments contributed to this improvement in income. Of the rise in net fee and commission income, EUR 5,757 thousand is attributable to Specialist Activities and Proprietary Trading, EUR 808 thousand to Capital Market Services and EUR 3,899 thousand to the Agency Business.

Despite sinking trading margins, net trading income climbed 16.2% year-on-year to EUR 34,891 thousand which was primarily due to the increase in our market share.

Net income from available-for-sale financial instruments comprises income of EUR 627 thousand and losses of EUR 12 thousand from the disposal of securities held in the banking book. Write-downs of equity investments and the banking book amounting to EUR 322 thousand were taken. Other income components, such as interest and dividends, amount to EUR 434 thousand. EUR 824 thousand is attributable to net income from equity-accounted investments.

With regard to administrative expenses, EUR 27,118 thousand is attributable to staff costs (previous year: EUR 23,209 thousand) and EUR 16,152 thousand to other administrative expenses (previous year: EUR 15,823 thousand). Amortisation of intangible assets and depreciation of property and equipment amounted to EUR 7,142 thousand (previous year: EUR 6,301 thousand). The increase in staff costs of EUR 3,909 thousand is almost exclusively attributable to higher variable salary components. The amortisation of intangible assets and depreciation of property and equipment relate primarily to the order books acquired over the past few years, the administration building in Unterschleissheim and the new trading software that the Bank began using in early 2004.

Other income and expenses comprises income of EUR 1,641 thousand and expenses of EUR 425 thousand. The income component comprises EUR 184 thousand in prior-period income; EUR 281 thousand in rental income, EUR 301 thousand from the reversal of provisions and EUR 643 thousand in income from compensation for non-monetary benefits from the private use of company cars and the granting of stock options. Of the expenses, EUR 258 thousand is due to prior-period expenses and EUR 90 thousand to losses from the disposal of assets.

EUR 1,445 thousand of the tax expense is due to current taxes and EUR 1,701 thousand to deferred taxes.

Net assets

The overview below illustrates the main items on the balance sheet for financial year 2005 compared with the previous year.

Assets	2005 EUR thousand	2004 EUR thousand	Change EUR thousand	%
Cash reserve	2,586	161	2,425	+1,506.2
Loans and advances to banks	24,057	25,234	-1,177	-4.7
Loans and advances to customers	2,916	1,343	+1,573	+117.1
Allowance for losses on loans and advances	-23	-167	+144	n.a.
Assets held for trading	34,040	27,666	+6,374	+23.0
Available-for-sale financial instruments				
a) Shares and equity investments	26,091	19,776	+6,315	+31.9
b) Bonds and debt securities	3,650	6,753	-3,103	-45.9
Equity-accounted investments	13,817	4,017	+9,800	+244.0
Land and buildings	20,832	21,586	-754	-3.5
Other property and equipment	1,645	1,870	-225	-12.0
Intangible assets and goodwill	21,611	24,303	-2,692	-11.1
Recoverable income taxes	126	1,216	-1,090	-89.6
Other assets	5,168	3,300	+1,868	+56.6
Deferred tax assets	27,948	28,886	-938	-3.2
Total assets	**184,464**	**165,944**	**+18,520**	**+11.2**
Liabilities and equity				
Deposits from other banks	21,144	24,015	-2,871	-12.0
Due to customers	16,911	15,037	+1,874	+12.5
Provisions	6,944	7,098	-154	-2.2
Provisions for taxes	341	1	+340	>100.0
Other liabilities and accruals	8,281	6,650	+1,631	+24.5
Deferred tax liabilities	3,753	708	+3,045	+430.1
Equity	127,090	112,435	+14,655	+13.0
Total liabilities and equity	**184,464**	**165,944**	**+18,520**	**+11.2**

Total assets rose by EUR 18,520 thousand or 11.2% to EUR 184,464 thousand in the year under review.

Loans and advances to banks mainly relate to credit balances lodged as collateral for the settlement of stock market transactions and to the investment of customer deposits.

Assets held for trading mostly relate to listed shares and bonds.

Available-for-sale financial instruments primarily consist of shares totalling EUR 19,405 thousand, equity investments of EUR 6,686 thousand, as well as bonds and debt securities totalling EUR 3,650 thousand. The increase in the shares and equity investments item was mainly due to the reversal of write-downs and the acquisition of an interest in Conservative Concept Portfolio Management GmbH, Bad Homburg.

Equity-accounted investments relate to the investment in SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt, and fund shares in the Herald Europe-CI and Globe CC AMI funds.

The land and buildings item consists solely of the administrative building in Unterschleissheim, which was occupied in 2002.

The decrease in intangible assets and goodwill is primarily due to amortisation.

Receivables from fees and commission and price differences account for EUR 2,856 thousand and reinsurance claims for life insurance account for EUR 1,785 thousand of the other assets item.

Deposits from other banks comprise long-term loans of EUR 13,665 thousand taken out to finance the administrative building.

The amount due to customers item relates mostly to margin payments on exchange-traded contracts by clients of Baader Service Bank GmbH.

Provisions primarily comprise provisions for staff costs, taxes and cost allocations by regulatory authorities.

Other liabilities mainly relate to trade payables and current liabilities to employees.

The profit generated in financial year 2005 improved the Company's equity base. With an equity ratio in excess of 68.9%, the Company has competitive capital resources which will ensure further growth.

Financial position

The Group's liquidity was secured at all times during the period under review. At the balance sheet date, short-term loans and advances to other banks of EUR 24,057 thousand as well as available-for-sale assets held for trading and bonds and debt securities of EUR 48,037 thousand offset current liabilities to other banks and customers of EUR 24,517 thousand. This results in a net balance-sheet liquidity surplus of EUR 47,578 thousand (previous year: EUR 34,759 thousand).

Declaration in accordance with section 312 of the AktG

In accordance with section 312 of the *Aktiengesetz* (AktG – German Public Companies Act), the Board of Directors prepared a dependent company report, which concludes with the following declaration:

"According to the circumstances known to the Board of Directors at the time when the legal transactions or other measures listed in the dependent company report were performed, Baader Wertpapierhandelsbank AG received appropriate consideration for such transactions or measures. The Bank was not adversely affected by any measures taken or not taken. All reportable transactions were resolved by the Board of Directors, approved by the Supervisory Board to the extent that this was required by the Articles of Association or the By-laws of Baader Wertpapierhandelsbank AG, and listed in this dependent company report".

Employees

In the year under review, the number of staff employed by the Group at the balance sheet date rose slightly from 218 to 225 year-on-year. The Group's workforce comprises 56 female employees and 169 male employees who come from 11 countries.

Baader Wertpapierhandelsbank AG places particular emphasis on the high level of qualifications and further education of its employees. In 2005, personnel activities focused on furthering junior management.

The Group constantly endeavours to increase its attractiveness to employees by offering additional social benefits to its staff. By establishing its own provident fund in 2005 – Baader Unterstützungskasse e.V. – the Group created an independent social organisation to be able to guarantee post-employment benefits within the context of occupational pension provision.

Baader Wertpapierhandelsbank AG guarantees all employees voluntary financial support of EUR 10,000 upon the birth of an own child. In 2005, a total of EUR 90,000 was paid out.

The management would like to thank all employees for their dedication and the loyalty they demonstrated over the past financial year.

Environmental report

The services provided by Baader Wertpapierhandelsbank AG do not materially impact the environment in any way. The Company places great emphasis on conserving production resources (photocopiers, printers and other office equipment) and consumables. The new administrative building in Unterschleissheim was constructed and is managed in line with state-of-the-art ecological principles, particularly with regard to water, heat and air conditioning.

Branch report

Baader Wertpapierhandelsbank AG's administrative centre is located in Unterschleissheim. In addition, the Company operates branches in Dortmund, Frankfurt and Stuttgart.

Risk report

The earnings performance of Baader Wertpapierhandelsbank AG was and is largely dependent on the tendencies of the market and the related opportunities and risks. In terms of earnings, the past year under review was a successful year. However, these earnings were not generated by taking higher risks – the risks taken remained virtually unchanged – but by leveraging the opportunities that arose from the Bank’s strategic direction over the past few years.

This professional handling of opportunities and risks – i.e. their identification, assessment, efficient management, monitoring and communication – is the foundation of Baader Wertpapierhandelsbank AG's business activities. The Bank deals with these financial risks using a risk management system that complies with the “*Mindestanforderungen an das Risikomanagement*” (MaRisk – Minimum Requirements for Risk Management) issued by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – the Federal Financial Supervisory Authority) that have applied since 20 December 2005.

The Board of Directors of Baader Wertpapierhandelsbank has established a risk control system which stipulates the rules for structural and process organisation as well as risk management and risk control processes, including organisational guidelines, the assignment of approval powers and responsibilities. It covers the areas of sales, back office processing and trading on the one hand as well as risk control, settlement/control and accounting on the other. The functional and organisational separation of these areas is ensured up to the level of the Board of Directors. In particular, the risk control department is responsible for measuring and limiting risk, monitoring risk positions and limits, and reporting to the Board of Directors.

To limit the risks it faces, the Bank has installed a system for measuring and monitoring risk positions and for analysing and managing related potential losses. To manage the risk positions, the risk capital available to the Bank as a whole is allocated to the individual units and profit centres using a top-down approach, e.g. taking RORAC ratios (RORAC = Risk Adjusted Return on Capital) into account, based on an analysis of the general economic conditions. The following relevant risk types have been identified: credit risks including country risks and investment risks, market price risks, liquidity risks, property risks and operational risks including legal risks.

As the parent institution, Baader Wertpapierhandelsbank AG is responsible for establishing a risk control system throughout the Group. To meet this requirement, the entire Board of Directors centrally provided the risk control department of Baader Wertpapierhandelsbank AG with the functional authority to implement the Group-wide risk control system.

In contrast, risk at the subsidiaries in the Baader Group is managed and monitored decentrally through the relevant influence exerted by at least one member on the Board of Directors or senior executive of Baader Wertpapierhandelsbank AG who is a member of the management or a supervisory body at the respective subsidiary. The risk at the Group subsidiary Baader Service Bank GmbH is managed through the relevant influence exerted by management at Baader Service Bank GmbH. In addition, the Board member responsible for the capital market services business and the manager responsible for the risk control department of Baader Wertpapierhandelsbank AG are members of the Credit Committee at Baader Service Bank GmbH. Baader Management AG did not carry out any operating activities in the past year.

In the past year, the following changes occurred in the Group: the interest in Heins & Seitz GmbH increased by 20% to 70% as at 1 January 2005. In addition, an interest in Conservative Concept Portfolio Management GmbH of 19.96% was acquired on 8 August 2005.

Credit risks

In the area of credit risks, a distinction is made between the counterparty and issuer risks inherent in trading, classic credit risks, investment risks and country risks.

The Group performs lending business as defined by section 1 (1) no. 2 of the *Kreditwesengesetz* (KWG – German Banking Act). This guarantees customers a low volume of (non-genuine) loans against collateral in listed securities, the lending value of which is stated very conservatively. The credit risk is managed decentrally and can be classified as low overall.

Only money market deposits at banks (due in less than 3 months) are made within the Group as part of the lending business. Money market facilities exist at the Bank for such transactions based on credit checks with the corresponding credit decisions.
There are no additional credit risks that are significant at the Group subsidiaries due to the activities that they perform. As a result, all of the credit risks described below relate to Baader Wertpapierhandelsbank AG.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all obligations. A distinction must be made between the replacement risk in the event of default of a counterparty and the resulting inability to settle transactions that have been concluded on the one hand, and the advance payment risk that can arise from transactions not settled as delivery versus payment (DVP) transactions on the other. In accordance with BTR 1 (special part referring to risks) of the MaRisk, stock market transactions and transactions against cash settlement that are settled as delivery versus payment transactions do not represent a counterparty risk.

As a rule, all of the Bank's security transactions are settled as delivery versus payment transactions and regulated by our settlement banks. Consequently, counterparty risks in our trading may be disregarded.

The only exception is the settlement of borrower's note loan transactions. Payment and execution of these transactions do not occur concurrently, so Baader is subject to counterparty risk in the sense of an advance payment risk in this case. At the end of the year, this advance payment risk amounted to approximately EUR 1 million in accordance with Principle I.

Issuer risk – i.e., the risk of the deterioration in creditworthiness or the default of an issuer – is offset by assigning issuers to creditworthiness categories and then deducting the corresponding commitment from the limit set. These limits, which must also be complied with during individual days, are so designed that regulatory limits on large-volume loans cannot be exceeded. The largest individual commitments in the trading book can all be turned into cash easily. The following table provides a breakdown of individual loan commitments valued at over EUR 0.5 million by industry at the end of the year in EUR:

FINANCIAL SERVICE PROVIDERS	22,780,176
SPECIAL FUNDS	18,422,273
PUBLIC SECTOR	3,591,350
TECHNOLOGY	2,802,104
ENERGY	1,436,127
MEDIA	1,109,880

Country risk represents the danger that receivables due from cross-border transactions and/or in foreign currency may not be received as a result of sovereign acts (for example, exchange controls). The country risk currently only applies to bonds denominated in euro or DM which are issued by issuers domiciled outside the eurozone or bonds denominated in foreign currency issued by issuers domiciled within the eurozone. All of the positions at the year-end with an inherent country risk could easily be turned into cash and amounted to less than EUR 61,000 overall. The anticipated loss in the event that these receivables all default within a single year amounted to EUR 401 as at the year-end.

The Bank discontinued the investment business – new commitments are no longer being made. Holdings in the portfolio that remained were further reduced in the past year under review.

Market price risks

Market price risk is the risk of fluctuation in the value of the item under consideration due to changes in market prices, e.g., share price changes, exchange rate and interest rate changes, and volatility changes.

In the past year, only Baader Wertpapierhandelsbank AG and also Baader Service Bank GmbH to a very small extent were subject to market price risks. At the end of the year, the following risk positions with the following market values in EUR million were held:

CASH MARKET		**FORWARD MARKET**	
EQUITIES	23.26	OPTIONS	-0.19
BONDS	-0.16	FUTURES	0.01
FUNDS, INDEX AND FUND-LIKE CERTIFICATES	14.81	SWAPS	0.28
SECURITISED DERIVATIVES	1.53		

Market price risks are measured using a value-at-risk (VaR) model based on Monte Carlo simulations and applying a one-day holding period along with a confidence level of 1%. The input risk parameters are determined using a variance-covariance matrix based on the Bank's own time series which are exponentially weighted.

In past years, the following VaR values were calculated in EUR million:

Value-at-risk of the trading segments	2001	2002	2003	2004	2005
Year-end VaR	0.34	0.73	0.65	0.74	0.83
Minimum VaR	0.31	0.19	0.41	0.70	0.51
Maximum VaR	4.90	1.10	1.48	1.73	1.46
Average VaR	1.26	0.40	1.12	1.04	0.84

The quality of our VaR model is constantly reviewed using the ratio of the VaR figures to the change in the position's actual market value (clean backtesting) and the model is refined on the basis of these results. Nevertheless, in view of their theoretical limitations, the VaR calculations are supplemented by worst-case scenarios with extraordinary market price changes.

In accordance with Principle I, the overall ratio must always be above 8%. For the Baader Group, it was 38.1% as at the year-end and 52.4% on average for the year; for Baader Wertpapierhandelsbank AG, these figures were 35.1% and 45.5% respectively.

Liquidity risks

Liquidity risks may occur due to insufficient liquidity on the part of trading products or the Bank itself.

For example, securities with varying market liquidities exist. Low or non-existent market liquidity in individual trading products means that transactions in these products – both to establish and to close out positions – are impacted or impossible. For Baader Wertpapierhandelsbank, the liquidity of the – principally – foreign asset categories on their respective home stock exchanges is the decisive factor.

The Bank's short-term liquidity is managed via cash management. Payment flows are analysed daily and a liquidity status report giving the current liquidity position is prepared. This is then used as the basis for cash management. Moreover, we have sufficient credit lines available at all times.
The Bank's medium- to long-term liquidity surplus is calculated regularly and is used to manage excess liquidity and as a basis for investment decisions.

The liquidity ratio in accordance with Principle II, which represents the ratio of cash to payment obligations, amounted to 10.07 at the end of the year and 11.14 on average for the year at Baader Wertpapierhandelsbank AG. The amount of the Bank’s payment obligations is not permitted to exceed the available cash; consequently, the liquidity ratio may not fall below 1.0.

Property risk

The new property owned by the Bank at Weihenstephaner Strasse 4 in Unterschleissheim serves as its administration centre and trading location, and is classified as an operating asset.

The property is therefore measured at amortised cost in accordance with IAS 16. Standard wear and tear was accounted for by depreciation in the amount of EUR 0.85 million for the financial year.

Operational risks

Operational risk is the danger of losses that may occur as a result of the inadequacy or failure of internal procedures, people and systems or of external events and also includes legal risks. As part of Basel II, operational risks must be identified, assessed and managed and any countermeasures necessary must be arranged. Baader Wertpapierhandelsbank AG's aim is to avoid financial damage from operational risks accordingly.

Operational risks can result from malfunctions (programming errors, incorrect operation, hardware failure) or emergency situations that affect the availability of IT systems. Inspections of the IT systems, procedures and access rights must be documented in writing. Applications for authorisations to the IT systems must be submitted by the relevant department.

The availability of these systems is secure using an IT backup procedure that complies with the recommendations by the *Bundesamt für Sicherheit in der Informationstechnik* (Federal Office for Information Technology Security), which includes data centres in separate fire compartments, redundant and mirrored hardware, outsourced data backups, a backup data centre and testing procedures for software. If a system crashes, the written recovery and emergency plans in Baader's operating procedures must be followed. These plans are adapted at regular intervals to reflect changes in the processes concerned. Managers are informed using a predetermined escalation policy. The employee responsible for the process at the relevant escalation level implements the measures described in the emergency manual.

In addition, program availability is ensured by maintaining the software on a second system located in the backup data centre. This software is activated in accordance with the emergency plan of Baader Wertpapierhandelsbank AG if the primary system fails.

The legal risk includes the risk of losses as a result of new statutory regulations and adverse changes to existing statutory provisions or their interpretation and the non-observance of laws. In addition, legal risks arise if contractually agreed terms are not legally enforceable or the court establishes other rules that disadvantage Baader Wertpapierhandelsbank AG instead of the agreed terms of the contract. Legal risks are managed by the central legal services department. This is carried out, for example, by regularly advising and informing the Board of Directors of the current legal situation and its effects as well as providing legal support when projects are executed. Legal risks are also minimised by examining contractual documents, analysing the circumstances relating to the contract and using generally accepted master contracts. Baader Wertpapierhandelsbank AG also makes use of external legal advice.
To minimise legal risk, trading by the operating units is only permitted on markets with standardised trading or settlement procedures. In addition, clear trading guidelines are provided for markets and products. Before trading in innovative products or new markets commences, the legal situation, customs and documentation relating to the transactions are described in detail in an introductory plan.
At the end of the year, no significant ongoing or potential legal disputes involving material financial risks had been identified.

Outlook

Following a successful 2005 with growth rates of more than 20%, an ongoing revival in the global economy, particularly in Europe, is still anticipated for 2006. The stock markets should continue their positive trend in 2006, even though higher volatility is expected and the sound development is expected to weaken. This is justified by the rise in sales tax to be expected for 2007, the grand coalition's willingness to reform which is yet to be demonstrated and further price increases in the commodity sector. The political situation, particularly in the Middle East, will continue to contribute to the uncertainty on world markets.

Domestic consumption in Germany will not remain at the currently low level forever either. An increase is expected in the course of 2006 and 2007. However, markets will react sensitively to energy prices, especially oil prices, as in the past. No clear fall in oil prices is expected in the medium term, but even high oil prices are not likely to stand in the way of a friendly trend on the capital markets.

Trading volume is likely to climb further now that investors have been recording considerable growth again on the capital markets since 2003 and previous investment alternatives (e.g. life insurance, property funds) are becoming increasingly unattractive for German investors.

An improvement in earnings can be expected for 2006 due to more cash flowing into the capital markets, the increasing number of IPOs and the capital measures of German companies as well as ongoing positive developments in new business segments. The diversification already achieved as a result of the Group structure should stabilise earnings further. The focus remains on expansion of the core business.

Overall, earnings can be expected to climb significantly again in 2007 if they are strengthened by both the rising trading volume and the positive market development. The consolidated net profit will also benefit from the earnings of its subsidiaries.

A comfortable equity base, well-educated and committed employees, a high level of technology and a high degree of organisation all make Baader Wertpapierhandelsbank AG a strong and stable partner for stock exchanges and market participants. In addition, Baader Wertpapierhandelsbank AG will continue to play an active role in the consolidation of Germany's finance industry and also expand its activities to include markets abroad. Within this context, Baader Wertpapierhandelsbank AG intends to acquire an interest of just under 10% in an Indian financial service provider as it would like to participate in the economic upturn in India.

Baader Wertpapierhandelsbank AG is well positioned in all business areas and expects a further improvement in business earnings over the next two years under the conditions described above.

Unterschleissheim, 17 February 2006
Baader Wertpapierhandelsbank AG

Board of Directors

Uto Baader Dieter Brichmann Stefan Hock Dieter Silmen

Report of the Supervisory Board

In the past financial year, the Supervisory Board was regularly informed by the Board of Directors about the position of Baader Wertpapierhandelsbank AG and the Group and monitored and supported the Board of Directors. In so doing, the Board of Directors informed the Supervisory Board in written and oral reports about the business policy, fundamental issues of future management, financial position and strategic further development, risk situation and risk management as well as key business transactions of the Bank and consulted with it on these subjects. The Supervisory Board was included in decisions of major importance.

Five meetings of the Supervisory Board were held during the year under review. The key focus of the discussions between the Board of Directors and the Supervisory Board was the Group's organisational and strategic direction, the positioning of Baader Wertpapierhandelsbank AG, its financial development and that of its subsidiaries, key business transactions, as well as the latest changes on the stock market. The Supervisory Board was also informed between meetings about major projects. Where necessary, resolutions were passed in written form.

The Supervisory Board also discussed in detail the strategy to generate additional income, the restructuring of existing business segments and the start of new activities. In addition, the Board of Directors regularly informed the Supervisory Board in its monthly reports about key financial performance indicators and the risk situation of Baader Wertpapierhandelsbank AG and the Group. Where required by law or the provisions of the Company's Articles of Association or By-laws, the Supervisory Board approved individual transactions requiring its consent, after thorough examination and discussion.

The Chairman of the Supervisory Board was also informed about important decisions and key business transactions in regular discussions with the Board of Directors. The minutes of the Board of Director's meetings were made available to him in a timely manner.

The Supervisory Board regularly discusses corporate governance issues and has generally acknowledged the recommendations of the German Corporate Governance Code. In its meeting on 1 December 2005, the Supervisory Board, together with the Board of Directors, issued an updated declaration of compliance as required under section 161 of the AktG and explained the deviations from the recommendations of the German Governance Corporate Code. This declaration is reproduced in the Annual Report and is available on Baader Wertpapierhandelsbank AG's website.

In its meeting on 1 December 2005, the Supervisory Board conducted a test of the efficiency of its own activities; the result was positive. The Supervisory Board also ensured that in the past financial year Baader Wertpapierhandelsbank AG fulfilled the recommendations of the Corporate Governance Code in accordance with its declaration of compliance from December 2004. No conflicts of interest relating to the members of the Supervisory Board occurred in the year under review.

The annual financial statements and management report of Baader Wertpapierhandelsbank AG and the consolidated financial statements for the year ended 31 December 2004, together with the Group management report, including the accounting, were audited by Clostermann & Jasper Partnerschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, the auditor chosen by the General Meeting, in accordance with the legal provisions and issued with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) and also audited by the auditor of the financial statements in accordance with the International

Standards on Auditing (ISAs). The auditors confirmed that the consolidated financial statements and the Group management report for the financial year from 1 January 2005 to 31 December 2005 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

In accordance with section 312 of the AktG, the Board of Directors prepared a dependent company report. The auditor Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen audited the dependent company report in accordance with the legal provisions and issued the following unqualified audit opinion: “We duly examined the dependent company report and confirm that 1. the representations contained therein are correct, 2. the considerations agreed by the company in the legal transactions mentioned in the report were not unreasonably high, 3. the measures mentioned in the report do not indicate any circumstances for a substantially different assessment than that made by the Board of Directors”.

All members of the Supervisory Board were sent the documents relating to the annual financial statements, the auditors' reports and the proposal on utilisation of the unappropriated surplus by the Board of Directors in good time. In its meeting held today to discuss the annual results, the Supervisory Board examined the annual financial statements and management report of Baader Wertpapierhandelsbank AG presented by the Board of Directors as well as the consolidated financial statements, together with the Group management report and the dependent company report, including the audit report. The auditors and the Board of Directors attended the meeting. The auditors reported on their audit as a whole and on individual areas of emphasis, presented the key findings of their audit, and provided detailed answers to the questions posed by the members of the Supervisory Board. The Supervisory Board concurred with the auditors' findings. Following the conclusion of its examination, the Supervisory Board did not raise any objections.

The Supervisory Board approved the 2005 annual and consolidated financial statements prepared by the Board of Directors in its meeting today. The 2005 annual financial statements have therefore been adopted. The Supervisory Board agrees with the proposal of the Board of Directors to distribute a dividend of EUR 0.18 per no par-value share carrying dividend rights from the unappropriated surplus, to transfer EUR 8 million to other retained earnings and to carry the remaining amount forward to new account.

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

Unterschleissheim, 23 March 2006

The Supervisory Board

Dr. Horst Schiessl
Chairman

Declaration of Compliance

Declaration of Compliance in accordance with section 161 of the AktG by the Board of Directors and Supervisory Board of Baader Wertpapierhandelsbank AG for 2005

The Board of Directors and Supervisory Board of Baader Wertpapierhandelsbank AG declare in accordance with section 161 of the *Aktiengesetz* (AktG – German Public Companies Act) for 2005 that the Company complied and will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" published on 4 July 2003 by the Federal Ministry of Justice in the official section of the electronic *Bundesanzeiger* (Federal Gazette) in the version dated 21 May 2003 and the amended version dated 2 June 2005 (published on 20 July 2005) with the following exceptions:

1) Section 3.8 (2) of the German Corporate Governance Code stipulates the following: "If the company takes out a D&O (directors and officers' liability insurance) policy for the Board of Directors and Supervisory Board, a suitable deductible shall be agreed".

   In April 2004, Baader Wertpapierhandelsbank AG concluded a suitable D&O insurance policy for the executive bodies and senior executives of the Company. A deductible was not agreed.

2) Section 4.2.3 (2) of the German Corporate Governance Code (version dated 21 May 2003), stipulates the following in relation to the variable remuneration of the members of the Board of Directors: "In particular, company stocks with a multi-year blocking period, stock options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Stock options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed for by the Supervisory Board".

   In the General Meeting on 14 July 2004, a stock option plan was approved for members of the Board of Directors and Baader Wertpapierhandelsbank AG employees. This is a variable compensation system in accordance with the German Corporate Governance Code, with one exception. The Company has rejected the possibility of a cap on income in the case of stock options, as this does not correspond to the incentive goals of a variable compensation system.

3) Section 4.2.4 of the German Corporate Governance Code stipulates the following: "Compensation of the members of the Board of Directors shall be reported in the Notes to the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualised".

   Baader Wertpapierhandelsbank AG reports the Board of Directors salaries in the Notes to its Annual Financial Statements subdivided according to fixed and performance-related components. Baader Wertpapierhandelsbank AG has rejected the individualised reporting of its Board of Directors salaries, as the Company sees no benefit in this practice.

4) Section 5.3.2 of the German Corporate Governance Code stipulates the following: "The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of

accounting and risk management, the necessary independence required of the auditor, the determination of auditing focal points and the fee agreement".

After the General Meeting in 2004, the Supervisory Board dissolved the Audit Committee set up in December 2002. The Supervisory Board found that the Committee performed its work successfully, but that in view of the size of the Supervisory Board, a special committee was not reasonable with regard to the costs and effort involved.

5) Section 5.4.5 (last section) of the German Corporate Governance Code stipulates the following: "The compensation of the members of the Supervisory Board shall be reported in the Notes to the Consolidated Financial Statements, subdivided according to components".

Baader Wertpapierhandelbank AG reports the compensation of the members of the Supervisory Board in the Notes to its Annual Financial Statements according to fixed and performance-related components. It does not intend to report them on an individual basis, as the Company sees no benefit in this practice.

6) Section 7.1.2 of the German Corporate Governance Code stipulates the following: "The Consolidated Financial Statements will be prepared by the Board of Directors and examined by the auditor and the Supervisory Board. The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period". (Version dated 2 June 2005)

Baader Wertpapierhandelsbank AG's shares are listed in the Prime Standard of the Amtlicher Markt on the Frankfurt Stock Exchange. The Frankfurt Stock Exchange rules and regulations stipulate a period of four months for the publication of the consolidated financial statements, and a period of two months for the publication of the interim reports. These periods are complied with. To comply with earlier periods above and beyond this would entail inappropriate organisational effort.

December 2005

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The Supervisory Board

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BAADER WERTPAPIERHANDELSBANK AKTIENGESELLSCHAFT
UNTERSCHLEISSHEIM
CONSOLIDATED BALANCE SHEET (IAS) FOR THE PERIOD ENDED 31 DECEMBER 2005

	Assets	Notes	31 Dec. 2005 EUR	31 Dec. 2004 EUR thousand
1.	Cash reserve	(7, 34)	2,585,796.07	161
2.	Loans and advances to other banks	(8, 35)	24,057,229.97	25,234
3.	Loans and advances to customers	(8, 36)	2,916,420.93	1,343
4.	Allowance for losses on loans and advances	(9, 35, 36, 37)	-22,667.54	-167
5.	Assets held for trading	(11, 38)	34,040,019.33	27,666
6.	Available-for-sale financial instruments	(12, 39)	29,740,898.90	26,529
7.	Equity-accounted investments	(40)	13,817,483.36	4,017
8.	Property and equipment	(13, 41)	22,476,464.20	23,456
9.	Intangible assets	(14, 42)	19,030,182.58	23,340
10.	Goodwill	(15, 42)	2,581,093.59	963
11.	Recoverable income taxes	(20, 43)	125,570.80	1,216
12.	Other assets	(44)	5,167,833.95	3,300
13.	Deferred tax assets	(20, 45)	27,947,996.03	28,886
	Total assets		184,464,322.17	165,944

	Liabilities and Equity	Notes	31 Dec. 2005 EUR	31 Dec. 2004 EUR thousand
1.	Deposits from other banks	(17, 46)	21,143,701.30	24,015
2.	Due to customers	(17, 47)	16,911,064.94	15,037
3.	Provisions	(18, 19, 48)	6,944,566.23	7,098
4.	Provisions for taxes	(20, 49)	341,017.60	1
5.	Other liabilities and accruals	(50)	8,280,975.14	6,650
6.	Deferred tax liabilities	(20, 51)	3,753,068.11	708
7.	Equity	(21, 22, 52, 53, 54)		
	a) Issued capital	(52)	22,601,984.00	22,438
	b) Share premium	(52)	83,473,389.09	83,199
	c) Retained earnings		0.00	0
	c) Revaluation reserve	(12, 52)	8,686,706.38	279
	d) Minority interest		133,038.31	0
	e) Consolidated net profit	(52)	12,194,811.07	6,519
	Total liabilities and equity		184,464,322.17	165,944

BAADER WERTPAPIERHANDELSBANK AKTIENGESELLSCHAFT
UNTERSCHLEISSHEIM
CONSOLIDATED INCOME STATEMENT (IAS)
FOR THE PERIOD FROM 1 JANUARY 2005 – 31 DECEMBER 2005

Income Statement	Notes	EUR	2005 EUR	2004 EUR
1. Interest income		**452,479.42**		**348**
2. Interest expense		**-933,584.63**		**-772**
3. Net interest expense	(57)		**-481,105.21**	**-424**
4. Allowance for losses on loans and advances	(9, 37, 58)		**-2,196.05**	**-34**
5. Net interest expense after allowance for losses on loans and advances			**-483,301.26**	**-458**
6. Fee and commission income		**35,919,083.55**		**22,526**
7. Fee and commission expense		**-11,531,690.63**		**-8,140**
8. Net fee and commission income	(59)		**24,387,392.92**	**14,386**
9. Net trading income	(60)		**34,890,957.66**	**30,028**
10. Net income from available-for-sale financial instruments	(61)		**725,925.56**	**4,537**
11. Net income from equity-accounted investments	(62)		**823,665.76**	**61**
12. Administrative expenses	(63)		**-**	**-45,333**
13. Profit from operations			**9,932,961.46**	**3,221**
14. Other operating income	(64)		**1,640,913.51**	**1,302**
15. Other operating expenses	(64)		**-425,603.99**	**-475**
16. Profit from ordinary activities			**11,148,270.98**	**4,048**
17. Income taxes on profit from ordinary activities	(20, 65)		**-3,145,831.16**	**172**
18. Net profit for the period before minority interest	(66)		**8,002,439.82**	**4,220**
19. Minority interest in net profit			**-79,962.50**	**4**
20. Net profit for the period			**7,922,477.32**	**4,224**
21. Retained earnings/accumulated losses brought forward			**4,272,333.75**	**2,295**
22. Withdrawals from the share premium			**0.00**	**0**
23. Withdrawals from retained earnings				
a) from other retained earnings			**0.00**	**0**
24. Appropriation to retained earnings				
a) to other retained earnings			**0.00**	**0**
25. Consolidated net profit			**12,194,811.07**	**6,519**

			2005 EUR	**2004 EUR**
Basic / diluted earnings per share	(67)		**0.35**	**0.19**

Statement of changes in equity

	Issued capital	Share premium	Retained earnings	Revaluation reserves	Minority interest	Consolidated net profit	Equity
Equity as at 31 Dec. 2003	22,409,384.00	82,855,962.58	0.00	213,391.43	0.00	2,295,139.72	107,773,877.73
Adjustments from appropriation of profits for		**999,729.70**					**999,729.70**
Change in treasury shares	**-28,200.00**	**88,559.15**					**116,759.15**
Net changes in the revaluation reserve				**66,246.36**			**66,246.36**
Changes in consolidated companies/other changes in equity		**-745,204.22**					**-745,204.22**
Consolidated net profit						**4,223,711.74**	**4,223,711.74**
Equity as at 31 Dec. 2004	22,437,584.00	83,199,047.21	0.00	279,637.79	0.00	6,518,851.46	112,435,120.46
Change in treasury shares	**164,400.00**	**278,316.00**					**442,716.00**
Measurement of stock options		**42,942.67**					**42,942.67**
Net changes in the revaluation reserve							
Available-for-sale financial				**8,238,795.83**			**8,238,795.83**
Net changes in the revaluation reserve from consolidation				**168,272.76**			**168,272.76**
Changes in consolidated companies/other changes in equity		**-46,916.79**			**133,038.31**		**86,121.52**
Dividends paid						**-2,246,517.71**	**-2,246,517.71**
Consolidated net profit						**+7,922,477.32**	**+4,223,711.74**
Equity as at 31 Dec. 2005	22,601,984.00	83,473,389.09	0.00	8,686,706.38	133,038.31	12,194,811.07	127,089,928.85

As at 31 December 2005, the issued capital of Baader Wertpapierhandelsbank AG amounted to EUR 22,954,341.00 and was divided into 22,954,341 no-par value shares in accordance with the Articles of Association. After deduction of the 352,357 shares held on 31 December 2005, the issued capital recognised amounted to EUR 22,601,984.00. No use was made during the financial year of the authorisation by the General Meeting on 14 July 2004 to acquire treasury shares for securities trading purposes in accordance with section 71 (1) no. 7 of the *Aktiengesetz* (AktG – German Public Companies Act). In addition, no use was made in financial year 2005 of the General Meeting resolution on 14 July 2004 to authorise the acquisition of treasury shares in accordance with section 71 (1) no. 8 of the AktG for purposes other than securities trading.

Changes in minority interest

	Minority interest	Revaluation reserves	Gains/losses	Total
Minority interest as at 31 Dec. 2003	812,766.27	0.00	0.00	812,766.27
Gains/losses in 2005				
Distributions				
Changes in consolidated companies/other changes in equity	**-812,766.27**			**-812,766.27**
Minority interest as at 31 Dec. 2004	0.00	0.00	0.00	0.00
Gains/losses in 2005			**79,962.50**	**79,962.50**
Distributions			**-76,200.00**	**-76,200.00**
Changes in consolidated companies/other changes in equity	**129,275.81**			**129,275.81**
Minority interest as at 31 Dec. 2005	129,275.81	0.00	3,762.50	133,038.31

Cash flow statement

			2005 EUR thousand	2004 EUR thousand
1.		Net profit for the period before extraordinary items (incl. minority interest in net profit)	7,922	4,224
2.		**Depreciation, write-downs and reversals of write-downs on loans and advances, property and equipment, and investment securities**	**7,190**	**2,314**
3.		**Change in provisions**	**-154**	**-409**
4.		**Other non-cash income/expense**	**5,047**	**-1,975**
5.		**Gains/losses on disposal of property and equipment and investment securities**	**55**	**-112**
6.		**Other adjustments (net)**	**-306**	**-1,196**
7.	=	Subtotal	19,754	2,846
8.		**Loans and advances**		
		Loans and advances to other banks	**-789**	**7,039**
		Loans and advances to customers	**-1,718**	**1,499**
9.		**Securities (excl. investment securities)**	**-15,139**	**-10,303**
10.		**Other operating assets**	**161**	**-484**
11.		**Liabilities**		
		Deposits from other banks	**-497**	**-477**
		Due to customers	**1,874**	**15,037**
12.		**Other operating liabilities**	**5,016**	**1,169**
13.		**Interest and dividends received**	**1,644**	**1,788**
14.		**Interest paid**	**-789**	**-871**
15.		**Income taxes paid**	**-469**	**274**
16.	**=**	**Cash flows from operating activities**	**9,048**	**17,518**
17.		**Proceeds from disposals**		
		Disposals of investment securities	**770**	**156**
		Disposals of property and equipment	**50**	**286**
18.		**Payments for investing activities**		
		Payments to acquire investment securities	**-2,969**	**0**
		Payments to acquire property and equipment	**-323**	**-1,162**
		Payments to acquire intangible assets	**-1,376**	**-13,273**
19.		**Proceeds from the sale of consolidated companies and other business units**	**0**	**2,500**
20.		**Payments to acquire consolidated companies and other business units**	**-725**	**-12,551**
21.	=	Cash flows from investing activities	-4,573	-24,043
22.		**Dividends paid**	**-2,247**	**0**
23.		**Other payments**	**443**	**117**
24.	=	Cash flows from financing activities	-1,804	117
25.		**Net change in cash and cash equivalents (total of 16, 21, 24)**	**2,671**	**-6,408**
26.		**Effect of exchange rate changes and changes in Group structure on cash and cash equivalents**	**162**	**15,390**
27.		**Cash and cash equivalents at beginning of period**	**15,456**	**6,474**
28.	**=**	**Cash and cash equivalents at end of period**	**18,289**	**15,456**
		Composition of cash and cash equivalents at 31 December		
		Loans and advances to other banks – payable on demand	**25,628**	**25,169**
		Deposits from other banks – payable on demand	**-7,339**	**-9,713**

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

Cash flows from operating activities relate to all transactions that cannot be directly attributed to investing and financing activities. The transactions presented here result in particular from the Group's operating business. The changes in loans and advances to other banks presented here do not include amounts payable on demand.

Cash flows from investing activities illustrate the application of funds in the Group. They provide information on how cash and cash equivalents are used to generate future performance and profit. The transactions presented here relate to investments in, and disposals of, investment securities and property and equipment. The purchase price payments for the acquisition of subsidiaries to be consolidated were fully settled in cash.

The assets and liabilities of the fully consolidated companies acquired in 2005 were composed as follows as at 31 December 2005:

Assets	EUR thousand
Loans and advances to other banks	925
Property and equipment	86
Other assets	100

Liabilities and Equity	EUR thousand
Provisions	98
Other liabilities and accruals	568

The assets and liabilities of the fully consolidated companies acquired in 2004 were composed as follows as at 31 December 2004:

Assets	EUR thousand
Cash reserve	161
Loans and advances to other banks	16,991
Loans and advances to customers	1,171
Available-for-sale financial instruments	3,033
Property and equipment / intangible assets	88
Other assets	224

Liabilities and Equity	EUR thousand
Deposits from other banks	4
Due to customers	15,037
Provisions	461
Other liabilities and accruals	430

Cash flows from financing activities represent all payments relating to equity and shareholders.

Cash and cash equivalents are composed of the cash reserve, which consists only of cash in hand, and loans and advances to other banks and deposits from other banks that are payable on demand.

The other non-cash income and expense item primarily includes non-cash earnings components from equity-accounted investments, and net gains/losses on the remeasurement of assets held for trading. Other adjustments is an adjustment item for interest, dividends, income tax payments and minority interest in net profit, which have to be reported separately.

NOTES

INFORMATION ON THE COMPANY

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Fax +49 (0)89/5150-1111
www.baaderbank.de
info@baaderbank.de

The Company is registered in the commercial register of Munich Local Court under the number HRB 121537.

Purpose of the reporting entity

The purpose of the Company is the provision of securities services, in particular
- the underwriting of financial instruments at its own risk for placement, or the assumption of equivalent guarantees (issue business),
- the arrangement of transactions for the acquisition and sale of financial instruments or their documentation (investment brokerage),
- the acquisition and sale of financial instruments in the name and for the account of third parties (trade brokerage),
- the acquisition and sale of financial instruments by way of proprietary trading for third parties (proprietary trading) and
- the acquisition and sale of financial instruments in its own name for the account of third parties (financial commission business).

The Company is entitled to undertake all measures and transactions designed to promote its purpose. These also include the establishment of branches and other companies, and investments in such branches and companies in Germany and other countries.

As a result of the consolidation of the subsidiary Baader Service Bank GmbH in the consolidated financial statements, the Group also performs lending business within the meaning of section 1 (1) no. 2 of the *Kreditwesengesetz* (KWG – German Banking Act).

BASIS OF CONSOLIDATED ACCOUNTING

The consolidated financial statements of Baader Wertpapierhandelsbank AG were prepared in compliance with Directives 83/349/EEC (Group Accounts Directive) and 86/635/EEC (Bank Accounts Directive), and in accordance with the International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) issued and published by the International Accounting Standards Board (IASB), as interpreted by the International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee (SIC).

In accordance with section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council from 19 July 2002, the IASs/IFRSs have been mandatory for all capital market-oriented companies within the European Union since 1 January 2005. An overview of the standards applied can be found over the next few pages.

The compliance required with the Bank Accounts Directive was satisfied through the corresponding breakdown of the items in the balance sheet, income statement and the notes. The consolidated financial statements are based on the standards issued by the *Deutscher Standardisierungsrat* (DSR – German Standardisation Committee) and published by the Federal Ministry of Justice in accordance with section 342 (2) of the HGB. An overview of the standards applied can also be found over the next few pages.

In addition to the consolidated balance sheet and consolidated income statement, the consolidated financial statements contain a statement of changes in equity, a cash flow statement and the notes as additional components. The economic development and risk analysis of the Group are presented separately in the Group management report.

All amounts in the accompanying financial statements are reported in euro, unless stated otherwise.

The balance sheet date is 31 December 2005. The financial year is the calendar year.

ACCOUNTING POLICIES

(1) Principles

The consolidated financial statements for the year ended 31 December 2005 have been prepared on a going-concern basis. Income and expenses are accrued. They are recognised and recorded in the period to which they relate.

Accounting in financial year 2005 – as in previous years – was performed on the basis of IAS 39 (2003) and the various classification and measurement principles established by this provision. To comply with the various rules of this standards, financial assets and financial liabilities were divided into the following categories:

1. Loans and receivables
2. Held-to-maturity financial assets
3. Assets held for trading (financial assets held for trading)
4. Available-for-sale financial instruments (financial assets available for sale)
5. Other financial liabilities

The detailed provisions relating to the accounting of hedging relationships are applied to derivative hedging instruments (for further explanation, see note 6).

All companies in the Group prepared their single-entity financial statements as at the balance sheet date 31 December 2005. Accounting in the Baader Group is performed on the basis of uniform accounting policies in accordance with IAS 27.

(2) Standards applied

The Baader Group uses all the standards applicable at the balance sheet date in its accounting. Amendments to standards which do not apply until financial year 2006 were not observed in these financial statements.

The consolidated financial statements for the year ended 31 December 2005 are based on the IASB framework and on the following relevant IASs/IFRSs:

IAS 1	Presentation of Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements in Accordance with IFRSs
IAS 28	Investments in Associates
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-Based Payment
IFRS 3	Business Combinations

The standards that were not observed were either irrelevant for the consolidated financial statements or did not have to be applied.
In financial year 2005, none of the applicable interpretations of the SIC or IRFIC were relevant and thus did not have to be observed.

In addition, the Group complied with the following applicable German Accounting Standards (GASs) issued by the DSR and published by the Federal Ministry of Justice in accordance with section 342 (2) of the HGB by 31 December 2005:

GAS 2	Cash Flow Statements
GAS 2-10	Cash Flow Statements of Financial Institutions
GAS 3	Segment Reporting
GAS 3-10	Segment Reporting for Banks
GAS 4	Acquisition Accounting in Consolidated Financial Statements
GAS 5	Risk Reporting

GAS 5-10	Risk Reporting by Financial Service Institutions and Financial Service Institutions
GAS 7	Group Equity and Total Recognised Results
GAS 8	Accounting for Investments in Associated Enterprises
GAS 10	Deferred Taxes in Consolidated Financial Statements
GAS 11	Related Party Disclosures
GAS 12	Non-current Intangible Assets
GAS 13	Consistency Principle and Correction of Errors
GAS 14	Foreign Currency Translation
GAS 15	Management Reporting
DRÄS 3	Amendments of the Standards GAS 2 to GAS 14

(3) Consolidated Companies

In addition to the parent company Baader Wertpapierhandelsbank AG, three German subsidiaries (previous year: two) in which Baader Wertpapierhandelsbank AG holds a direct interest of more than 50% are included in the consolidated financial statements as at 31 December 2005. There are no subsidiaries or associates that are immaterial for transparency of the Group's net assets, financial position and result of operations.

The following companies are fully consolidated:

Company	Domicile	Equity interest %	Share capital EUR thou.	Equity EUR thou.	Total assets EUR thou.	Profit for the period EUR thou.	First-time consolidation
Baader Management AG	**Unterschleissheim**	**100.0%**	**50**	**49**	**49**	**-0.4**	**31 Dec. 2003**
Baader Service Bank GmbH	**Unterschleissheim**	**100.0%**	**2,700**	**6,137**	**25,017**	**412**	**30 Sept. 2004**
Heins & Seitz Capital Management GmbH	**Unterschleissheim**	**70.0%**	**26**	**444**	**1,110**	**267**	**1 Jan. 2005**

The company information is based on the respective IFRS single-entity financial statements.

The purpose of Baader Management AG is to provide management services at and for other companies, to manage own and third-party assets and to invest in other companies for the purpose of assuming the management and representation of these companies, with the exception of activities requiring approval under the KWG.

On 27 September 2004, Baader Wertpapierhandelsbank AG acquired 100% of the shares in the subsidiary Baader Service Bank GmbH (formerly: CK Tr@ding Bank GmbH) at a purchase price of EUR 5,951,269.84. The company was consolidated for the first time on 31 December 2004. The purpose of the company is the provision of securities-related and other services as defined by the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) and banking operations. The company's banking activities extend mainly to share trading and exchange trading of derivatives for non-banks in its own name for third-party account, as well as to short-term lending business and related banking operations (particularly deposit-taking and custody operations).

There was no material effect in first-time consolidation in 2004 from remeasurement of the company's assets and liabilities. Goodwill of EUR 962,964.40 arose. The company contributed EUR 155,729.23 to the consolidated net profit in 2005 (previous year: negative contribution of EUR -463.388,94 ratably).

Heins & Seitz GmbH, which was still recognised as an associate in the previous year, is fully consolidated as a subsidiary as at 31 December 2005 in accordance with IFRS 3.58 ff. following the increase in voting rights from 50% then to 70%. The additional 20% was acquired with effect from 1 January 2005. The cumulated costs for the acquisition of the company amounted to EUR 1,751,500.00. The purpose of Heins & Seitz Capital Management GmbH is the purchase and sale of real estate, the brokerage of real estate and financing, asset management, the brokerage of securities and debt securities, the brokerage of deposit-taking operations and repurchase agreements and the brokerage of equity interests.

There was no material effect in first-time consolidation from remeasurement of the company's assets and liabilities. Goodwill of EUR 1,618,129.19 was recognised. The company contributed EUR 319,603.77 to consolidated net profit in 2005.

The following companies are carried as equity-accounted investments in accordance with IAS 28:

Company	**Domicile**	Equity interest %	Fair value of shares EUR	Asset EUR	Equity EUR	Total assets EUR thou.	Profit for the period EUR
SPAG St. Petersburg Immobilien- und Beteiligungs AG	**Darmstadt**	**35.98%**	**3,760,983.36**	**-**	**34,006 *)**	**35,349 *)**	**-2 *)**
Herald Europe-CI	**Frankfurt**	**25.87%**	**5,031,000.00**	**19,443,506.94**			****)**
Globe CC AMI funds	**Hannover**	**48.36%**	**5,025,500.00**	**10,371,170.11**			****)**

*) Net profit for the period and total assets as at 31 December 2004
**) Herald Europe-CI fund's share of profit amounts to EUR 31 thousand. Globe CC AMI fund's share of profits amounts to EUR 26 thousand.

In addition to the equity interest in SPAG (35.98%), the interests in the two special funds are also recognised as at 31 December 2005 in accordance with the *Investmentgesetz* (InvG – German Investment Act). The ownership interest for both funds is above 20% but below 50%. There is thus a rebutable presumption of significant influence. As there are no voting rights for special funds within the meaning of the InvG, examination of the significant influence should not only based on the ownership interest. In line with this, the criteria listed in IAS 28.7 for the existence of significant influence must be applied to the special funds. This means that there is no significant influence if the investor is not acting in an advisory, administrative or custodian capacity. Baader Wertpapierhandelsbank AG Group is not acting in any of these capacities and the influence is thus significant, without the possibility of being a controlling influence.

The purpose of SPAG St. Petersburg Immobilien- und Beteiligungs AG is the purchase, management, rental, leasing, development, expansion and sale of land, properties and leasehold rights. The purpose of the company also includes the purchase and sale of equity investments. SP

AG uses Russian project companies, in which it holds a majority interest, to implement its investment projects.

(4) Consolidation methods

Consolidation uses the purchase method described in IFRS 3. At the date of acquisition, the cost of the business combination is allocated to the identifiable assets and liabilities of the acquiree and carried at their fair values at the date of acquisition. The difference between the cost and the revalued assets and liabilities is the goodwill. The goodwill purchased represents a payment which the acquirer has made in the expectation of future economic benefits from assets which cannot be individually identified or carried separately. Goodwill from a business combination may not be amortised. Instead, it must be tested annually for impairment in accordance with IAS 36 (impairment-only approach). Negative goodwill is recognised immediately in income.

Subsidiaries are consolidated from the date of acquisition. The purchase method is applied from the date of acquisition, i.e. the date on which the acquirer actually gains control of the acquiree. If this occurs through gradual acquisition of shares, the cost and the information on the fair values of the identifiable assets and liabilities are used at each individual transaction date to calculate the amount of the goodwill for each individual transaction.

If a company to be fully consolidated is consolidated for the first time as at the balance sheet date in the year under review, the items of the income statement are consolidated for the full year. If first-time consolidation is not performed as at the balance sheet date, the income statement items are recognised ratably in the consolidated financial statements as at the date of first-time consolidation.

Investments in subsidiaries that are not consolidated for reasons of materiality are measured at cost in accordance with IAS 27.37 or in accordance with the provisions of IAS 39.

Receivables and liabilities, as well as income and expenses resulting from business relationships between consolidated companies, are eliminated on the basis of intercompany balances or expense and income consolidation; any interim results in the Group are eliminated to the extent that they are not immaterial.

Associates are accounted for at equity and disclosed separately in the balance sheet under equity-accounted investments. The proportionate equity of the associate, which is measured at fair value, is offset against the carrying amount of the corresponding investment at the time of first-time consolidation. Any resulting difference (goodwill) is stated in the Notes and treated in accordance with the impairment-only approach under IFRS 3. The carrying amount of the investment is adjusted in subsequent periods. The recognition of the adjustment to the equity-accounted carrying amount in income and equity is based on the financial statements prepared by the associate.

(5) Financial instruments: recognition and measurement (IAS 39)

All financial assets and liabilities, which also include derivative financial instruments, must be documented in the balance sheet in accordance with IAS 39. All of these must be divided into various groups and measured depending on the respective classification.

The explanations below provide an overview of how the rules of the standards were implemented at the Baader Wertpapierhandelsbank AG Group.

a) Classification of financial assets and liabilities and their measurement

- Loans and receivables
  Loans that have been extended directly to the borrower or receivables due directly from the borrower are assigned to this class. They are measured at amortised cost.

- Held-to-maturity financial assets
  Non-derivative financial assets with a fixed maturity may be allocated to this category if they cannot be assigned to the "Loans and receivables" category and if both the intent and the ability exist to hold them to final maturity. They are measured at amortised cost. The Baader Group did not use this category in financial year 2005.

- Assets held for trading
  All financial assets that are held for trading purposes are assigned to the "assets held for trading" class. This includes primary financial instruments (particularly interest-bearing securities and equities) and derivative financial instruments with a positive fair value.
  In accordance with IAS 39, derivative financial instruments are classified as financial instruments held for trading insofar as they do not qualify as hedges used in hedge accounting.
  Assets held for trading are measured at fair value on every balance sheet date. Measurement gains and losses are recognised in the income statement under the net trading income item.

- Available-for-sale financial instruments
  Available-for-sale financial assets are all non-derivative financial assets that were not covered by one of the above classes. These are mainly interest-bearing securities, equities and investments.
  They are measured initially at cost. They are measured subsequently at fair value. After deferred taxes have been taken into consideration, the measurement gain/loss is taken directly to equity and recognised in a separate equity item (revaluation reserve). If the financial asset is sold, the cumulative remeasurement gain previously recognised in the revaluation reserve is reversed and shown in the income statement. In the event of lasting impairment, the revaluation reserve must be reduced by the amount of the impairment and this must be reflected in the income statement. If the fair value cannot be calculated reliably, measurement is carried out at amortised cost.

- Other financial liabilities
  This includes all originated financial liabilities, particularly deposits from other banks and amounts due to customers. They are measured at amortised cost.

b) Embedded derivatives

IAS 39 also regulates the accounting treatment of embedded derivatives. The derivatives are part of a primary financial instrument and inextricably linked to these. Such financial instruments are also referred to as hybrid financial instruments under IAS 39. Examples of hybrid financial instruments are reversible convertible bonds (bonds whose repayment take the form of equities) or convertible bonds. In accordance with IAS 39, the embedded derivative should be separated from the original host contract under certain conditions and accounted for and measured separately at fair value as a stand-alone derivative. If a company has an obligation under IAS 39 to recognise the embedded derivative separately from its host contract but separate measurement of the embedded derivative is neither possible upon acquisition nor on the following reporting dates, the entire composite contract must be treated as an asset held for trading purposes.

c) Hedge accounting

IAS 39 contains extensive rules for the accounting of hedging instruments which are superimposed upon the general accounting rules described above for derivatives and secured non-derivative transactions. In line with general rules, derivatives are classified as trading transactions (assets held for trading) and are measured at their fair value. The measurement gain/loss is recognised in the income statement under the net trading income item.

If derivatives are used to hedge risks from non-trading transactions, IAS 39 permits, under certain conditions, the application of special rules in hedge accounting. A distinction is primarily made between two forms – fair value hedge accounting and cash flow hedge accounting. Cash flow hedge accounting is used in one case in the Baader Group.

Cash flow hedge accounting
For derivatives which serve to hedge future cash flows (cash flow hedges), IAS 39 prescribes the use of cash flow hedge accounting. The size of future cash flows entails a risk, particularly for floating-rate loans, securities and liabilities as well as expected transactions. At the same time, IAS 39 also prescribes the application of cash flow hedge accounting rules for the hedging of future cash flows from pending business.

(6) Currency translation

Assets and liabilities that are denominated in foreign currency are translated at the spot rate on the balance sheet date. Income and expenses are translated at rates in line with market conditions. The income and expenses resulting from the translation of balance sheet items are recognised in income under the net trading income item. The exchange rates below apply to the most important currencies for the Baader Group (amount in currency equivalent to EUR 1):

	2005	2004
USD	**1.1797**	**1.3621**
GBP	**0.68530**	**0.70505**
CHF	**1.5551**	**1.5429**
JPY	**138.90**	**139.65**

(7) Cash reserve

Cash reserve holdings – consisting of cash in hand and deposits with Deutsche Bundesbank – are carried at their nominal amount in accordance with IAS 39.

(8) Loans and advances

Loans and advances to other banks and to customers which are not held for trading purposes are carried at their principal amount. Loans and advances to other banks consist only of transactions entered into in the course of ordinary banking operations. Loans and advances to other banks not related to ordinary banking operations are reported under other assets.

(9) Allowance for losses on loans and advances

The allowance for losses on loans and advances deducted on the balance sheet from the loans and advances to other banks and customers includes all write-downs and other valuation allowances on loans and advances subject to identifiable credit and country risks.

The write-down of a loan is shown if it is likely – based on observable criteria – that not all interest and repayment obligations can be met in accordance with the contract.

Uncollectable receivables are written down directly. Recoveries on loans and advances written off are recognised in income.

(10) Securities lending transactions

Securities lent, insofar as they are still held in the portfolio, are not recognised and also not measured. Cash collateral provided by the Group for securities lending transactions are disclosed as loans and advances.

(11) Assets held for trading

Securities held for trading are measured in the balance sheet at fair value in accordance with IAS 39 on the balance sheet date. All derivative financial instruments which are not used as hedging instruments in hedge accounting are also disclosed here at fair value. The assets held for trading are solely listed products that are measured at market price. All realised gains and losses as well as unrealised measurement gains and losses are part of the net trading income item in the income statement. Interest and dividend income from portfolios held for trading are also disclosed under net trading income. Securities transactions are recognised in the balance sheet and income statement using trade date accounting. This means that securities are recorded in the balance sheet at the fair values on the day the transaction was concluded. The securities portfolio is actually adjusted in the night following conclusion of the transaction.

(12) Available-for-sale financial instruments

Bonds and debt securities, equities and other non-fixed-interest securities, investments in other investees, investments in unconsolidated subsidiaries and other equity investments that are not used for trading purposes are recognised under the available-for-sale financial instruments balance sheet item. Accounting and measurement for these items is performed on the basis of IAS 39.

Securities are measured at cost at the date of acquisition. During the course of subsequent measurement, bonds and debt securities, equities and other non-fixed-interest securities, investments in other investees and other equity investments are measured at fair value. For listed securities, the closing price on the balance sheet date is the fair value. If the fair value cannot be calculated reliably, measurement is carried out at cost. Unconsolidated affiliates are carried at cost.

After deferred taxes have been taken into consideration, the measurement gains/losses are taken directly to equity in the revaluation reserve. Gains and losses are only recognised in the income statement once the holdings are sold. In the event of lasting impairment, the recoverable amount is reported in the balance sheet. The write-down required is recognised in the income statement.

In the event of probable lasting impairment, the carrying amount is written down to the fair value. If the reasons for impairment no longer apply, the impairment loss is reversed and recognised in the net profit or loss.

Amounts resulting from the measurement of securities at fair value due to fluctuations in the fair value that do not represent any lasting impairment are not recognised in profit or loss, but are taken directly to the revaluation reserve in equity. These amounts are not recognised in the net profit or loss until the date when the relevant securities are sold, or until an impairment loss is charged.

All other income and expenses arising in conjunction with the securities carried under this item are credited or charged to net income from available-for-sale financial instruments.

(13) Property and equipment

Property and equipment is carried at amortised cost. Depreciation is charged on a straight-line basis over the useful life of the asset concerned.

	Standard useful life in years
IT/telecommunications	**3-8**
Vehicles	**6**
Other operating and office equipment	**5-13**
Buildings	**25**
Fixtures and fittings	**5-19**

Write-downs are charged in the event of probable lasting impairment. Depreciation and write-downs on property and equipment are reported under administrative expenses. Gains or losses on the sale of items of property and equipment are recorded under other operating income or other operating expenses.

For reasons of materiality, low-value items of property and equipment acquired are recognised in administrative expenses in the reporting year.

(14) Intangible assets

Intangible assets relate to other purchased intangible assets, which are composed primarily of purchased software licenses and purchased order books. They are carried at cost and reduced by straight-line amortisation. Write-downs are charged in the event of probable lasting impairment. Gains or losses from the sale of intangible assets are recognised under other operating income or other operating expenses.

Amortisation and write-downs are disclosed under administrative expenses.

	Standard useful life in years
Acquired rights of use	**5-10 *)**
Trademarks	**10**
Software	**3-5**

*) In the course of redistribution of order books relating to equities by the Frankfurt Stock Exchange, the useful life for acquired order books relating to equities as at 1 July 2005 was changed from the previous 5 years to an additional 10 years. The useful life was adjusted on the basis of long-term (10-year) corporate planning.

(15) Goodwill

Since 1 January 2005, goodwill may no longer be amortised over its useful life. For this reason, it must be examined with a view to its future economic benefit (impairment test) on each balance sheet date. If there are conditions that mean the expected benefit will not materialise, a write-down is charged on the basis of the long-term corporate planning of the related Group companies. In financial year 2005, there were no reasons at all to justify a write-down. Provided that it is not material, goodwill is reported under intangible assets.

(16) Leases

In accordance with IAS 17, a lease is classified as an operating lease if it does not substantially transfer to the lessee all the risks and rewards that are incident to ownership. In contrast, finance leases are agreements which substantially transfer all these risks and rewards to the lessee.

The Baader Group acts exclusively as a lessee. The lease instalments paid from operating leases are recognised in administrative expenses. The expenses are calculated like rent on a regular basis over the course of the life of the corresponding property. There were no contractual agreements in financial year 2005 that had to be classified as financial leases.

(17) Deposits from other banks and amounts due to customers

Liabilities are carried at amortised cost.

(18) Provisions for pensions and other employee benefits

Many employees of Baader Wertpapierhandelsbank AG and its subsidiaries are covered by different forms of occupational provision for old age.

In the first case, employees are given an indirect (defined contribution) commitment (defined contribution plan) for which the Group company, with employees also involved, pays a fixed amount for old age provision to an external pension fund (provident fund). The size of future pension benefits is determined here by the amounts paid in and – for the non-guaranteed portion of the benefits – by the accrued return on plan assets. Classifying this provision as an indirect commitment means that the contributions to the pension fund are recognised as current expenses, eliminating the need to form provisions.

In the second case, a small number of persons (members on the Board of Directors and contracts assumed from company mergers in previous years) are given a direct (defined benefit) pension commitment where the amount of the provision benefit is defined and depends on factors such as age, salary and length of service to the company.

For pension commitments, the assets required to fulfil the pension obligation are accumulated within the company for the most part and a corresponding provision is recognised on the liabilities and equity side of the balance sheet. The rest of the assets are from reinsurance policies taken out. With one exception, these reinsurance policies are qualified insurance policies (and thus plan assets) which may only be used to pay benefits to employees from a defined benefit plan and which are not available to the creditors of the reporting company (not even in the case of insolvency) and may not be paid to the reporting company.

The pension expense to be recognised in income for the direct commitments comprises several components. First and foremost, the service cost has to be considered. Interest cost relating to the present value of the obligation must also be considered as the date on which the commitment has to be met has moved one period closer. The net return generated on plan assets is deducted from the costs mentioned above. If repayment amounts arise for actuarial gains and losses due to the 10% fluctuation corridor rule, staff costs increase or decrease accordingly.

The size of the provision is initially determined by the present value of the obligation to be met. The portion covered by the plan assets should be offset against the obligation. As a result of the fluctuation corridor rule, the provision for the year-end is as follows:

Present value of obligation for direct commitments (defined benefit obligation)
less plan assets
less/plus actuarial gains or losses not recognised
= size of provision for pension

The pension obligation is calculated yearly by an independent actuary using the projected unit credit method. This calculation is based not only on biometric assumptions (as at the balance sheet date 31 December 2005, the new 2005G mortality tables of Klaus Heubeck, which are generally used in Germany to measure occupational pension obligations, were used) but above all on a current market interest rate for prime-quality long-dated bonds and rates of increases for salaries and pensions to be expected in future. If obligations are higher or lower as a result of actuarial calculations, these are only recognised if they are outside a 10% fluctuation corridor of the actuarially estimated value. The assumptions on which the actuarial calculations have been based are:

	31 December 2005	31 December 2004
Discount rate	**4.0% and 4.5%**	**5.0%**
Return on plan assets	**4.5%**	**4.5%**
Changes in salaries	**2.0% and 3.0%**	**3.0%**
Pension adjustments	**2.0%**	**1.5%**

(19) Other provisions

Other provisions are recognised for uncertain obligations to third parties and on onerous contracts where the timing or amount of the liability is uncertain. In addition, there must be an obligation that arises from a past event and whose settlement is expected to result in an outflow of assets in accordance with IAS 37.

(20) Income taxes

Current recoverable income tax assets and liabilities were measured by applying the valid tax rates at which a refund from or a payment to the relevant taxation authorities is made.

Deferred tax assets and liabilities derive from differences in the carrying amounts of an asset or a liability in the financial accounts and the respective carrying amount in tax terms. In the future, this will probably either increase or reduce taxes on income (temporary differences). They are measured at the company-specific income-tax rates of the consolidated company which can be expected to apply for the period in which they are realised. Deferred tax assets from as yet unused tax loss carryforwards are only recognised if taxable profits are likely to occur within the same tax unit in the future. Valuation allowances are used to reflect the uncertainty surrounding the future use of tax benefits. Recoverable income taxes and provisions for taxes are not netted against one another and are recognised individually. They are not discounted. Deferred tax assets and liabilities are formed and carried such that – depending on the treatment of the underlying item – they are either recognised in income under the income taxes item or reported in equity under the corresponding equity item.

The income tax expense or income attributable to profit from ordinary activities is carried in the consolidated income statement as income taxes on profit from ordinary activities and divided into current and deferred tax assets and liabilities in the financial year in the disclosures. Other taxes which are independent of income are shown in other operating income/expenses. Current and deferred income tax assets and liabilities appear as separate asset or liability items in the balance sheet. No income taxes arose in the past financial year in connection with extraordinary activities.

(21) Treasury shares

Treasury shares held in the Group are carried at cost and deducted from equity. The portion of the acquisition cost accounted for by the nominal amount is deducted from the issued capital; the premium is eliminated against the share premium. Gains and losses from trading in treasury shares are credited or charged directly to equity.

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

(a) Stock Option Plan 2000

Baader Wertpapierhandelsbank AG grants the members of the Board of Directors and the Group's employees performance-related remuneration in the form of stock options. Under the Stock Option Plan 2000, stock options were issued to beneficiaries for the first time after the end of financial year 1999. The Stock Option Plan 2000 had a term of five years and expired on 17 June 2004. The last tranche was allocated on 2 June 2004.

Exercise of the options is subject to a lock-up period of two years from the date of grant. Once the lockup has expired, the options may be exercised during the following five years within the four-week period following publication of each quarterly report.

The exercise price corresponds to the average closing price of Baader Wertpapierhandelsbank AG's shares in floor trading on the Bavarian Stock Exchange during the five trading days prior to the issue date of the stock options, but no less than the nominal value of one share of Baader Wertpapierhandelsbank AG. The stock options may only be exercised if Baader Wertpapierhandelsbank AG’s shares outperform the Prime All Share index by at least 15% on five consecutive trading days since the issue date of the stock options. This percentage rate applies to the first year of the exercise period and rises by half a percentage point in each of the second and subsequent years of the exercise period. The closing price in floor trading on the Bavarian Stock Exchange is deemed to be the price of Baader Wertpapierhandelsbank AG’s shares.

b) Stock Option Plan 2004

With the approval of the General Meeting held on 14 July 2004, Baader Wertpapierhandelsbank AG set up the Stock Option Plan 2004. The beneficiaries comprise the members of the Company’s Board of Directors and other employees. The Stock Option Plan has a maximum term of two years; this means that stock options cannot be issued under the Company’s Stock Option Plan after 13 July 2006. A maximum total of 300,000 stock options will be issued under this Stock Option Plan.

The stock options may only be issued to beneficiaries by the Board of Directors once a year during the six-week period following the announcement of the results for the past financial year. Stock options will be issued for the first time after the end of financial year 2004.

The options may only be exercised after a lock-up period of two years from their respective issue date. Once the lock-up period has expired, the stock options may be exercised during the following five years subject to certain blocking periods, or more specifically only within the four-week period following publication of the Company’s quarterly results (exercise window). At the end of the term (a maximum of seven years from the issue date), the options will expire and will not be replaced.

The options may only be exercised if (a) the closing price of Baader Wertpapierhandelsbank AG's shares in floor trading on the Munich Stock Exchange (market closing price) exceeds the issue price by more than 30% (absolute hurdle) and (b) on the last five trading days prior to the options being exercised, the aggregate percentage performance of Baader Wertpapierhandelsbank AG's shares since the option's issue date exceeds the percentage increase in the Prime All Share Index by at least 10% (relative hurdle), – the aggregate performance includes both share price performance and the value of cash dividends, subscription rights from capital increases and other special rights between the option's issue date and its exercise date – and (c) they do not expire prior to the exercise notice being submitted as a result of a condition attached to the options. The closing price in floor trading on the Munich Stock Exchange is deemed to be the Company's share price (performance targets). The performance targets may not be changed at a later date.

The exercise price of a stock option corresponds to the average closing price of the Company's shares in floor trading on the Munich Stock Exchange during the five trading days leading up to the second day prior to the start of the issue period for the stock options in question, but no less than the nominal value of one share of Baader Wertpapierhandelsbank AG.

Depending on what the Board of Directors decides, each stock option entitles the holder to purchase one share or to receive a cash payment equal to the difference between the exercise price and the average closing price of Baader Wertpapierhandelsbank AG's shares on the Munich Stock Exchange on the last five trading days prior to the Company receiving the beneficiary's exercise notice.

	2004	**2003**	**2002**	**2001**	**2000**	**1999**	**Total**
Granted options	**149,800**	**161,500**	**234,300**	**258,900**	**120,191**	**120,000**	**1,044,691**
Exercise price	**4,68**	**5,92**	**2,24**	**4,28**	**10,60**	**40,35**	**-**
Forfeited options	**3,760**	**6,500**	**33,500**	**81,700**	**54,052**	**34,500**	**214,012**
Exercised options	**0**	**0**	**127,900**	**78,700**	**0**	**-**	**206,600**
Waived *)	**0**	**0**	**0**	**0**	**0**	**85,500**	**85,500**
Outstanding options	**146,040**	**155,000**	**72,900**	**98,500**	**66,139**	**0**	**538,579**
Exercisable options	**0**	**0**	**72,900**	**98,500**	**66,139**	**0**	**237,539**
Residual term (in months)	**77**	**65**	**52**	**40**	**28**	**-**	**-**

*) The beneficiaries of Baader Wertpapierhandelsbank AG's Stock Option Plan 2000 waived their rights to 85,500 stock options issued in 1999 at a price of EUR 40.35 each; these shares were reallocated in 2001 at a price of EUR 4.28 each.

No options granted from the existing stock option plans have expired yet.

In financial year 2005, the beneficiaries made use of their stock options once again. 164,400 shares overall were subscribed for at the exercise prices EUR 2.24 and EUR 4.28. This resulted in an expense of EUR 303,410.84 which was charged directly to equity. The stock options were exercised in three periods of one month each. The average share price in the three periods was as follows:

1. Period 1: 27 April 2005 – 24 May 2005 Share price: EUR 4.38
2. Period 2: 27 July 2005 – 22 August 2005 Share price: EUR 5.13
3. Period 3: 27 October 2005 – 23 November 2005 Share price: EUR 6.12

In financial year 2005, options from the Stock Option Plan 2004 were allocated for the first time. IFRS 2 Share-Based Payment, which has been in effect since 1 January 2005, applies to this plan. Stock Option Plan 2004 involves share-based payment of employees' additional benefits which are settled by equity instruments. The benefits received must be carried at fair value while raising equity. However, as this value cannot be estimated reliably, it and the corresponding increase in equity must be calculated indirectly by reference to the fair value of the equity instruments granted.

The procedure for calculating the fair value of the equity instruments was as follows:

Neither of the exercise hurdles (absolute and relative hurdles) can be taken into account explicitly when measuring the options. However, these hurdles are deemed to have been overcome. In addition, the exercise windows cannot be taken into account exactly with the assumptions as the options are neither of a European nature (exercise only at the end of the term) nor of a US nature (exercise at any time during the term). In line with this, however, the true value of the options is between the value of a US and European option with the result that the value of both these options constitutes the upper threshold (in the US case) and the lower threshold (in the European case) of the true value.

The options are call options as employees are entitled to subscribe for shares of Baader Wertpapierhandelsbank AG. The options are considered short positions from the Company's perspective. Baader Wertpapierhandelsbank AG has granted the options to employees and is thus the writer or seller of options. The number of granted options is thus posted as a short call with a seven-year term. To reflect the two-year lock-up period, the same options with two-year terms are posted as long positions at the same time. The measurement of the employee stock options is derived from the value of the seven-year options less the value of the two-year options.

The following input parameters were chosen to measure the options:

1. The strike price of the options to be measured is EUR 4.68 (see table above)
2. Constant dividend distributions by Baader AG were presumed.
3. Implicit volatility (volatility surface) for options on the DJ EuroStoxx 50
4. Interest rate of the euro swap curve
5. The price of Baader shares was also established at EUR 4.68 for the measurement model
6. Measurement was carried out on 18 August 2005. For this reason synthetic options with the expiry dates 18 August 2007 and 18 August 2012 invested to represent the overall terms of employee stock options at the time of issue.
7. To show the measurement differences between US and European options, European options were also posted in addition to the US range.
8. The Black & Scholes formula was used as the measurement model for European options.
9. The finite differences method with dividend distribution was applied to US options as the measurement model.
10. All the options issued on 24 May 2005 (149,800 options) were posted.
11. After comparing the measurement gains/losses for US and European options, US option measurement in accordance with the principle of prudence was preferred.
12. Measurement of the short options which expire on 18 August 2012 resulted in a price of EUR 1.349 per option.

13. Measurement of the long options which expire on 18 August 2007 resulted in a price of EUR 0.489 per option.
14. This results in measurement of employee stock options of EUR 0.86 per stock option.
15. Posting the 149,800 stock options results in an expense incurred by Baader Wertpapierhandelsbank AG of EUR 128,828.00 for the employee stock options. This expense is distributed over the two-year period during which it is incurred. In financial year 2005, proportionate expenses were recorded for eight months.

SIGNIFICANT DIFFERENCES IN ACCOUNTING METHODS BETWEEN IAS/IFRS AND HGB

The objective of financial statements based on IASs/IFRSs is to help investors make decisions by providing them with information on the Group's net assets, financial position and results of operations and changes in these over time. In contrast, annual financial statements based on HGB are primarily geared towards investor protection and are also influenced by tax-law provisions due to the authoritativeness of commercial accounting for tax accounting. These different objectives result in the following significant differences in accounting policies between German HGB and IASs/IFRSs:

(23) Allowance for losses on loans and advances

The allowance for losses on loans and advances is reported as a separate line item on the balance sheet, on the assets side, beneath loans and advances. This enhances the transparency of the Group's risk policy.

(24) Securities

Financial assets held for trading (assets held for trading) and derivative financial instruments not held for trading (hedging derivatives) must be measured at fair value in accordance with IAS 39. Gains and losses are recognised in income or taken directly to equity irrespective of their realisation. However, recognition of unrealised income is not permitted under HGB. Available-for-sale financial instruments are also measured at fair value in accordance with IAS 39. Only if the fair value cannot be reliably determined are they carried at cost. The measurement is taken directly to equity. In accordance with German accounting principles, investments are non-current assets and are recognised at cost. In the event of probable lasting impairment, a write-down is charged. Based on their nature, other securities in the AfS category are financial instruments of the liquidity reserve as defined by the HGB and must thus be treated as current assets. Under HGB, the strict lower-of-cost-or-market principle applies to measurement of these securities.

(25) Hedge accounting

Pursuant to IAS 39, hedging relationships may be established between a hedged item and a derivative financial instrument for hedge accounting purposes. Hedged items may be financial assets (e.g. receivables or securities) and financial liabilities. There are also detailed rules for both fair value hedges and cash flow hedges which require the fair value of a derivative hedging instrument to be disclosed in its gross amount. In accordance with German principles of proper accounting, hedges are taken account of by applying a netted lower-of-cost-or market principle when measuring the hedged items.

(26) Property and equipment, intangible assets and goodwill

Under IASs/IFRSs, property and equipment and the related depreciation are recognised on the basis of the actual standard useful life. Unlike HGB, carrying amounts on the basis of tax rules are not recognised. In accordance with IASs/IFRSs, there is no obligation to capitalise internally developed intangible assets if certain requirements are fulfilled. This is also in contrast to HGB, under which such assets may not be recognised in general. Goodwill arising from the full consolidation of subsidiaries and which may be netted directly against retained earnings in the consolidated financial statements according to the provisions of the HGB must also be recognised as an asset under IASs/IFRSs. It is only written down after an impairment test has been carried out.

(27) Treasury shares

The HGB requires treasury shares (“own shares”) to be capitalised, with the simultaneous recognition of a reserve for own shares. Under IASs/IFRSs, treasury shares held in the Group are deducted from equity on the balance sheet; in contrast to the HGB, no measurement is performed. Gains or losses resulting from trading in treasury shares are credited or charged directly to equity. In the HGB financial statements, gains and losses from trading in treasury shares are recognised in net trading income.

(28) Trust activities

Under IASs/IFRSs, trust activities are not recognised on the balance sheet, in contrast with the HGB financial statements (in accordance with section 6 of the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation)).

(29) Pension obligations

In accordance with IASs/IFRSs, pension obligations are calculated using the projected unit credit method. The calculation takes account of future commitments, reflecting future increases in salaries and pensions as well as the inflation rate. Under IASs/IFRSs, the discount factor is geared towards the capital market interest rate. In contrast, HGB accounting is regularly geared towards the tax regulations in force, particularly the net present value method.

(30) Other provisions

In accordance with IASs/IFRSs, provisions may only be formed if they relate to an external commitment. Provisions for expenses, permissible under HGB, which serve to recognise future outlays as expenses in the past financial year are not permitted. IAS/IFRS rules require more concrete details than HGB for the formation of provisions for restructuring.

(31) Deferred taxes

Under IAS/IFRS rules, deferred tax assets and liabilities are formed according to the balance sheet liability method. The carrying amounts of the individual assets and liabilities in the financial accounts are compared with their tax base. Differences result in temporary differences for which deferred tax assets or deferred tax liabilities are recognised, irrespective of the time at which the differences will reverse. The income tax rates used to measure the value differences are future-oriented. No netting occurs. There is also a requirement to recognise deferred tax assets and liabilities under IASs/IFRSs, except that deferred tax assets may only be recognised if it is likely that the future tax benefit can actually be realised. This mainly applies to the recognition of deferred tax assets from existing tax loss carryforwards.

In contrast, the HGB approach is geared towards the income statement in recognising deferred tax assets and liabilities, applying valid income tax rates. The different approaches to defining periods tend to lead to higher deferred taxes in financial statements pursuant to IASs/IFRSs.

(32) Equity

Under IASs/IFRSs, equity includes an additional position – the revaluation reserve. Based on the rules of IAS 39, changes in measurement attributable to the available-for-sale portfolio and also effective portions of the measurement gains and losses on cash flow hedges are taken directly to equity. This type of recognition directly in equity is not found in German accounting.

The reserve to be formed under HGB for treasury shares does not exist in IAS/IFRS accounting. Treasury shares held on the balance sheet date are deducted from equity in accordance with IASs/IFRSs.

(33) Recognition of items due to tax rules

In accordance with "*umgekehrte Maßgeblichkeit*" (or the "reverse authoritative principle"), carrying amounts are partly recognised in the HGB financial statements in accordance with tax provisions. IAS/IFRS financial statements may not contain special write-downs and carrying amounts allowable for tax purposes, insofar as they deviate from the measurements required under IASs/IFRSs. This prohibition of carrying amounts for tax purposes has also been in force for consolidated financial statements under HGB since financial year 2003 owing to legal changes as a result of the *Transparenz- und Publizitätsgesetz* (TransPuG – German Transparency and Disclosure Act).

CONSOLIDATED BALANCE SHEET DISCLOSURES

(34) Cash reserve

The cash reserve is composed of the following items:

	31 Dec. 2005	31 Dec. 2004
Cash in hand	**417.62**	**1,340.90**
Deposits with Deutsche Bundesbank	**2,585,378.45**	**159,784.53**
Total	2,585,796.07	161,125.43

(35) Loans and advances to other banks

	31 Dec. 2005 Germany	31 Dec. 2005 Other countries	31 Dec. 2004 Germany	31 Dec. 2004 Other countries
Payable on demand	**20,063,100.00**	**2,979,097.01**	**9,380,140.55**	**15,628,007.52**
Other loans and advances	**1,015,032.96**	**0.00**	**225,872.64**	**0.00**
Loans and advances to other banks	21,078,132.96	2,979,097.01	9,606,013.19	15,628,007.52
Allowance for losses on loans and advances	**-2,195.84**	**0.00**	**-992.20**	**0.00**
Total	21,075,937.12	2,979,097.01	9,605,020.99	15,628,007.52

Loans and advances to other banks include deferred interest of EUR 20,404.46. The remaining maturities of the loans and advances to other banks are presented in the maturity structure (note 76).

(36) Loans and advances to customers

	31 Dec. 2005	31 Dec. 2004
German customers	646,097.58	298,538.65
- **Companies**	**195,891.29**	**62,180.29**
- **Private individuals**	**450,206.29**	**236,358.36**
- **Other**	**0.00**	**0.00**
International customers	2,270,323.35	1,044,180.66
- **Companies**	**2,125,229.00**	**892,181.39**
- **Private individuals**	**145,094.35**	**151,999.27**
- **Other**	**0.00**	**0.00**
Loans and advances to customers	2,916,420.93	1,342,719.31
Allowance for losses on loans and advances	**-20,471.70**	**-165,836.69**
Total	2,895,949.23	1,176,882.62

Loans and advances to customers include deferred interest of EUR 264.86. The remaining maturities of the loans and advances to customers are presented in the maturity structure (note 76).

Baader Wertpapierhandelsbank AG has extended the following loans and advances to investees:

	Affiliates		Other investees	
	31 Dec. 2005	31 Dec. 2004	31 Dec. 2005	31 Dec. 2004
Loans and advances to customers	**0.00**	**0.00**	**20,471.49**	**20,471.49**
Total	0.00	0.00	20,471.49	20,471.49

Loans and advances to customers contain loans and advances of EUR 189 thousand for which no interest payments are made.

(37) Allowance for losses on loans and advances

The allowance for losses on loans and advances changed as follows:

	Credit risks		Country risks		Potential risks		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
As at 1 January	166,828.89	188,424.38	0.00	0.00	0.00	0.00	166,828.89	188,424.38
Additions	**2,196.05**	**59,908.81**	**0.00**	**0.00**	**0.00**	**0.00**	**2,196.05**	**59,908.81**
Disposals								
• **Utilisation**	**146,357,40**	**55,682.33**	**0.00**	**0.00**	**0.00**	**0.00**	**146,357.40**	**55,682.33**
• **Reversals**	**0.00**	**25,821.97**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**25,821.97**
As at 31 December	22,667.54	166,828.89	0.00	0.00	0.00	0.00	22,667.54	166,828.89

(38) Assets held for trading

The assets held for trading item is composed of the following items:

	31 Dec. 2005	31 Dec. 2004
Bonds and other fixed-interest securities thereof:	**1, 665,147.36**	**8,019,297.61**
negotiable securities	**1,665,147.36**	**8,019,297.61**
listed securities	**1,665,147.36**	**8,019,297.61**
Equities and other non-fixed-interest securities thereof:	**32,374,871.97**	**19,647,023.39**
negotiable securities	**32,374,871.97**	**19,647,023.39**
listed securities	**29,122,579.32**	**19,647,023.39**
Total	34,040,019.33	27,666,321.00

Assets held for trading include shares of a convertible bond in the amount of EUR 1,583 thousand which are classified as assets held for trading purposes in accordance with IAS 39.12 as separate measurement of the embedded derivative was neither possible upon acquisition nor on the reporting date.

(39) Available-for-sale financial instruments

Available-for-sale financial instruments include investments in other investees and other equities and bonds not allocated to the assets held for trading.

The following overview shows the composition of, and changes in, available-for-sale financial instruments:

	Investments in unconsolidated companies	Investments in other investees	Equities and other non-fixed-interest securities	Bonds in other debt securities	Other equity investments
Cost					
- as at 1 January 2005	**0.00**	**3,031,579.85**	**68,431,045.42**	**6,713,190.27**	**5,891,519.45**
- additions	**0.00**	**999,000.00**	**1,264,431.94**	**0.00**	**0.00**
- reclassifications	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
- disposals	**0.00**	**0.00**	**16,977,869.41**	**3,015,702.77**	**5,891,519.45**
- as at 31 December 2005	**0.00**	**4,030,579.85**	**52,717,607.94**	**3,697,487.50**	**0.00**
Revaluation reserve					
- as at 1 January 2005	**0.00**	**4,322.74**	**410,203.20**	**40,100.00**	**0.00**
- additions	**0.00**	**2,758,429.14**	**7,803,122.42**	**0.00**	**0.00**
- disposals	**0.00**	**0.00**	**0.00**	**40,100.00**	**0.00**
- as at 31 December 2005	**0.00**	**2,762,751.88**	**8,213,325.62**	**0.00**	**0.00**
Reversals of write-downs in year under review	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Write-downs					
- as at 1 January 2005	**0.00**	**107,056.71**	**52,094,251.95**	**0.00**	**5,791,517.45**
- write-downs for the	**0.00**	**0.00**	**263,496.75**	**47,950.00**	**0.00**
period	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
- reclassifications	**0.00**	**0.00**	**10,831,901.01**	**0.00**	**5,791,517.45**
- disposals	**0.00**	**107,056.71**	**41,525,847.19**	**47,950.00**	**0.00**
- as at 31 December 2005					
Carrying amounts					
- as at 31 December 2004	0.00	2,928,845.88	16,746,997.17	6,753,290.27	100,002.00
- as at 31 December 2005	0.00	6,686,275.02	19,405,086.38	3,649,537.50	0.00
thereof					
negotiable securities	**0.00**	**5,687,273.51**	**19,405,085.38**	**3,649,537.50**	**0.00**
listed securities	**0.00**	**5,687,272.51**	**17,947,365.37**	**3,649,537.50**	**0.00**

The available-for-sale financial instruments include deferred interest of EUR 58,187.50.

EUR 6,884 thousand of the additions in the revaluation reserve for equities and other non-fixed-interest securities primarily relate to reversals from impairment losses charged in previous years and recognised in income. These assets are measures at the market price which acts as the fair value.

(40) Equity-accounted investments

This balance sheet item includes all investments in associates that are measured using the equity method.

	Equity-accounted investments
Cost	
- as at 1 January 2005	**4,020,317.60**
- **additions**	**10,000,000.00**
- **disposals**	**1,026,500.00**
- as at 31 December 2005	**12,993,817.60**
Cumulative reversals of write-downs	
- Increase in carrying amounts due to pro rata gain	**823,665.76**
Goodwill write-downs	
- **as at 1 January 2005**	**130,575.08**
- **write-downs for the period**	**0.00**
- **disposals**	**130,575.08**
- as at 31 December 2005	**0.00**
Carrying amounts	
- as at 31 December 2004	4,016,434.39
- as at 31 December 2005	13,817,483.36
thereof	
negotiable securities	**13,817,483.36**
listed securities	**3,760,983.36**

(41) Property and equipment

Changes in property and equipment during the financial year are presented below:

	Operating and office equipment	Land and buildings
Cost		
- **as at 1 January 2005**	**5,669,082.29**	**23,463,830.57**
- **additions**	**265,689.73**	**94,021.35**
- **disposals**	**630,545.47**	**0.00**
- **changes in consolidated companies**	**174,865.46**	**0.00**
- **as at 31 December 2005**	**5,479,092.01**	**23,557,851.92**
Reversals of write-downs in year under review	**0.00**	**0.00**
Write-downs		
- **as at 1 January 2005**	**3,799,123.53**	**1,877,932.39**
- **write-downs for the period**	**524,988.83**	**848,073.35**
- **disposals**	**578,546.33**	**0.00**
- **changes in consolidated companies**	**88,907.96**	**0.00**
- **as at 31 December 2005**	**3,834,473.99**	**2,726,005.74**
Carrying amounts		
- as at 31 December 2004	1,869,958.76	21,585,898.18
- as at 31 December 2005	1,644,618.02	20,831,846.18

There was no requirement to charge write-downs. No earlier impairment losses were reversed in the year under review.

(42) Intangible assets and goodwill

The following overview presents the changes in intangible assets:

	Goodwill	Concessions, industrial and similar rights and assets
Cost		
- as at 1 January 2005	**962,964.40**	**32,458,210.47**
- additions	**1,618,129.19**	**1,488,698.37**
- disposals	**0.00**	**530,660.18**
- reclassifications	**0.00**	**0.00**
- as at 31 December 2005	**2,581,093.59**	**33,416,248.66**
Reversals of write-downs in year under review	**0.00**	**0.00**
Write-downs		
- as at 1 January 2005	**0.00**	**9,117,982.72**
- write-downs for the period	**0.00**	**5,743,356.69**
- disposals	**0.00**	**475,273.33**
- reclassifications	**0.00**	**0.00**
- as at 31 December 2005	**0.00**	**14,386,066.08**
Carrying amounts		
- as at 31 December 2004	962,964.40	23,340,227.75
- as at 31 December 2005	2,581,093.59	19,030,182.58

The goodwill recognised is the net amount from the cost of business combinations and proportionate equity. There were no hidden reserves in identifiable assets and liabilities. Intangible assets which would have to be carried separately from goodwill could not be demonstrated.

The goodwill recognised was tested for impairment based on Group planning in accordance with IFRS 3. This did not reveal any indications of impairment. Group planning mainly rests on the assumption that the capital markets will also see a positive trend over the next few years.

(43) Recoverable income taxes

Recoverable income taxes relate to claims by the Group against the tax authorities for actual overpayment of taxes in the amount of EUR 125,570.80.

(44) Other assets

The other assets are composed of the following items:

	31 Dec. 2005	31 Dec. 2004
Other assets	**4,665,035.87**	**3,204,973.65**
Prepaid expenses	**502,798.08**	**95,170.48**
Total	5,167,833.95	3,300,144.13

Other assets include reinsurance claims to cover provisions for pensions of EUR 1,785 thousand.

(45) Deferred tax assets

Deferred taxes must be recognised for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax base. Deferred tax assets represent future recoverable taxes. They are recognised when it is probable that the future tax benefit can actually be realised.

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

	31 Dec. 2005	31 Dec. 2004
Loss carryforwards	**27,905,712.22**	**28,756,375.78**
Provisions for pensions	**42,786.25**	**129,759.12**
Total	27,947,996.03	28,886,134.90

The change in deferred tax assets from measurement differences in provisions for pensions of EUR 86,972.87 is recognised in income as a deferred tax expense under the income taxes item.

Deferred tax assets from loss carryforwards arose as follows:

	Baader Wertpapierhandelsbank AG	Baader Service Bank GmbH	Total
Loss carryforward as at 31 Dec. 2004 (EUR thousand)	**148.036**	**3.128**	**151.164**
+/- Tax loss/gain in 2005 (EUR thousand)	**-6.227**	**-113**	**-6.340**
= Loss carryforward as at 31 Dec. 2005 (EUR thousand)	**141.809**	**3.015**	**144.824**
x Tax rate in %	**38.58%**	**36.53%**	**-**
= Tax claims as at 31 Dec. 2005 (EUR thousand)	**54.710**	**1.102**	**55.811**
- 50% valuation allowance (EUR thousand)	**-27.355**	**-551**	**-27.905**
= Deferred tax assets as at 31 Dec. 2005 (EUR thousand)	27.355	551	-27.906
- Deferred tax assets as at 31 Dec. 2005 (EUR thousand*)	**-28.544**	**-213**	**-28.757**
Reversal of/addition to deferred tax assets/ tax expense in 2005 (EUR thousand)	-1.189	338	-851

*) calculated based on a preliminary loss carryforward of EUR 148,012 thousand

In financial year 2005, probably utilisable tax loss carryforwards amounted to EUR 144,824 thousand. This includes EUR 30,018 thousand representing an addition to the taxable income of Baader Wertpapierhandelsbank AG, resulting from an addition to income due to impairment losses charged in the past on shares in a subsidiary. According to an expert opinion on constitutional law drawn up for Baader Wertpapierhandelsbank AG, it is highly likely that the Federal Constitutional Court will declare the current version of the provision governing addition laid down in section 12 (2) of the *Umwandlungssteuergesetz* (UmwStG – German Reorganisation Tax Act) to be void. In line with revenue law, this will result in the possibility of recognising the EUR 30,018 thousand as a loss carryforward for Baader Wertpapierhandelsbank AG. In addition, this includes loss carryforwards of Baader Service Bank GmbH in the amount of EUR 1,964 thousand which results from the period before the company belonged to the Baader Group. According to the corporate planning available for BSB, there are no results that also militate against future use of these tax loss carryforwards in light of section 8 (4) of the *Körperschaftsteuergesetz* (KStG – German Corporate Income Tax Act).

At an income tax rate of 38.58% / 36.53%, the deferred recoverable taxes amount to EUR 55,811 thousand.

Due to the introduction of the minimum tax rule, it will only be possible to completely utilise loss carryforwards for future profits over an extremely long period of time. For this reason and due to the difficulty of predicting the development of trading volumes and share prices as well as the volatility of the Bank’s profits in the past, the 50% valuation allowance already deducted in previous financial years will be maintained, and will also be applied to Baader Service Bank GmbH's recoverable taxes this year, as part of a Group measurement policy.

In line with this, deferred tax assets on unused tax loss carryforwards of EUR 27,906 thousand were recognised in the IAS financial statements for the year ended 31 December 2005. This resulted in a deferred tax expense of EUR 851 thousand recognised in income under the income taxes item in financial year 2005 following the recognition of deferred tax assets in the amount of EUR 28,757 thousand on 31 December 2004.

According to the long-term corporate planning resolved, more reasons militate in favour of, rather than against, the fact that sufficiently taxable income will be generated over the next five years – also considering the minimum tax rule – to utilise the tax loss carryforwards taken into account in the recognition of the deferred tax assets as at 31 December 2005.

(46) Deposits from other banks

Deposits from other banks relate solely to deposits from German banks and are composed of the following:

	31 Dec. 2005	31 Dec. 2004
Payable on demand	**7,339,034.30**	**9,713,140.65**
With agreed maturity or notice	**13,804,667.00**	**14,301,788.26**
Total	21,143,701.30	24,014,928.91

The with agreed maturity or notice item comprises a loan for the refinancing of the business premises totalling EUR 13,664,604.81 and deferred interest of EUR 140,062.19.

(47) Due to customers

Amounts due to customers result exclusively from the subsidiary Baader Service Bank GmbH. They are payable on demand, and are composed of the following items:

	31 Dec. 2005	31 Dec. 2004
German customers	6,183,423.82	4,858,374.38
- **Companies**	**1,221,750.35**	**230,290.88**
- **Private individuals**	**4,961,673.47**	**4,628,083.50**
- **Other**	**0.00**	**0.00**
International customers	10,727,641.12	10,178,630.57
- **Companies**	**8,821,520.73**	**8,258,445.94**
- **Private individuals**	**1,906,120.39**	**1,920,184.63**
- **Other**	**0.00**	**0.00**
Total	16,911,064.94	15,037,004.95

The due to customers item includes deferred interest of EUR 2,279.77. The remaining maturities of the loans and advances to customers are presented in the maturity structure (note 76).

(48) Provisions

Provisions are composed of the following items:

	31 Dec. 2005	31 Dec. 2004
Provisions for pensions	**5,241,940.00**	**4,800,703.00**
Other provisions	**1,702,626.23**	**2,297,969.31**
Total	6,944,566.23	7,098,672.31

Changes in provisions for pensions:

	2005	2004
Provisions for pensions (DBL) as at 1 January	4,800,703.00	4,251,777.00
Addition	**832,680.00**	**548,926.00**
Fair value change and transfer to plan assets	**-481,214.00**	**0.00**
Change in consolidated companies	**89,771.00**	**0.00**
Provisions for pensions (DBL) as at 31 December	5,241,940.00	4,800,703.00

The provisions for pensions are solely provisions for obligations to provide occupational retirement pensions based on direct pension commitments. The type and scale of the retirement pensions for employees entitled to benefits are determined by the terms of the individually agreed pension commitments. Pensions are paid to employees reaching retirement age or earlier in the case of invalidity or death (see also note 18).

Changes in assets available in the form of reinsurance policies which are considered plan assets in accordance with IAS 19 were as follows:

	2005	2004
Plan assets as at 1 January	185,324.00	0.00
Transfer/withdrawal	**470,476.00**	**0.00**
Return on plan assets	**10,738.00**	**0.00**
Other changes/changes in consolidated companies	**42,292.00**	**185,324.00**
Fair value as at 31 December	708,830.00	185,324.00

In addition to the reinsurance policies, assets are also invested internally in the form of securities which serve solely to cover the pension obligations. These securities are measured at the fair value on the balance sheet date and reported under available-for-sale financial instruments.

Changes in pension obligations:

	2005	2004
Provisions for pensions (DBL) including plan assets as at 1 January	4,986,027.00	4,251,777.00
Current service cost	**498,037.00**	**439,775.00**
Interest cost	**234,093.00**	**194,314.00**
Settled actuarial gains/losses	**-63,301.00**	**-247,424.00**
Settled past service cost	**163,851.00**	**162,261.00**
Other changes/changes in consolidated companies	**132,063.00**	**185,324.00**
Unsettled past service cost	**484,746.00**	**647,006.00**
Unsettled actuarial gains/losses	**1,251,727.00**	**-1,056,821.00**
Pension obligations (DBO) as at 31 December	7,687,243.00	4,576,212.00

The pension obligations are calculated yearly by an independent actuary using the projected unit credit method. The projected unit credit of the pension obligations as at 31 December 2005 amounts to EUR 7,687 thousand (previous year: EUR 4,576 thousand). The difference between this figure and the provisions for pensions is the result of changes in the actuarial parameters and calculation basis of EUR 1,252 thousand (previous year: EUR -1,057 thousand), from changes in pension plans of EUR 485 thousand (previous year: EUR 647 thousand) and changes in the fair value of plan assets of EUR 709 thousand (previous year: EUR 185 thousand).

Changes in other provisions during the financial year are presented below:

	As at 1 Jan. 2005 EUR thousand	Reclassifications EUR thousand	Utilisation EUR thousand	Reversals EUR thousand	Additions EUR thousand	As at 31 Dec. 2005 EUR thousand
Staff	**261**	**0**	**235**	**26**	**4**	**4**
Litigation	**157**	**0**	**0**	**0**	**5**	**162**
Cost allocation	**1,036**	**5**	**20**	**76**	**53**	**998**
Miscellaneous	**794**	**-5**	**530**	**168**	**447**	**538**
Taxes	**50**	**0**	**50**	**0**	**0**	**0**
Total	2,298	0	835	270	509	1,702

The largest item of the provisions mainly relates to cost allocation of supervisory authorities. An appeal was lodged against this cost allocation. It is highly likely at present that this will lead to an outflow of resources.

(49) Provisions for taxes

Provisions for taxes of EUR 341,017.60 are the current tax liabilities of Baader Wertpapierhandelsbank AG and Heins & Seitz GmbH.

(50) Other liabilities and accruals

Other liabilities and accruals include other liabilities of EUR 8,280,975.14.
They consist primarily of short-term trade payables (EUR 1,951 thousand), social security/pension provisions (EUR 679 thousand) and accruals (EUR 5,212 thousand). The accruals are primarily composed of current obligations to employees, members of the Board of Directors and the Supervisory Board (EUR 4,473 thousand), legal advice (EUR 93 thousand), compulsory contributions (EUR 95 thousand) and the annual financial statements and audit (EUR 258 thousand).

(51) Deferred tax liabilities

Deferred taxes must be recognised for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax base.

Deferred tax liabilities represent future tax charges resulting from differences in the following items:

	31 Dec. 2005	31 Dec. 2004
Assets held for trading	**1,295,202.49**	**533,014.26**
Available-for-sale financial instruments	**2,457,643.88**	**174,988.15**
Provisions for pensions	**221.74**	**0.00**
Total	3,753,068.11	708,002.41

The changes in deferred tax liabilities from measurement differences in the available-for-sale financial instruments category of EUR 2,282,655.73 are charged directly to equity in the revaluation reserve. The recognition of deferred tax liabilities from measurement differences in assets held for trading and provisions for pensions resulted in a deferred tax expense of EUR 762,409.97 overall and was recognised in the net profit for the period.

(52) Equity

	31 Dec. 2005 EUR	31 Dec. 2004 EUR
a) Issued capital	**22,601,984.00**	**22,437,584.00**
b) Share premium	**83,473,389.09**	**83,199,047.21**
c) Revaluation reserve	**8,686,706.38**	**279,637.79**
d) Minority interests	**133,038.31**	**0.00**
e) Consolidated net profit	**12,194,811.07**	**6,518,851.46**
Equity	127,089,928.85	112,435,120.46

Issued capital

The issued capital (share capital) of Baader Wertpapierhandelsbank AG at 31 December 2005 comprised 22,954,341 no-par value bearer shares.

	Shares
Number of shares outstanding at 1 Jan. 2005	22,437,584
Plus: Treasury shares held at 31 Dec. of the previous year	**516,757**
Number of shares issued on 31 Dec. 2005	22,954,341
Less: Treasury shares held at the balance sheet date	**352,357**
Number of shares outstanding at 31 Dec. 2005	22,601,984

Before elimination of the treasury shares, the issued capital amounts to EUR 22,954,341.00. There are no preference rights or restrictions on the distribution of dividends at Baader Wertpapierhandelsbank AG. All issued shares are fully paid in.

The value of the issued, outstanding and authorised shares is as follows:

	31 Dec. 2005		**31 Dec. 2004**	
	EUR thousand	**Shares**	**EUR thousand**	**Shares**
Issued shares	**22,954**	**22,954,341**	**22,954**	**22,954,341**
./. Treasury shares held	**352**	**352,357**	**517**	**516,757**
= Outstanding shares (issued capital)	**22,602**	**22,601,984**	**22,437**	**22,437,584**
+ Shares of authorised capital not yet issued	**11,477**	**11,477,170**	**11,477**	**11,477,170**
Total	34,079	34,079,154	33,914	33,914,754

In accordance with section 71 (1) no. 7 of the AktG, the General Meeting on 14 July 2004 authorised Baader Wertpapierhandelsbank AG to buy and sell own shares initially up to 13 January 2006 for the purposes of securities trading at prices no more than 10% above or below the average closing price of the shares in floor trading on the Frankfurt Stock Exchange on the three preceding trading days in each case. The holdings of own shares acquired for this purpose may not exceed 5% of the Company's share capital.

In addition, the Company was authorised by a resolution of the General Meeting on 14 July 2004, in accordance with section 71 (1) no. 8 of the AktG, to acquire shares of the Company in order to be able to offer them to third parties in the course of the acquisition of companies or equity interests, to offer them for subscription to the beneficiaries of the Baader Wertpapierhandelsbank AG Stock Option Plan 1999 and 2004 in accordance with the authorisation by the General Meeting on 18 June 1999 and 14 July 2004, or to cancel them. The authorisation is limited to the acquisition of own shares up to a maximum of ten percent of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, in order to pursue one or more of the stated goals. The authorisation was initially valid until 13 January 2006. The shares will be acquired via the stock exchange. The price paid by Baader Wertpapierhandelsbank AG per share may not exceed the average closing price for the no-par value shares of Baader Wertpapierhandelsbank AG in floor trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares by more than 5% (excluding acquisition costs).

The Board of Directors was authorised, with the approval of the Supervisory Board, to offer shares of Baader Wertpapierhandelsbank AG that were purchased as a result of this authorisation to third parties when companies or equity interests are acquired.

The Board of Directors was also authorised, with the approval of the Supervisory Board, to cancel treasury shares of Baader Wertpapierhandelsbank AG that were purchased as a result of this authorisation without a further resolution by the General Meeting being required for such cancellation or its implementation. The authorisation to cancel shares may be exercised in full or in part.

The General Meeting on 29 June 2005 revoked the resolutions in accordance with section 71 (1) no. 7 and no. 8 of the AktG passed on 14 July 2004 and resolved the aforementioned authorisations in accordance with section 71 (1) no. 7 and no. 8 of the AktG; these are valid until 28 December 2006. In financial year 2005, 164,400 treasury shares were sold to staff in order to serve the pre-emption rights of employees from the Stock Option Plan 1999. This disposal reduced the holdings of treasury shares in the financial year.

Share premium

The share premium comprises the premium generated on the issuance of own shares. When own (treasury) shares are bought back, the difference between the cost and the nominal amount is charged to the share premium account. If the retained earnings have been utilised, the share premium absorbs all consolidation adjustments recognised in income.

Revaluation reserve

After consideration of deferred taxes, the gains or losses on the measurement of available-for-sale financial instruments, consisting of interest-bearing and dividend-oriented instruments, are appropriated to the revaluation reserve at fair value. The gains and losses are not recognised in income until the assets are disposed of or written off.

The remaining difference of the capital consolidation of Heins & Seitz Capital Management GmbH was also appropriated to the revaluation reserve as the gradual acquisition of the company had resulted in the hidden reserves between the individual purchase tranches being revealed in full.

	2005 EUR thousand	2004 EUR thousand
Measurement of available-for-sale financial instruments	**10,976**	**455**
Deferred taxes from measurement of available-for-sale financial	**-2,457**	**-176**
Capital consolidation of gradual acquisition	**168**	**0**
Total	8,687	279

Consolidated net profit

The consolidated net profit consists of the net profit for the period before minority interest and the retained earnings from previous financial years. Some of the consolidated net profit is also intended for distribution to the shareholders for the financial year 2005. As before, the basis for the measurement of the distribution is the earnings after taxes in the HGB single-entity financial statements of Baader Wertpapierhandelsbank AG. A dividend of EUR 0.18 per share is to be proposed to the General Meeting on 19 July 2006.

(53) Contingent capital

The contingent capital is intended for the issuance of new shares to serve stock option plans and for the issuance of convertible bonds or warrants from bonds with warrants.
Changes in contingent capital:

EUR thousand	Contingent capital 1 Jan. 2005	Additions	Expiry/ utilisation	Contingent capital 31 Dec. 2005
Issuance of shares	**900**	**0**	**0**	**900**
Convertible bonds/warrants from bonds with warrants	**5,000**	**5,000**	**0**	**10,000**
Total	5,900	5,000	0	10,900

The General Meeting on 18 June 1999 resolved a contingent capital increase of up to EUR 600,000.00. This contingent capital increase will only be implemented by issuing up to 600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG Stock Option Plan 1999 on the basis of the authorisation issued on June 18, 1999 exercise their options (Contingent Capital 1999).

The General Meeting on 14 July 2004 resolved a further contingent capital increase of up to EUR 300,000.00. This contingent capital increase will only be implemented by issuing up to 300,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG Stock Option Plan 2004 on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).

By way of a resolution by the General Meeting on June 19 2000, the share capital was contingently increased by up to EUR 5,000,000.00. The contingent capital increase served to grant rights to the holders or creditors of convertible bonds or of warrants from bonds with warrants issued up to 1 June 2005 on the basis of the aforementioned authorisation by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest. The new shares were to be issued at the conversion or option price determined in each case. The contingent capital increase was only implemented insofar as these rights were exercised. The new shares carried dividend rights from the beginning of the financial year in which they were created by exercise of the conversion rights or options. The Board of Directors was authorised to determine the further details of the implementation of the contingent capital increase.

This resolution was revoked by the ordinary General Meeting on 29 July 2005. So that the Board of Directors could still issue warrants with conversion rights or options for shares in Baader Wertpapierhandelsbank AG, a new authorisation was resolved by the General Meeting on 29 July 2005 as follows:

The Board of Directors is authorised, with the approval of the Supervisory Board, to issue warrants with conversion rights and/or options for shares in Baader Wertpapierhandelsbank AG on one or several occasions until 28 June 2010. The warrants with conversion rights and/or options may have varying maturities, though not more than 15 years from issuance.

The total nominal amount of warrants cannot exceed EUR 150,000,000. In addition to euro, the warrants may also be issued in the legal currency of any OECD state – though not exceeding the equivalent euro value. They can also be issued by companies in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest. In event of this, the Board of Directors is authorised to assume the guarantee for the warrants for Baader Wertpapierhandelsbank AG and to grant the holders of such warrants conversion rights and/or options to new shares in Baader Wertpapierhandelsbank AG.

In the event of the issuance of convertible bonds, holders shall be entitled to convert their warrants into shares in Baader Wertpapierhandelsbank AG in accordance with the conversion conditions. The conversion ratio is determined by dividing the nominal amount of a warrant by the stipulated conversion price for a share in Baader Wertpapierhandelsbank AG. The conversion ratio can also be determined by dividing the issue price of a warrant less than the nominal amount by the stipulated conversion price for a share in Baader Wertpapierhandelsbank AG. The conversion ratio can be rounded up to a whole number. In the event of the issuance of bonds with warrants, one or more warrants will be assigned to every warrant entitling the holder to subscribe to shares in Baader Wertpapierhandelsbank AG in accordance with the warrant conditions.

Conversion rights and options for shares in Baader Wertpapierhandelsbank AG with a nominal share of share capital of up to EUR 10,000,000 in total can be issued. The conversion or option price for a share in Baader Wertpapierhandelsbank AG must be at least 80% of the average market price of shares in the Company – closing price of the shares in floor trading on the Frankfurt Stock Exchange – on the ten trading days preceding the resolution by the Board of Directors to issue the debt securities or at least 80% of the average market price – closing price of the shares in floor trading on the Frankfurt Stock Exchange – on the days when pre-emption rights are traded on the Frankfurt Stock Exchange, not including the last two days of pre-emption right trading.

Irrespective of section 9 (1) AktG, the conversion and option conditions contain dilution protection clauses for the event of the Company increasing its share capital or issuing further convertible bonds or bonds with warrants during the conversion or warrant period – granting its shareholders pre-emption rights – and the holders of the conversion rights or warrants not receiving pre-emption rights to the extent they would be entitled to after exercising their conversion rights or warrants. Among other things, the conditions also provide for an adjustment of conversion rights and warrants in the event of a capital reduction.

On issuance of warrants, shareholders also receive their statutory subscription right. However, the Board of Directors is authorised, with the approval of the Supervisory Board, to disapply shareholders' pre-emption rights for fractions resulting from the subscription ratio and also to disapply pre-emption rights to the extent necessary to grant creditors of conversion rights and/or warrants to shares in Baader Wertpapierhandelsbank AG a pre-emption right to the extent they would be entitled to after exercising their conversion rights and/or warrants.

The Board of Directors is authorised, with the approval of the Supervisory Board, to determine the further details of the issuance and the terms of issues, including in particular the interest rate, the issue price, the maturity and denomination, conversion and option prices and periods, or to determine these factors by arrangement in with the executive bodies of the Group companies responsible for the issue.

The contingent capital of up to EUR 5,000,000 created by way of resolution of the ordinary General Meeting on 19 June 2000 in accordance with article 4 (2d) of the Articles of Association was revoked by way of resolution by the General Meeting on 29 June 2005 and the existing contingent capital was passed accordingly.

The share capital is contingently increased by up to EUR 10,000,000. The contingent capital increase serves to grant rights to the holders or creditors of convertible bonds or of warrants from bonds with warrants issued up to 28 June 2010 on the basis of the aforementioned authorisation by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest. The new shares will be issued at the conversion or option price to be determined in each case.

The contingent capital increase is only implemented insofar as these rights are exercised. The new shares carry dividend rights from the beginning of the financial year in which they are created by exercise of the conversion rights or options. The Board of Directors is authorised to determine the further details of the implementation of the contingent capital increase.

The Supervisory Board is authorised to adjust the respective utilisation of the contingent capital in accordance with article 4 of the Articles of Association.

(54) Authorised capital

Date of resolution	Original amount	Utilised for capital increases in previous years	Utilised for capital increases in 2005	Restriction expired	Remaining amount	Restriction
10 July 2002	**2,295**	**0**	**0**	**0**	**2,295**	**9 July 2007**
10 July 2002	**9,182**	**0**	**0**	**0**	**9,182**	**9 July 2007**
Total	11,477	0	0	0	11,477	

By way of resolution by the General Meeting on 10 July 2002, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 2,295,434 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 9 July 2007. Shareholders' pre-emption rights may be disapplied, with the approval of the Supervisory Board, in full or in part in the case of a cash capital increase if the issue price of the new shares is not materially lower than the quoted market price of existing listed shares of the same class at the time the issue price is finalised (Authorised Capital I). To the extent that the Board of Directors does not make use of this right to disapply pre-emption rights, it can only disapply shareholders' pre-emption rights – with the consent of the Supervisory Board – in order to eliminate fractions.

By way of resolution by the General Meeting on 10 July 2002, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 9,181,736 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 9 July 2007. The Board of Directors is authorised, with the approval of the Supervisory Board, to disapply shareholders' pre-emption rights and determine the further details of the capital increase in each case and the terms of the share issue. Shareholders' pre-emption rights may only be disapplied under the terms of a capital increase against non-cash contributions, in particular for the purposes of acquiring equity interests, companies, or assets – including by means of all-share deals – and for business combinations, as well as to eliminate fractions (Authorised Capital II).

The resolutions on Authorised Capital I and Authorised Capital II had not been amended at 31 December 2005. Authorised Capital I amounted to EUR 2,295,434 as at 31 December 2005, and Authorised Capital II amounted to EUR 9,181,736.

(55) Foreign currency items

Assets denominated in foreign currencies amounted to EUR 1,445,622.78 (translated) at the balance sheet date. They are composed of loans and advances to other banks (EUR 962 thousand) and loans and advances to (EUR 484 thousand). Liabilities in foreign currency amounted to EUR 1,596,223.54 (translated). These were amounts due to customers.

(56) Derivative transactions

Derivative financial transactions were recognised and measured as follows:

Option premiums from the disposal of purchase options were recognised as other liabilities and measured at their nominal amount. Margin obligations on futures are recognised as other liabilities and measured at their nominal amount. The claim on or obligation to a third party arising from an index swap is reported under loans and advances to other banks or amounts due to other banks and measured on the basis of the index value calculated on the balance sheet date. Furthermore, the claim or obligation arising from the index swap is hedged by the Company's own reference portfolio, thereby creating a closed measurement unit (cash flow hedge).

The following options and futures were still outstanding at the balance sheet date:

	Carrying amount	**Fair value**	**Balance sheet item**
Index options	**128,178.81 *)**	**189,000.00**	**Assets held for trading**
Index futures	**12,685.50**	**12,675.00**	**Assets held for trading**
Index swaps	**275,645.14**	**275,645.14**	**Amounts due to banks**

*) Option premiums received.

The fair values of the derivative financial instruments were calculated using EUREX prices as at 30 December 2005. The fair value of the index swap was calculated on the basis of the index value of the Company's own reference portfolio at the balance sheet date.

CONSOLIDATED INCOME STATEMENT DISCLOSURES

(57) Net interest expense

The net interest expense is composed of the following items:

	31 Dec. 2005	31 Dec. 2004
Interest income from	452,479.42	348,238.59
- **credit and money market transactions**	**452,479.42**	**348,238.59**
- **fixed-interest securities**	**0.00**	**0.00**
Interest expenses	-933,584.63	-771,653.19
Total	-481,105.21	-423,414.60

Interest expenses are composed primarily of interest expenses for loans amounting to EUR 567,878.74 and interest expenses on client funds amounting to EUR 149,200.96.

(58) Allowance for losses on loans and advances

The allowance for losses on loans and advances changed as follows during the year under review:

	31 Dec. 2005	31 Dec. 2004
Additions to allowance	**-2,196.05**	**-59,908.81**
Reversals	**0.00**	**25,821.97**
Total	-2,196.05	-34,086.84

(59) Net fee and commission

	31 Dec. 2005	31 Dec. 2004
Fee and commission income	35,919,083.55	22,525,564.24
- **Securities and issue business**	**7,747,853.24**	**2,296,700.80**
- **Brokerage fees**	**28,171,230.31**	**20,228,863.44**
Fee and commission expenses	-11,531,690.63	-8,139,907.88
- **Brokerage fees**	**-2,467,353.53**	**-1,834,978.43**
- **Settlement fees**	**-7,188,250.11**	**-5,615,014.47**
- **Securities and issue business**	**-1,774,267.81**	**-599,700.42**
- **Other fee and commission expenses**	**-101,819.18**	**-90,214.56**
Total	24,387,392.92	14,385,656.36

(60) Net trading income

	31 Dec. 2005	31 Dec. 2004
Securities trading	34,845,753.33	30,021,864.05
- **Interest and dividends**	**624,756.48**	**859,984.94**
- **Securities**	**21,049,240.70**	**15,797,533.97**
- **Options and futures**	**-6,181.59**	**182,059.10**
- **Price differences**	**13,177,937.74**	**13,182,286.04**
Foreign currencies	45,204.33	5,814.55
- **Exchange differences resulting from foreign currency transactions**	**21,137.10**	**2,894.68**
- **Other**	**24,067.23**	**2,919.87**
Total	34,890,957.66	30,027,678.60

(61) Net income from available-for-sale financial instruments

	31 Dec. 2005	31 Dec. 2004
Interest and dividend income	433,503.80	519,001.71
- **Fixed-interest securities**	**278,626.40**	**242,153.26**
- **Equities/other non-fixed-interest securities**	**63,364.30**	**93,907.25**
- **Equity investments**	**91,513.10**	**182,941.20**
Gain/loss on the sale of		
available-for-sale financial instruments	614,969.51	814,487.64
- **Equities/other non-fixed-interest securities**	**614,969.51**	**785,389.49**
- **Equity investments**	**0.00**	**29,098.15**
Depreciation, amortisation and write-downs	-322,547.75	3,203,001.17
- **Write-downs**	**-322,547.75**	**-372,817.74**
- **Reversals on write-downs**	**0.00**	**3,575,818.91**
Total	725,925.56	4,536,490.52

Since 1 April 2005, reversals of write-downs are booked directly against equity (revaluation reserve), thus no longer immediately recognised in income in accordance with IAS 39.

(62) Net income from equity-accounted investments

	31 Dec. 2005	31 Dec. 2004
Share of net income	**823,665.76**	**126,691.87**
Write-downs of goodwill	**0.00**	**-65,287.54**
Total	823,665.76	61,404.33

The share of net income or loss of the equity-accounted investments is reported in the segment report in the Consolidation column.

(63) Administrative expenses

	31 Dec. 2005	31 Dec. 2004
Staff costs	-27,118,221.39	-23,208,979.31
- **Salaries and wages**	**-24,423,165.28**	**-20,478,756.74**
- **Social security contributions**	**-2,210,695.32**	**-1,958,121.50**
- **Expenses for pensions and other benefits**	**-484,360.79**	**-772,101.07**
Other administrative expenses	-16,151,509.87	-15,823,300.58
Amortisation of intangible assets, depreciation of property and equipment and write-downs	-7,141,947.92	-6,300,633.73
- **Operating equipment and office equipment**	**-2,899,200.65**	**-2,951,075.74**
- **Property**	**-936,749.35**	**-933,021.30**
- **Intangible assets**	**-3,305,997.92**	**-2,416,536.69**
Total	-50,411,679.18	-45,332,913.62

The salaries and wages item contains variable salary components in the amount of EUR 9,282 thousand (previous year: EUR 6,880 thousand). Expenses in conjunction with the allocation to reserves of the pension reserves (EUR 351 thousand), as well as the expenses from defined contribution plan commitments (EUR 32 thousand), are contained in the expenses for pensions and other benefits.

(64) Other operating income and other operating expenses

	31 Dec. 2005	31 Dec. 2004
Other operating income	**1,640,913.51**	**1,302,069.63**
Other operating expenses	**-425,603.99**	**-475,438.69**
Total	1,215,309.52	826,630.94

The other operating income encompasses items which cannot be allocated to other items in the consolidated income statement. This hereby mainly involves income from compensation for non-monetary benefits and the use of company cars, the provision of stock options (EUR 643 thousand), of prior-period income (EUR 184 thousand) and rental income (EUR 281 thousand).

The other operating expenses encompasses items which cannot be allocated to other items in the consolidated income statement. This essentially encompasses prior-period expenses (EUR 258 thousand) and losses from the sales or assets (EUR 90 thousand).

(65) Income taxes on profit from ordinary activities

The income taxes are allocated as follows for the past financial year:

	31 Dec. 2005	31 Dec. 2004
Current income taxes	**-1,445,282.32**	**10,440.73**
Deferred taxes	**-1,700,548.84**	**161,657.81**
Total	-3,145,831.16	172,098.54

The actual tax expense is computed on the basis of the taxable income of the individual Group companies for the financial year. Based on the fact that, in accordance with IFRS, the reversals impacting income according to commercial law are recorded directly in equity as write-downs in the available-for-sale category according to IFRS, the tax expenses allocated to these items are also booked directly against shareholder equity.

Deferred taxes were established due to temporary valuation differences, deriving from a difference in measurement in the reconciliation from the disclosure according to the HGB to the disclosure according to IAS/IFRS. The deferred taxes included in the income taxes item in the income statement are comprised of the following items:

	31 Dec. 2005	31 Dec. 2004
Deferred tax assets	**-938,138.87**	**313,994.46**
Deferred tax liabilities	**-762,409.97**	**-152,336.65**
Total	-1,700,548.84	161,657.81

In the financial year 2005 the deferred taxes are calculated together with the tax rates specific to the enterprise.

	Tax rate	Basic trade tax rate	Corporate income tax Solidarity surcharge
Baader Wertpapierhandelsbank AG	**38.58 %**	**16.58 %**	**25.00%** **5.5%**
Baader Service Bank GmbH	**36.53 %**	**13.79 %**	**25.00%** **5.5%**
Heins & Seitz Capital Management GmbH	**36.53 %**	**13.79 %**	**25.00%** **5.5%**

The following reconciliation of the amounts shows the relationship between the profit from ordinary activities and the income taxes and the income in the financial year. The corporate income tax rate to be applied as a basis for the reconciliation of the amounts corresponds to the income tax rate of the parent group.

	31 Dec. 2005 EUR thousand
Net profit before income taxes, according to IAS	11,148
Profit of the subsidiary without loss carry forward	**-517**
Non-deductible expenses / Tax-free income / Income loss carry forward	**-7,175**
Net profit before income taxes, according to IAS	3,456
Group income tax rate (%)	**38.58**
Calculatory income tax expense in financial year	1,333
Reversals of deferred taxes on losses carry forward	**851**
Net of deferred taxes on valuation difference, tax base/IAS	**452**
Income tax expense of the subsidiary without loss carry forward	**250**
Effects of taxes recorded for the financial year from previous years	**243**
Other effects	**17**
Taxes from profit and from income	3,146

(66) Minority interest in net profit

The minority interest in net profit in the amount of EUR 79,962.50, corresponds to 30% of the positive contribution to consolidated net profit of the Heins & Seitz Capital Management GmbH subsidiary in the financial year 2005, thus reducing the Group consolidated net profit/loss.

(67) Earnings per share

The basic earnings per share is calculated according to IAS 33 by taking the net profit/loss after taxes, less the minority interest in net profit/loss (as the enumerator), which is divided by the weighted number of common shares (denominator) outstanding on average during the financial year.

	2005	2004
Net profit	**7,922,477.32**	**4,223,711.74**
Weighted average number of outstanding Shares	**22,499,720**	**22,409,869**
Earnings per share	0.35	0.19

The diluted earnings per share is also EUR 0.35. The exercisable stock options that are "in the money" (note 22), which are accounted for in the calculation of the weighted average number of outstanding shares for the diluted earnings per share, do not effect the amount. The net profit is not subject to any dilution.

(68) Segment reporting

Segment reporting in the consolidated financial statements of Baader Wertpapierhandelsbank AG as at 31 December 2005 is classified by business segments. Three sub-activities have been defined as the Group's primary business segments: Specialist Activities and Proprietary Trading, Agency Business and Capital Market Services. In the Others/Consolidation column, along with reports of movements that do not relate directly to the three primary segments or that are not attributable to operating activities, Group income and expenses which require consolidation are also reported.

The business segment Specialist Activities and Proprietary Trading presents itself as follows. As at the balance sheet date 31 December 2005, the Group managed, as provider of specialist activities, 9,018 primarily foreign order books related to equities, 7,001 order books for bonds and profit participation certificates, and 45,533 order books for warrants, certificates and ETFs. A provider of specialist activities is tasked with establishing market prices for the securities that are managed and, if necessary, ensuring additional liquidity by means of proprietary trading.

In the Agency Business area, the Group serves as a broker between domestic and foreign banks and financial service institutions for all securities listed on a German exchange. Moreover, Baader Service Bank GmbH also enables access to domestic and foreign stock exchanges for institutional and private investors through electronic systems. Heins & Seitz Capital Management GmbH brokers promissory note loans between institutional investors. The respective Company receives commissions for its brokerage activity or services provided. Business is conducted exclusively through banks.

Within the context of capital market services, the Group places securities with banks in its own name and on its own account, in part involving an underwriting syndicate. In addition, Baader Wertpapierhandelsbank AG offers companies services and consulting in all areas of capital markets, as well for conducting capital measures. The investment business that had previously been actively operated is now no longer being pursued within the Baader Group. Existing investments in publicly traded and non-traded corporations, both domestic and foreign, will continue to be profitably managed in the Capital Market Services segment until they have been sold.
Breakdown according to corporate division

Financial year 2005	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Others / Consolidation	Group
Net interest expense	**-648,760.82**	**162,202.81**	**5,452.80**	**0.00**	**-481,105.21**
Allowance for losses on loans and advances	**-4,388.85**	**2,192.80**	**0.00**	**0.00**	**-2,196.05**
Net interest expense after allowances for losses on loans	**-653,149.67**	**164,395.61**	**5,452.80**	**0.00**	**-483,301.26**
Net fee and commission	**16,866,635.13**	**6,040,666.12**	**1,941,681.67**	**-461,590.00**	**24,387,392.92**
Net trading income	**31,738,818.28**	**3,222,098.66**	**-413,459.28**	**343,500.00**	**34,890,957.66**
Net income from available-for-sale financial instruments	**437,802.12**	**89,297.23**	**1,092,991.97**	**-894,165.76**	**725,925.56**
Net income from equity-accounted investments	**0.00**	**0.00**	**0.00**	**823,665.76**	**823,665.76**
Net income from investment securities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Directly attributable administrative expenses	**-22,074,337.11**	**-9,518,469.99**	**-757,194.97**	**261,910.08**	**-32,088,091.99**
Other operating income	**1,108,103.99**	**267,178.39**	**40,347.22**	**-200,320.08**	**1,215,309.52**
Earnings after directly attributable income/expenses	27,423,872.74	265,166.02	1,909,819.41	-127,000.00	29,471,858.17
Indirectly attributable administrative expenses	**-12,488,079.99**	**-4,737,726.85**	**-1,097,780.36**	**0.00**	**-18,323,587.20**
Profit from ordinary activities	14,935,792.75	-4,472,560.83	812,039.05	-127,000.00	11,148,270.97
Segment assets in EUR thousand	**91,854**	**34,401**	**27,458**	**0**	**153,713**
Segment liabilities in EUR thousand	**23,140**	**28,064**	**1,984**	**0**	**53,188**
Risk-weighted assets in EUR thousand	**118,253**	**23,708**	**21,455**	**0**	**163,416**
Allocated capital in EUR thousand	**82,146**	**37,727**	**7,217**		**127,090**
Profitability of the allocated capital in regard to profit before taxes	**18.2%**	**-11.9%**	**11.3%**		**8.8%**
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	**1,152**	**600**	**97**	**0**	**1,849**
Amortisation of segment assets in EUR thousand	**5,993**	**1,019**	**130**	**0**	**7,142**
Average number of employees during the year	**89**	**49**	**7**	**75**	**220**

Breakdown according to corporate division (previous year)

Financial year 2004	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Others/ Consolidation	Group
Net interest expense	**-473,146.74**	**23,983.80**	**25,748.34**	**0.00**	**-423,414.60**
Allowance for losses on loans and advances	**30,313.32**	**3,773.52**	**0.00**	**0.00**	**34,086.84**
Net interest expense after allowances for losses on loans and advances	**-503,460.06**	**20,210.28**	**25,748.34**	**0.00**	**-457,501.44**
Net fee and commission income	**11,109,912.86**	**2,142,088.66**	**1,133,654.84**	**0.00**	**14,385,656.36**
Net trading income	**25,206,806.06**	**3,374,493.40**	**1,446,379.14**	**0.00**	**30,027,678.60**
Net income from available-for-sale financial instruments	**909,574.44**	**26,465.76**	**3,600,450.32**	**0.00**	**4,536,490.52**
Net income from equity-accounted investments	**0.00**	**61,404.33**	**0.00**	**0.00**	**61,404.33**
Net income from investment securities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Directly attributable administrative expenses	**-17,544,851.16**	**-6,910,749.82**	**-945,445.68**	**0.00**	**-25,401,046.66**
Other operating income	**612,567.53**	**62,742.19**	**151,321.23**	**0.00**	**826,630.95**
Earnings after directly attributable income/expenses	19,790,549.67	-1,223,345.20	5,412,108.19	0.00	23,979,312.66
Indirectly attributable administrative expenses	**-15,097,466.66**	**-4,129,901.86**	**-704,498.44**	**0.00**	**-19,931,866.96**
Profit from ordinary activities	4,693,083.01	-5,353,247.06	4,707,609.75	0.00	4,047,445.70
Segment assets in EUR thousand	**68,496**	**33,759**	**24,273**	**0**	**126,528**
Segment assets in EUR thousand	**21,154**	**21,555**	**1,311**	**0**	**44,020**
Segment assets in EUR thousand	**92,109**	**15,658**	**11,062**	**0**	**118,829**
Allocated capital in EUR thousand	**84,080**	**23,000**	**5,355**	**0**	**112,435**
Profitability of the allocated capital in regard to the profit before taxes	**5.58%**	**-23.27%**	**87.91%**	**0**	**3.60%**
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	**17,446**	**2,105**	**489**	**0**	**20,040**
Amortisation of segment assets in EUR thousand	**5,317**	**836**	**148**	**0**	**6,301**
Average number of employees during the year	**87**	**34**	**6**	**67**	**194**

The allocated capital declared in the segment report correlates to the accounting treatment of the Group equity.

OTHER DISCLOSURES

(69) Risk reporting

Please refer to the comments in the Risk Report, which is a part of the Group Management Report, in regard to details on market price risks and credit risks. No notable interest rate change risks existed for the Group as at 31 December 2005.

(70) Off-balance sheet transactions

The off-balance sheet transactions contain potential future liabilities of the Group, which have been granted to customers but not yet utilised. Utilisation of these liabilities is unlikely, as is shown by the accounting treatment.

	31 Dec. 2005	31 Dec. 2004
Contingent liabilities		
- Liabilities from guarantees and warranty agreements	170,000.00	170,000.00
- Liability resulting from collateral for third-party liabilities	0.00	0.00
Irrevocable loan commitments		
- Current account credits to customers	1,367,564.48	3,331,309.58

(71) Securities lending transactions

Securities lending transactions are conducted with banks in order to fulfil delivery obligations. Securities that have been lent are disclosed in the balance sheet under assets held for trading or in the available-for-sale instruments; securities that have been borrowed are not carried. Expenses and income resulting from the securities transactions were, inasmuch as they involved the past financial year, considered within the consolidated income statement under net fee and commission income in line with duration.

	31. Dec. 2005	31. Dec. 2004
Borrowed securities	291,812.26	0.00
Total	**291,812.26**	**0.00**

(72) Other financial obligations

Financial obligations, deriving from rental contracts for office space and automobile parking places, exist in the amount of EUR 1,708 thousand, with remaining periods of between 7 to 54 months.

Along with these there are obligations deriving from vehicle leasing contracts and leasing contracts for operating equipment and office equipment objects in the amount of EUR 1,993 thousand, with remaining periods of between 7 to 47 months.

(73) Collateral

The following financial assets were reserved or pledged as collateral for liabilities at the balance sheet date:

	31 Dec. 2005	31 Dec. 2004
Loans and advances to other banks	2,554,900.00	3,727,000.00
Loans and advances to customers	381,097.16	0.00
Assets held for trading/available-for-sale financial instruments	8,844,782.00	6,592,255.80
Other assets	511,28	0,00
Total	**11,781,290.44**	**10,319,255.80**

The collateral was essentially committed for conducting securities trades, securities transactions and for the coverage of pension commitments.

Lombard loans from the Group company Baader Service Bank GmbH have been granted for the purchase of securities or for the coverage of collateral security (margin requirements) for futures contracts trading conducted through the Bank. As a rule, they are made available with a maturity of 6 months. The lombard loans are backed by valuable collateral; as a rule through the pledging of securities. At 31 December 2005, the fair value of the securities pledged to Baader Service Bank GmbH was EUR 3,188,300.68.

(74) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(75) Fair value of financial instruments

The individual assets and liabilities are assessed at fair value. The fair value is the amount at which financial instruments could be sold or bought under fair conditions on the balance sheet date. Market prices (for securities, for example), inasmuch as they were available, were used for this assessment. If no market price could be determined, then an assessment based on the expected future returns was performed. For reasons of simplicity, the fair value was stated as the balance sheet valuation for loans and advances to other banks and customers as well as deposits from other banks and amounts due to customers with a remaining maturity of less than a year. There were no recognisable hidden reserves or hidden charges in the balance sheet as at the reporting date 31 December 2005.

(76) Maturity structure

The consolidated balance sheet, broken down by maturity, presented the following picture at the 2005 balance sheet date:

	Up to 3 months EUR thousand	More than 3 months to 1 year EUR thousand	More than 1 year to 5 years EUR thousand	More than 5 years EUR thousand	No expiration EUR thousand	Total EUR thousand
Assets						
Cash reserve	**2,586**	**0**	**0**	**0**	**0**	**2,586**
Loans and advances to other banks	**24,057**	**0**	**0**	**0**	**0**	**24,057**
Loans and advances to customers	**2,916**	**0**	**0**	**0**	**0**	**2,916**
Allowance for losses on loans and advances	**-23**	**0**	**0**	**0**	**0**	**-23**
Assets held for trading	**32,457**	**0**	**1,583**	**0**	**0**	**34,040**
Available-for-sale financial instruments	**0**	**14,152**	**3,649**	**6,687**	**5,253**	**29,741**
Equity-accounted investments	**0**	**0**	**0**	**0**	**13,818**	**13,818**
Property and equipment	**0**	**0**	**0**	**0**	**22,476**	**22,476**
Intangible assets	**0**	**0**	**0**	**0**	**19,030**	**19,030**
Goodwill	**0**	**0**	**0**	**0**	**2,581**	**2,581**
Recoverable income taxes	**0**	**126**	**0**	**0**	**0**	**126**
Other assets	**2,956**	**543**	**0**	**0**	**1,669**	**5,168**
Deferred tax assets	**0**	**0**	**27,905**	**0**	**43**	**27,948**
Total assets	64,949	14,821	33,137	6,687	64,870	184,464
Liabilities and Equity						
Deposits from other banks	**7,605**	**0**	**13,539**	**0**	**0**	**21,144**
Due to customers	**16,911**	**0**	**0**	**0**	**0**	**16,911**
Provisions	**0**	**1,702**	**0**	**0**	**5,242**	**6,944**
Provisions for taxes	**0**	**341**	**0**	**0**	**0**	**341**
Other liabilities and accruals	**3,069**	**5,212**	**0**	**0**	**0**	**8,281**
Deferred tax liabilities	**1,161**	**2,458**	**134**	**0**	**0**	**3,753**
Equity	**0**	**0**	**0**	**0**	**127,090**	**127,090**
Total liabilities and equity	28,746	9,713	13,673	0	132,332	184,464

The consolidated balance sheet, broken down by maturity, presented the following picture at 31 December 2004:

	Up to 3 months EUR thousand	More than 3 months to 1 year EUR thousand	More than 1 year to 5 years EUR thousand	More than 5 years EUR thousand	No expiration EUR thousand	Total EUR thousand
Assets						
Cash reserve	**161**	**0**	**0**	**0**	**0**	**161**
Loans and advances to other banks	**25,234**	**0**	**0**	**0**	**0**	**25,234**
Loans and advances to customers	**1,343**	**0**	**0**	**0**	**0**	**1,343**
Allowance for losses on loans and advances	**-167**	**0**	**0**	**0**	**0**	**-167**
Assets held for trading	**27,666**	**0**	**0**	**0**	**0**	**27,666**
Available-for-sale financial instruments	**5,100**	**11,417**	**3,720**	**2,929**	**3,363**	**26,529**
Equity-accounted investments	**0**	**0**	**0**	**0**	**4,017**	**4,017**
Property, plant and equipment	**0**	**0**	**0**	**0**	**23,456**	**23,456**
Intangible assets	**0**	**0**	**0**	**0**	**23,340**	**23,340**
Goodwill	**0**	**0**	**0**	**0**	**963**	**963**
Recoverable income taxes	**0**	**931**	**285**	**0**	**0**	**1,216**
Other assets	**1,822**	**254**	**58**	**0**	**1,166**	**3,300**
Deferred tax assets	**0**	**0**	**21,838**	**6,918**	**130**	**28,886**
Total assets	61,159	12,602	25,901	9,847	56,435	165,944
Liabilities and Equity						
Deposits from other banks	**9,979**	**0**	**14,036**	**0**	**0**	**24,015**
Due to customers	**15,037**	**0**	**0**	**0**	**0**	**15,037**
Provisions	**0**	**2,298**	**0**	**0**	**4,800**	**7,098**
Provisions for taxes	**1**	**0**	**0**	**0**	**0**	**1**
Other liabilities and accruals	**3,320**	**3,330**	**0**	**0**	**0**	**6,650**
Deferred tax liabilities	**533**	**6**	**9**	**2**	**158**	**708**
Equity	**0**	**0**	**0**	**0**	**112,435**	**112,435**
Total liabilities and equity	28,870	5,634	14,045	2	117,393	165,944

(77) Auditor fee

The auditor fee for the year under review must be disclosed in the Annual Report, in accordance with section 315 (1) of the HGB, in addition to the provisions applicable according to IAS/IFRS.

	2005 EUR
Audit of the annual accounts	**346,110.00**
Tax consultancy services	**72,790.93**
Other services performed	**31,106.30**

(78) Employees

An average of 226 staff (192 staff in the previous year) were employed by the Baader Wertpapierhandelsbank AG Group in the year under review. At the balance sheet date there were 225 staff.

(79) Related party disclosures

The compensation of the members of the Board of Directors also comprises, along with the fixed compensation, variable, performance-related components as well as long-term incentives. All forms of compensation are determined by the Supervisory Board. In accordance with the accrual principle (disbursed in 2005), EUR 1,921 thousand is reported as the total compensation for members of the Board of Directors in financial year 2005. According to the accrual basis of accounting and its trading and balance sheet legal framework, and under the prerequisite that the Baader Wertpapierhandelsbank AG annual financial statements are available in the present form for the financial year 2005, variable compensation in the amount of EUR 263 thousand results for the financial year 2005 (to be disbursed in 2006).

Compensation of the members of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank AG. Accordingly, the Supervisory Board members received total compensation in the amount of EUR 217 thousand in the financial year 2005 (for the financial year 2004). Under the prerequisite that the Baader Wertpapierhandelsbank AG General Meeting approves the consolidated net profit for 2005, then the compensation of the members of the Supervisory Board amounts to EUR 261 thousand.

In accordance with the accrual principle:

	2005 EUR	2004 EUR
Board of Directors		
- **fixed compensation**	**1,773,855.10**	**1,487,972.23**
- **variable compensation**	**146,921.00**	**146,921.00**
Supervisory Board (without indemnification		
or disbursements)	**185,600.00**	**40.755,01**
- **fixed compensation**	**31,691.50**	**0.00**
- **variable compensation**		

The members of the Board of Directors and the Supervisory Board (excluding representatives of employees) also receive, along with their fixed compensation and the performance-related variable compensation, options deriving from the Baader Wertpapierhandelsbank AG stock option plan (note 22). Accordingly, the Board of Directors and the Supervisory Board hold approximately one third of the outstanding options.

	2004	2003	2002	2001	2000	Total
Stock options provided						
- **Board of Directors**	**37,500**	**51,500**	**85,000**	**86,000**	**41,902**	**301,902**
- **Supervisory Board**	**1,320**	**1,400**	**2,000**	**2,600**	**795**	**8,115**
Exercise price	**4.68**	**5.92**	**2.24**	**4.28**	**10.60**	**-**
Forfeited stock options						
- **Board of Directors**	**0**	**0**	**9,500**	**29,000**	**11,237**	**49,737**
- **Supervisory Board**	**0**	**0**	**0**	**0**	**0**	**0**
Exercised stock options						
- **Board of Directors**	**0**	**0**	**53,500**	**39,000**	**0**	**92,500**
- **Supervisory Board**	**0**	**0**	**1,000**	**0**	**0**	**1,000**
Outstanding stock options						
- **Board of Directors**	37,500	51,500	22,000	18,000	30,665	159,665
- **Supervisory Board**	1,320	1,400	1,000	2,600	795	7,115
Exercisable stock options						
- **Board of Directors**	0	0	22,000	18,000	30,665	70,665
- **Supervisory Board**	0	0	1,000	2,600	795	4,395
Residual term (in months)	**77**	**65**	**52**	**40**	**28**	**-**

Of the administrative expenses in the amount of EUR 42,942.67 deriving from providing stock options in the financial year 2005, EUR 10,750.00 is attributable to members of Board of Directors and EUR 378.40 to members of the Supervisory Board.

Pension commitments (DBO) for active members of the Board of Directors are EUR 6,878,929 at 31 December 2005 (previous year: EUR 4,164 thousand) in accordance with IAS.

The transparency regulations of the German Corporate Governance Code, based on the legal regulations of section 15a of the WpHG, require details on stock and stock option transactions by the members of the Board of Directors to be provided in the notes. In accordance with section 15 of the WpHG, purchases and sales by members of the Board of Directors must be reported if they exceed a yearly exemption of EUR 5,000. The Company publishes these on its Internet website. No transactions requiring mandatory reporting were executed in the financial year.

No purchases or sales of Baaderbank shares and options by members of the Supervisory Board whose total amount exceeds the yearly exemption of EUR 5,000 were reported to us in the financial year 2005.

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH, headquartered in Munich, Germany. No transactions were conducted between the two companies in the past year.

The equity interest of Mr. Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (1,246,394 shares) and Baader Beteiligungs GmbH (14,052,000 shares). This corresponds to 66.65% of the issued capital of Baader Wertpapierhandelsbank AG. Moreover, the Board of Directors and the Supervisory Board owned less than 1% of the shares issued by Baader Wertpapierhandelsbank AG.

At the balance sheet date, the total amount of credit granted is as follows:

	2005 EUR	2004 EUR
Board of Directors	**87,108.79**	**0.00**
Supervisory Board	**2,277.56**	**0.00**

Loans to 31 December 2005 were provided to members of the Board of Directors in the financial year 2005 with maturity periods of 7 and 8 months respectively and an interest rate of 5%. Loans to 31 December 2005 to members of the Supervisory Board (including credit provided to the employee representatives in the Supervisory Board) were provided in the financial year 2005 with a maturity period 8 months and an interest rate of 5%.

(80) Letter of comfort

Baader Wertpapierhandelsbank AG has assumed responsibility for ensuring that in the period in which Baader Service Bank GmbH (BSB), which was included as a wholly owned subsidiary in the consolidated financial statements, is named and acts as a portfolio manager for Citigroup Investment Deutschland Kapitalanlagegesellschaft mbH (CID), is managed suitably and has the financial standing to handle its liabilities from the contractual relationship between CID and BSB punctually and for claims arising from unauthorised conduct by BSB in relation to CID. The liability of Baader Wertpapierhandelsbank AG is hereby limited to an amount of EUR 10 million.

(81) Corporate Governance Code

The company's Declaration of Compliance, in accordance with section 161 of the *Aktiengesetz* (AktG - German Stock Companies Law) and section 285 no. 16 of the *Handelsgesetzbuch* (HGB - German Commercial Code) were issued by the Board of Directors and the Supervisory Board in December of 2005 and made permanently available to shareholders. This took place by means of the publication of the Declaration of Compliance on the company's Internet website on 2 December 2005 and publication in the *Bundesanzeiger* (German Federal Gazette) on 12 December 2005.

(82) Executive bodies of Baader Wertpapierhandelsbank AG

Board of Directors

Mr. Uto Baader, Munich

Chairman of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Managing Director of Baader Beteiligungs GmbH, Munich
Member of the Supervisory Board of Baader Management AG, Unterschleissheim
Member of the Supervisory Board of Smart.IPO AG, Munich (to 30 June 2005)
Member of the Administrative Board of Medi-Globe Corp., Tempe AZ, USA
Member of the Supervisory Board of Bayerische Börse AG, Munich
Chairman of the Stock Exchange Council of Börse München (Munich Stock Exchange), Munich

Mr. Dieter Brichmann, Penzberg

Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Executive of Baader Service Bank GmbH, Unterschleissheim
Member of the Supervisory Board of Baader Management AG, Unterschleissheim

Mr. Stefan Hock, Munich

Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Member of the Supervisory Board of Baader Management AG, Unterschleissheim
Member of the Supervisory Board of Mox Telecom AG, Ratingen
Member of the Supervisory Board of e-m-s new media AG, Dortmund

Mr. Dieter Silmen, Baldham

Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Member of the Stock Exchange Council of Börse Stuttgart (Stuttgart Stock Exchange), Stuttgart
Member of Stock Exchange Council of Börse Berlin-Bremen (Berlin-Bremen Stock Exchange), Berlin
Chairman of the OTC Committee of Börse München (Munich Stock Exchange), Munich

Supervisory Board

Dr Horst Schiessl, Munich

Age: 63 years
Profession: Lawyer
Member of the Supervisory Board since: 26 February 1999

Chairman of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Chairman of the Supervisory Board of Softing AG, Haar near Munich
Vice Chairman of the Supervisory Board of SPAG St. Petersburg Immobilien und Beteiligungs AG, Darmstadt
Member of the Supervisory Board of Dussmann AG & Co. KGaA, Berlin
Chairman of the Advisory Committee of Trion Pharma GmbH, Munich

Dr Christoph Niemann, Meerbusch

Age: 69 years
Profession: Banker
Member of the Supervisory Board since: 10 July 2002

Vice Chairman of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
Member of the Supervisory Board of HSBC Trinkaus & Burkhard KGaA, Duesseldorf
Member of the Supervisory Board of Hannoversche Lebensversicherung AG, Hanover (to 6 July 2005)
Member of the Board MASAI, Paris, France (to April 2005)

Dr Norbert Juchem, Munich

Age: 53 years
Profession: Management Consultant
Member of the Supervisory Board since: 15 July 2003

Mr. Helmut Schreyer, Munich

Age: 64 years
Profession: Banker
Member of the Supervisory Board since: 14 July 2004

Chairman (since May of 2005) of the Administrative Board of Oldenbourg GmbH & Co. KG, Munich
Member of the Supervisory Board of Fides Secur Versicherungsmakler GmbH, Munich (to November 2005)
Member of the Supervisory Board of Reichmuth & Co. Integrale Vermögensverwaltung AG, Munich
President of Afra Holdings Ltd., Toronto, Canada
President of Herma Holdings S.C. Inc., Toronto, Canada
President of Boston Gardens GP Inc., Boston MA, USA

Mr. Rainer Merklinghaus, Vaterstetten

Age: 43 years
Profession: Manager of Operating Organisation / Human Resources
Member of the Supervisory Board since: 21 May 2003 (employee representative)

Mr. Thomas Wiegelmann, Sulzbach / Taunus

Age: 39 years
Profession: Project Manager
Member of the Supervisory Board since: 26 June 1998 (employee representative)

(83) Group shareholding

Name / domicile	Equity share in %	Last annual financial statements	Equity (total)	Net profit of the previous financial year
Baader Management AG, Unterschleissheim	**100.00**	**31 Dec. 2005**	**EUR 48,686.34**	**EUR -363.83**
Baader Service Bank GmbH,	**100.00**	**31 Dec. 2005**	**EUR 5,577,455.22**	**EUR 65,112.72**
Heins & Seitz Capital Management GmbH	**70.00**	**31 Dec. 2005**	**EUR 443,461.02**	**EUR 54,932.48**
SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt *)	**35.98**	**31 Dec. 2004**	**EUR 34,005,649.36**	**EUR -2,286.05**
Conservative Concept Portfolio Management GmbH, Bad Homburg	**19.96**	**31 Dec. 2004**	**EUR 236,942.95**	**EUR -24,351.36**
KST Beteiligungs AG, Stuttgart	**18.29**	**31 Dec. 2004**	**EUR 15,538,098.79**	**EUR 1,022,987.56**
U.C.A. AG, Munich	**12.84**	**31 Dec. 2004**	**EUR 25,611,670.30**	**EUR -565,139.19**
Ben Bavarian Equity Network GmbH, Munich	**16.67**	**31 Dec. 2003**	**EUR 78,802.98**	**EUR -6,619.99**
Stillking Film Group N.V., Amsterdam [2])	**5.96**	**31 Dec. 2003**	**EUR 6,038,470.01**	**EUR 2,059,320.17**
Brain International AG, Breisach	**9.09**			**insolvent**

Company information based on attested / published single-entity financial statements

*) Companies included in the consolidated financial statements
[1]) Abbreviated financial year 11-12/2005
[2]) The shareholder's equity and the consolidated financial statements of the previous financial year were translated (EUR/USD 1.3621)

Unterschleissheim, Germany 17 February 2006
Baader Wertpapierhandelsbank AG

The Board of Directors

Uto Baader Dieter Brichmann Stefan Hock Dieter Silmen

Auditors' report

We audited the consolidated financial statements – comprising the balance sheet, the income statement, the statements of changes in equity and cash flows, and the notes to the financial statements – as well as the Group management report, of **Baader Wertpapierhandelsbank AG, Unterschleissheim,** for the financial year 1 January to 31 December 2005. The preparation of the consolidated financial statements and Group management report in accordance with the IFRS as they are to be applied within the EU, and the supplementary accounting regulations in accordance with section 315a (1) of the HGB, are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and in adherence to the German accounting standards determined by the Institut der Wirtschaftsprüfer (IDW), as well as in further accordance with the International Standards on Auditing (ISA). These standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether there are misstatements and violations which could have a material effect on the presentation of the consolidated financial statements in accordance with the applicable accounting standards and on the reported situation in regard to the net assets, financial position and result of operations. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectivity of the accounting-based system of internal controls as well as the evidence supporting the amounts and disclosures in the consolidated financial statements and Group management report are examined primarily on a test basis within the framework of the audit. The audit involves assessing the annual financial statements of those companies encompassed by them, the delimitation of the consolidated companies, the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonably sound basis for our opinion.

Our audit provided no grounds for objections.

In our opinion, based on the insights gained through the audit, the consolidated financial statements adhere to the IFRS as they are to be applied within the EU, and the supplementary accounting regulations in accordance with section 315a (1) of the HGB, and in accordance with these standards give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group. The Group management report is in agreement with the consolidated financial statements, portrays overall an accurate representation of the situation of the Group and accurately reports the opportunities and risks of future developments.

Bremen, 9 March 2006

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Signed Clostermann	Signed Lamm
Auditor	Auditor

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