



**CONSOLIDATED FINANCIAL STATEMENTS 2006
BAADER WERTPAPIERHANDELSBANK AG**

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Group Management Report

1. Business and framework conditions

The market

Despite a marked correction in spring, European stock markets performed very well until the end of 2006. As was the case in the previous year, the German DAX outperformed the European leading index, the DJ Stoxx 50, with growth of 22% compared with 14%. The MDAX, SDAX and TecDAX rose by between 25% and 31%, while the REX Performance Index (German government bonds) trended downwards losing 3 percentage points.

By comparison, the Dow Jones Industrial Average, when adjusted for movements in exchange rates, only gained 4%. The OTC market, the NASDAQ, closed 4% down on the year while the NIKKEI-225 lost 5% in last year's trading.

Within the BRIC countries, the Chinese Shenzhen Se B Share index was one of the top performers, gaining 98%, when adjusted for movements in exchange rates. The Russian RTS put on 53%, while Brazil and India each gained 30%.

Total trading volume on German stock exchanges increased to more than EUR 5 trillion, an increase of 32% on the previous year (2005: EUR 3.8 trillion). EUR 4.6 trillion was attributable to shares, warrants and exchange traded funds and EUR 460 billion was attributable to bonds (source: Deutsche Börse).

In international terms, however, Germans continue to place little faith in shares. According to information from the Deutsche Aktieninstitut, some 10.3 million German citizens had money invested shares or equity funds last year. This equates to 15.8% of the population, which is 1% fewer than in 2005.

75 newcomers issued shares to raise capital when they went public. The majority of newcomers to the stock exchange (107) only had their shares listed. A total issue volume of EUR 6.2 billion was placed.

Baader Wertpapierhandelsbank AG's market position

Baader Wertpapierhandelsbank AG used the positive sentiment on capital markets to develop new growth regions within the framework of its core business areas and to adopt a more international focus.

Baader Wertpapierhandelsbank AG took this step abroad with a stake in an Indian financial services provider, Parsoli Corporation Ltd. in Mumbai. Within the year Baader Wertpapierhandelsbank AG increased its stake from 9.08% to 24.9%. Parsoli Corporation Ltd. in Mumbai, India, is licensed by the Indian Central Bank (RBI) and the Capital Market Supervisory Authority (SEBI) among others as a financial services provider. It is a member of the National Stock Exchange of India, its associated derivatives exchange and the Bombay Stock Exchange.

To expand the Alternative Investment Strategies business area, which it opened in 2005, Baader Wertpapierhandelsbank AG increased its stake in the Conservative Concept Group (CCPM), Bad Homburg, from 19.96% to 49.96%. CCPM has concentrated on designing and implementing alternative investment strategies and specialises in the use of futures and options in the form of single hedge funds, managed accounts and certificates. CCPM now manages assets totalling EUR 132 million (previous year: EUR 53 million).

The 70% subsidiary Heins & Seitz Capital Management GmbH was converted into Baader Heins & Seitz Capital Management AG with effect from 18 July 2006 to show more clearly that it is part of the Group. Baader Heins & Seitz Capital Management AG specialises in trading fixed interest instruments, particularly borrower's note loans and subordinated loans and has started trading on the money market this year.

In its institutional brokerage business involving bonds, the product range was expanded to include borrower's note loans from the public sector and banks, registered securities issued by mortgage banks and public sector banks, savings bank certificates, Pfandbriefe (German covered bonds) and bank bearer debt securities, financial and corporate bonds, floating rate notes, derivative and structured interest rate products, securities recognised directly in equity and term money.

The introduction of the new EU directive MiFID (Markets in Financial Instruments Directive) in 2007 is expected to have a positive impact on Baaderbank's business development. A separate division anchored at the Board of Directors level has been created in MiFIS, which is a 'first' for the entire sector, to ensure Baaderbank's customers and partners are optimally positioned both nationally and internationally when the EU directive is implemented. This is why Mr Christopher Schütz was appointed as a new member of the Board of Directors of Baader Wertpapierhandelsbank AG on 1 October 2006.

The Bank managed a total of 120,579 order books on the balance sheet date of 31 December 2006. This is double the figure at the year-end 2005. 10,128 order books related to equities, 101,705 to warrants, certificates and ETFs, 7,917 to bonds and profit participation certificates and 829 to funds. These were taken over on the Munich stock exchange in the course of the move into funds trading.

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%. Baader Wertpapierhandelsbank AG operates solely as a market maker for foreign equities on the Stuttgart stock exchange. Its market share in this segment amounts to 100%.

In financial year 2006, Baader Wertpapierhandelsbank AG accompanied 31 capital measures with a total volume of approximately EUR 153 million. This included 6 IPOs, ecotel communication AG, Impreglon AG, ENDOR AG, artec technologies AG, aovo Touristik AG and InterCard AG Informationssysteme.

Among other things, the ordinary General Meeting on 19 July 2006 resolved to increase the Company's share capital from corporate funds by EUR 22,954,341.00 from EUR 22,954,341.00 to EUR 45,908,682.00 by converting part of the capital reserve amounting to EUR 22,954,341.00. The new shares will be entitled to a share in the profits from the beginning of financial year 2006.

Baader Wertpapierhandelsbank AG's equity improved again in 2006 to EUR 152,626 thousand, thus providing a sound basis for further growth.

To summarise, it can be said that Baader Wertpapierhandelsbank AG can be optimistic that it will be both stable and profitable in future thanks to its focus on its core business, the diversification of its product range in its domestic market and the course it has set to realise attractive opportunities for growth abroad.

Subsidiaries and associates

As in financial year 2005, the 100% interests in Baader Management AG and Baader Service Bank GmbH and the 70% interest in Baader Heins & Seitz Capital Management AG were fully consolidated in the consolidated financial statements of Baader Wertpapierhandelsbank AG.

With the increase of 30% to 49.96% of the shares in Conservative Concept Portfolio Management AG (CCPM), Bad Homburg and the conclusion of a voting agreement with two other shareholders in CCPM, the company and its subsidiaries Direcct AG, Bad Homburg (98.43%) and Conservative Concept AG, Zug (99.99%) have been fully consolidated in the consolidated financial statements since 1 October 2006.

As associates, the investment in SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt (39.81%), the investment in Parsoli Corporation Ltd., Mumbai, India (24.90%) and the fund shares in the Herald Europe-CI (21.40%), Globe CC AMI (44.94%) and CONQUEST BFA AMI (21.26%) funds held by Baader Wertpapierhandelsbank AG and Baader Service Bank GmbH were included in the consolidated financial statements using the equity method in accordance with IAS 28.

2. Earnings

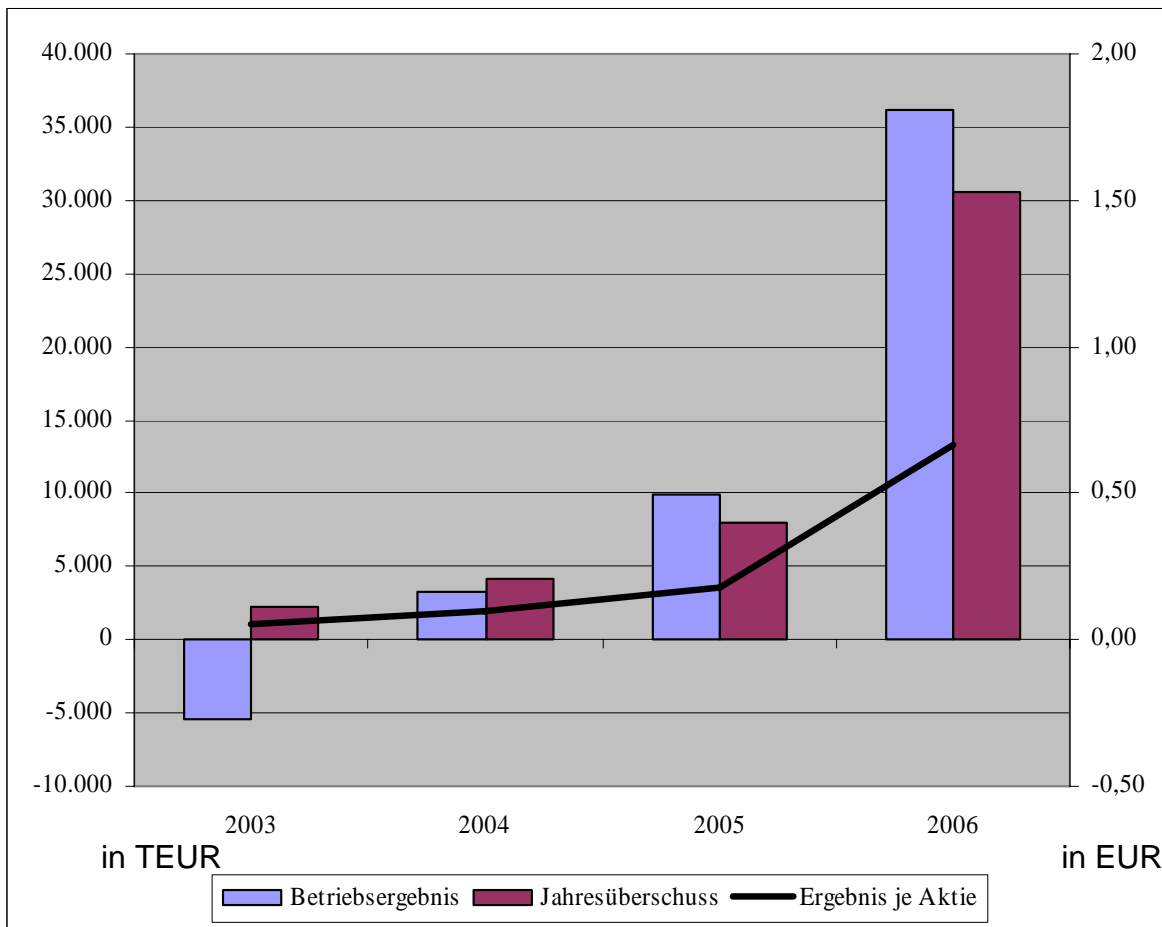
The following overview comprises the main elements of the income statements for 2006 and 2005, together with the respective changes.

	2006	2005	Change	
	EUR thousand	EUR thousand	EUR thousand	%
Net interest expense	551	-481	1,032	n.a.
Allowance for losses on loans and advances	-62	-2	-60	n.a.
Net fee and commission income	36,846	24,387	12,459	51.1
Net trading income	49,721	34,891	14,830	42.5
Net income from available-for-sale financial instruments and equity-accounted investments	12,254	1,550	10,704	690.6
Administrative expenses	63,157	50,412	12,745	25.3
Profit from operations	36,153	9,933	26,220	264.0
Other income and expenses, net	-10,636	1,215	-11,851	n.a.
Profit from ordinary activities	25,517	11,148	14,369	128.9
Tax income/expense	5,136	-3,146	8,282	n.a.
Net profit for the period before minority interest	30,652	8,002	22,650	283.0

The upward trend on stock markets that had been apparent in 2005 continued in 2006. The benign sentiment on capital markets had a positive impact on the earnings of Baader Wertpapierhandelsbank AG, which generated the highest net profit in financial year 2006 since financial year 2000. As a result of the Group's strengthened competitive position, revenue increased on all stock exchanges and the profit from operations more than trebled by EUR 26,220 thousand. Despite a negative value for other income and expenses, a profit from ordinary activities that was EUR 14,369 thousand, or 128.9%, up on the previous year was achieved. Following a positive tax result as a consequence of capitalising corporation tax credits, the Group posted a net profit for the year before minority interests of EUR 30,652 thousand. Compared with the previous year, this corresponds to an increase of 283.0%. 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 and developing and expanding new areas of business.

Overall, the result of financial year 2006 exceeded expectations.

Figure: 4-year comparison of partial profit from operations/net profit for the year/earnings per share



The net interest income of EUR 551 thousand is primarily due to the deposit business of the subsidiary Baader Service Bank GmbH and the reduction in interest expense from refinancing the administration building in Unterschleißheim.

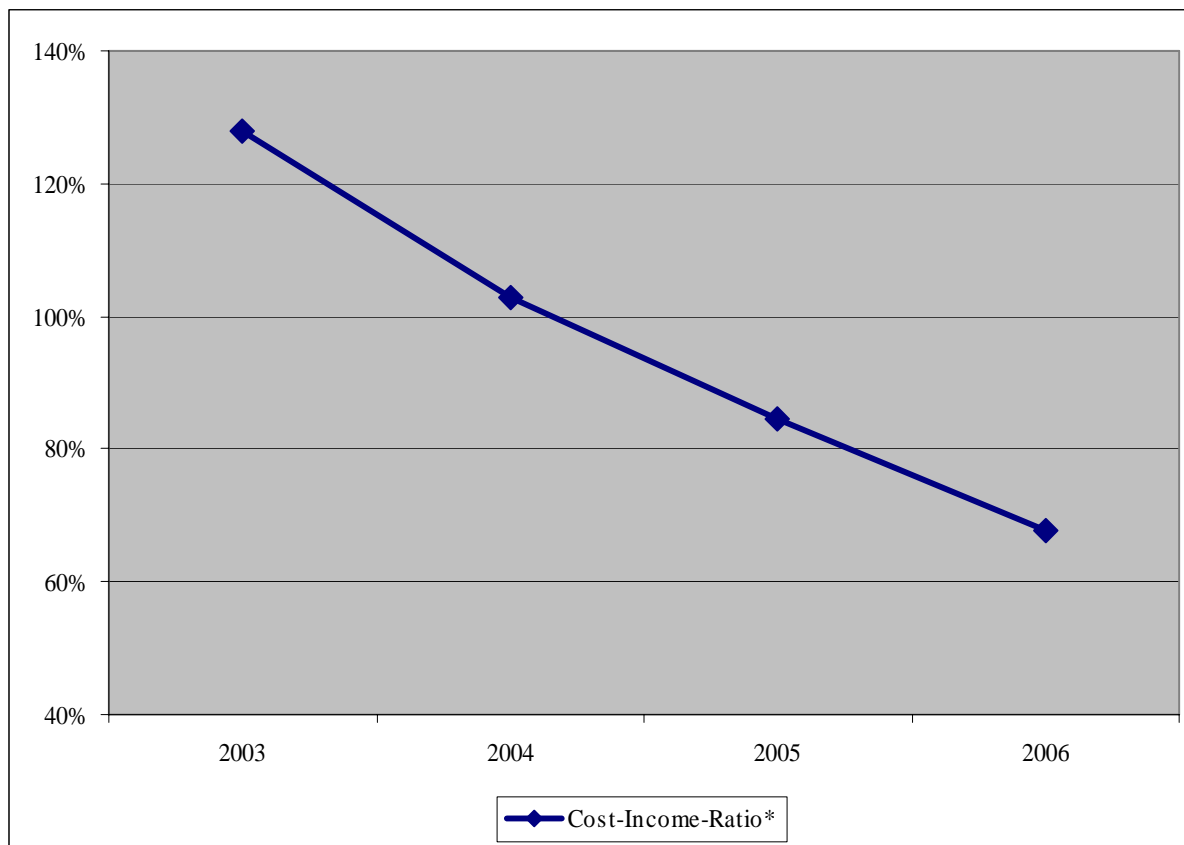
The positive growth in net fee and commission income from EUR 24,387 thousand to EUR 36,846 thousand is pleasing. This equates to an increase on the previous year of 51.1%. All the business segments contributed to this improvement in income. Specialist Activities and Proprietary Trading should be mentioned particularly in this connection with an increase of EUR 10,405 thousand as well as the new Financial Portfolio Management division with an increase of EUR 1,675 thousand.

Despite falling trading margins, net trading income increased 42.5% year-on-year to EUR 49,721 thousand which was primarily due to the increase in market share and the increase in trading volumes.

The growth in net income from available-for-sale financial instruments and equity-accounted investments was particularly pleasing. Income of EUR 5,458 thousand from the disposal of securities held in the banking book is reported in net income from available-for-sale financial instruments. Other income components such as interest and dividends stand at EUR 549 thousand. EUR 6,248 thousand is attributable to equity-accounted investments.

The substantial improvement in net income was accompanied by an increase in administrative expenses. These rose by 25.3% year-on-year to EUR 63,157 thousand, which is far less than the growth in net income.

Figure: 4-year comparison of the cost-income ratio



* Without taking account of the allowance for losses on loans and advances and net income from available-for-sale financial instruments

With regard to administrative expenses, EUR 37,700 thousand is attributable to staff costs (previous year: EUR 27,118 thousand), EUR 18,713 thousand to other administrative expenses (previous year: EUR 16,151 thousand) and EUR 6,744 thousand to amortisation of intangible assets and depreciation of property and equipment (previous year: EUR 7,143 thousand).

Of the increase in staff costs of EUR 10,582 thousand, EUR 6,902 thousand is 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 2,042 thousand and expenses of EUR 12,678 thousand. The income component comprises EUR 99 thousand in prior-period income; EUR 267 thousand in rental income, EUR 178 thousand income from sponsoring and EUR 1,186 thousand in income from compensation for non-monetary benefits from the private use of company cars and the granting of stock options. Other expenses relate primarily to the creation of a provision of EUR 12,078 thousand for a possible claim by the EdW in connection with satisfying investors who lost money as a result of the collapse of Phoenix Kapitalgesellschaft GmbH. The risk report contains a detailed presentation of the facts of the case.

As a result of the Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften (SEStEG – German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules) the existing system of reducing corporation tax was replaced by a proportional disbursement of corporation tax credits. This has led to the present value of the corporation tax credit amounting to EUR 11,608 thousand being capitalised and consequently to a positive figure for tax. Further information on income taxes is provided in the notes.

3. Net assets

The overview below illustrates the main items on the balance sheet for financial year 2006 compared with the previous year.

Assets	2006 EUR thousand	2005 EUR thousand	EUR thousand	Change %
Cash reserve	485	2,586	-2,101	-81.2
Loans and advances to banks	63,439	24,057	39,382	163.7
Loans and advances to customers	13,057	2,916	10,141	347.8
Allowance for losses on loans and advances	-110	-23	-87	378.3
Assets held for trading	49,013	34,040	14,973	44.0
Available-for-sale financial instruments				
a) Shares and equity investments	19,299	26,091	-6,792	-26.0
b) Bonds and debt securities	3,969	3,650	319	8.7
Equity-accounted investments	11,789	13,817	-2,028	-14.7
Land and buildings	20,069	20,832	-763	-3.7
Other property and equipment	1,429	1,645	-216	-13.1
Intangible assets and goodwill	21,572	21,611	-39	-0.2
Income tax assets	11,627	126	11,501	9,127.8
Other assets	6,375	5,168	1,207	23.4
Deferred tax assets	25,576	27,948	-2,372	-8.5
Total assets	247,589	184,464	63,125	34.2
Liabilities and equity				
Deposits from other banks	26,444	21,144	5,300	25.1
Due to customers	31,999	16,911	15,088	89.2
Liabilities held for trading	35	0	35	100.0
Provisions	19,457	6,944	12,513	180.2
Provisions for taxes	1,641	341	1,300	381.2
Other liabilities and provisions	11,550	8,281	3,269	39.5
Deferred tax liabilities	3,837	3,753	84	2.2
Equity	152,626	127,090	25,536	20.1
Total liabilities and equity	247,589	184,464	63,125	34.2

Total assets rose by EUR 63,125 thousand or 34.2% to EUR 247,589 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.

The item due from customers includes EUR 10,143 thousand due from SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt (SPAG) from the agreed capital repayment of EUR 98.00 per share.

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

Available-for-sale financial instruments primarily consist of shares totalling EUR 14,119 thousand, equity investments of EUR 5,180 thousand, as well as bonds and debt securities totalling EUR 3,969 thousand. The sale of shares in KST Beteiligungs AG in the course of the financial year reduced the portfolio of shares by EUR 5,706 thousand. The acquisition of additional shares in Conservative Concept Portfolio Management AG led to the company being fully consolidated in the Group and consequently reduced the previous year's figure for equity investments of EUR 999 thousand.

Equity-accounted investments relate to the investments in SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt, Parsoli Corporation Ltd., Mumbai, and fund shares in the Herald Europe-CI, Globe CC AMI funds as well as in Conquest Behavioral Finance Aktien AMI. The acquisition of shares in Parsoli Corporation Limited, Mumbai, for a consideration of EUR 2,515 thousand led to an increase in the item for equity-accounted investments. At the same time, the transfer of part of the book value of the SPAG equity investment amounting to EUR 3,450 thousand to "due from customers" led to a reduction in this item.

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

The change in intangible assets and goodwill is caused by scheduled amortisation and the capitalisation of CCPM's trading strategies as acquired intangible assets from the Group's viewpoint.

In essence, the income tax claims are the result of capitalising the present value of the corporation tax credits in the Group amounting to EUR 11,608 thousand.

Receivables from fees and commission and price differences account for EUR 3,127 thousand and insurance claims to cover pension provisions account for EUR 2,117 thousand of the other assets item.

Deposits from other banks comprise long-term loans of EUR 13,021 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. With an equity ratio of 61.8%, the Company has competitive capital resources, which will ensure further growth.

4. Financial position

The Group's liquidity was secured at all times during the period under review. At the balance sheet date, cash reserves of EUR 485 thousand, short-term loans and advances to other banks of EUR 63,439 thousand, amounts due from customers of EUR 12,946 thousand as well as available-for-sale assets held for trading and bonds and debt securities of EUR 52,982 thousand offset current liabilities to other banks and customers as well as payment obligations relating to the acquisition of shares and capital increases of EUR 46,058 thousand. This results in a net balance-sheet liquidity surplus of EUR 83,794 thousand (previous year: EUR 47,578 thousand).

5. Supplemental report

There are no key events to be reported after the balance sheet date.

6. Declaration in accordance with section 312 of the AktG

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”.

7. Non-financial performance indicators

Employees

In the year under review, the number of staff employed by the Group at the balance sheet date rose slightly from 225 to 266 year-on-year. The Group's workforce comprises 70 female employees and 196 male employees who come from 12 countries.

Baader Wertpapierhandelsbank AG places particular emphasis on the high level of qualifications and further education of its employees. In 2006, 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 grants all employees voluntary financial support of EUR 10,000 upon the birth of an own child. In 2006, a total of EUR 110,000 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.

8. Branch report

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

9. Compensation report pursuant to section 289 (1) no. 5 of the Handelsgesetzbuch (HGB – German Commercial Code)

This compensation report explains the principles for setting the compensation of the Board of Directors and the Supervisory Board of Baader Wertpapierhandelsbank AG as well as the amounts involved and how they are structured. Furthermore, information is provided on the shares and stock options held by members of the Supervisory Board and Board of Directors and on transactions involving shares in Baader Wertpapierhandelsbank AG.

The General Meeting of Baader Wertpapierhandelsbank AG resolved as follows on 19 July 2006: "There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 HGB and section 314 I no. 6 lit. a clauses 5 to 9 HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements." As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the Aktiengesetz (AktG – German Public Companies Act).

Compensation of the Board of Directors

The Supervisory Board is responsible for setting the Board of Directors' compensation. When setting the compensation, account is taken of the size and activities of the Company, its financial and economic position and the levels of compensation plus the way in which they are structured at

comparable companies. In addition, the responsibilities and contribution of the respective member of the Board of Directors is taken into consideration.

The compensation of the Board of Directors is performance related; in financial year 2006 it was made up of four components: a fixed payment irrespective of achievement (salary), a performance related payment (bonus), a component offering long-term incentive (stock options) as well as a pension commitment (for two members of the Board of Directors).

The payment that is irrespective of achievement is paid monthly as salary.

The amount of the bonus is based on the Group's profit from ordinary activities. It amounts to between 0.35% and 1.05% of the profit from ordinary activities for individual members of the Board of Directors. It is paid once the overall result for the year has been approved by the General Meeting. In addition to the bonus, there is the opportunity for individual members of the Board of Directors to be granted a special bonus for exceptional achievements.

The share based payment is effected through the issue of stock options in accordance with the conditions of the stock option plans approved by the General Meeting.

There are pension commitments for two members of the Board of Directors, for whom the amount of the pension benefit depends on age, length of service and salary. The old age pension will be paid if the member of the Board of Directors leaves after reaching retirement age. It is limited to a maximum of 60% of the fixed salary which the respective member of the Board of Directors received for the final calendar year before leaving the Company.

In the event of the employment relationship being terminated prematurely, the Board of Directors' contracts do not contain any explicit compensation commitment. However, compensation may be paid under an individual severance agreement.

In the event of a change of control, individual members of the Board of Directors are not entitled to cancel their contracts of employment and, correspondingly, they are not entitled to compensation.

In financial year 2006, the Board of Directors as a whole received the following compensation according to the accrual principle:

					2006	2005
Payment irrespective of achievement		Allocation to pension provision	Performance related pay	Components offering long-term incentive		
Salary	Other ¹⁾	Pension commitment ²⁾	Bonus	Stock options ³⁾	Total	Total
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,472,587.00	115,907.07	1,123,365.53	257,983.24	74,812.50	3,044,655.34	2,019,477.58

- 1) The compensation components listed in the "other" column mainly comprise cash value benefits from the provision of company cars, insurance subsidies and the consumption of subsidised meals in the staff restaurant.
- 2) The pension obligations (DBO) according to IAS/IFRS for active members of the Board of Directors amount to EUR 7,846,769.00 (previous year: EUR 6,879 thousand). There is a pension obligation of EUR 228,572.00 (previous year: EUR 218,000) for former members of the Board of Directors.
- 3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 0.9975 per share (previous year: EUR 0.43 per share).

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2006 in their present form, this will result in a bonus totalling EUR 644,287.93 for financial year 2006.

A total of 75,000 stock options were issued to the Board of Directors in financial year 2006. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2005.

For financial year *)	2005	2004	2003	2002	2001	2000	Total
Granted options	75,000	75,000	103,000	170,000	172,000	83,804	678,804
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	19,000	58,000	37,714	114,714
Exercised options	0	0	43,000	137,000	84,000	15,240	279,240
Outstanding options	75,000	75,000	60,000	14,000	30,000	30,850	284,850
Exercisable options	0	0	60,000	14,000	30,000	30,850	134,850
Residual term in months	77	65	53	40	28	16	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

Under section 15a of the Wertpapierhandelsgesetz (WpHG – Securities Trading Act), purchases and sales of Baader shares by members of the Board of Directors have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, a total of 1 purchase (3,000 shares with a nominal value of EUR 14,100.00) and 1 sale (8,800 shares with a nominal value of EUR 50,737.30) were reported.

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH, Munich. 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 (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). In addition, Mr Uto Baader holds 137,512 shares privately. In total Mr Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. As at 31 December 2006, members of the Board of Directors held a total of 30,860,968 shares in Baader Wertpapierhandelsbank AG.

As at 31 December 2006, there are loans to members of the Board of Directors totalling EUR 113,813.63 (previous year: EUR 87,108.79). The loans have an interest rate of 5.0% and maturity periods between 6 and 8 months.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Members of the Board of Directors require the consent of the Supervisory Board before they can accept secondary employment including the acceptance of Supervisory Board mandates for Group companies. This ensures that neither the time spent nor the compensation granted for this purpose leads to a conflict with their tasks for the Company.

If the secondary employment entails Supervisory Boards mandates or mandates for comparable controlling bodies, these are listed in the notes and published on the Internet.

Compensation of the Supervisory Board

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 receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The fixed compensation is paid in the final month of the financial year. The variable compensation is payable after the ordinary General Meeting that resolves on utilisation of the unappropriated surplus for the relevant financial year.

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives in the Supervisory Board receive stock options under the conditions of the stock option plans approved by the General Meeting, these benefits are the result of their position as employees of Baader Wertpapierhandelsbank AG and are independent of their work for the Supervisory Board.

For financial year 2006, the Supervisory Board received the following compensation according to the accrual principle:

		2006	2005
Fixed component	Variable component	Total	Total
EUR	EUR	EUR	EUR
174,000.00	87,290.93	261,290.93	217,291.50

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2006 in the present form, this will result in a variable compensation for financial year 2006 totalling EUR 204,828.75.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 2,400 stock options in financial year 2006. ⁽¹⁾ The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2005.

For financial year *)	2005	2004	2003	2002	2001	2000	Total
Granted options	2,440	2,640	2,800	4,000	5,200	1,590	18,670
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0		0
Exercised options	0	0	0	4,000	5,200	0	9,200
Outstanding options	2,440	2,640	2,800	0	0	1,590	9,470
Exercisable options	0	0	2,800	0	0	1,590	4,390
Residual term in months	77	65	53	40	28	16	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

(1)

The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2005, amounts to EUR 2,433.90 (previous year: EUR 1,135.20). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 0.9975 per share (previous year: EUR 0.43 per share).

Under section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year no purchases or sales by members of the Supervisory Board were reported.

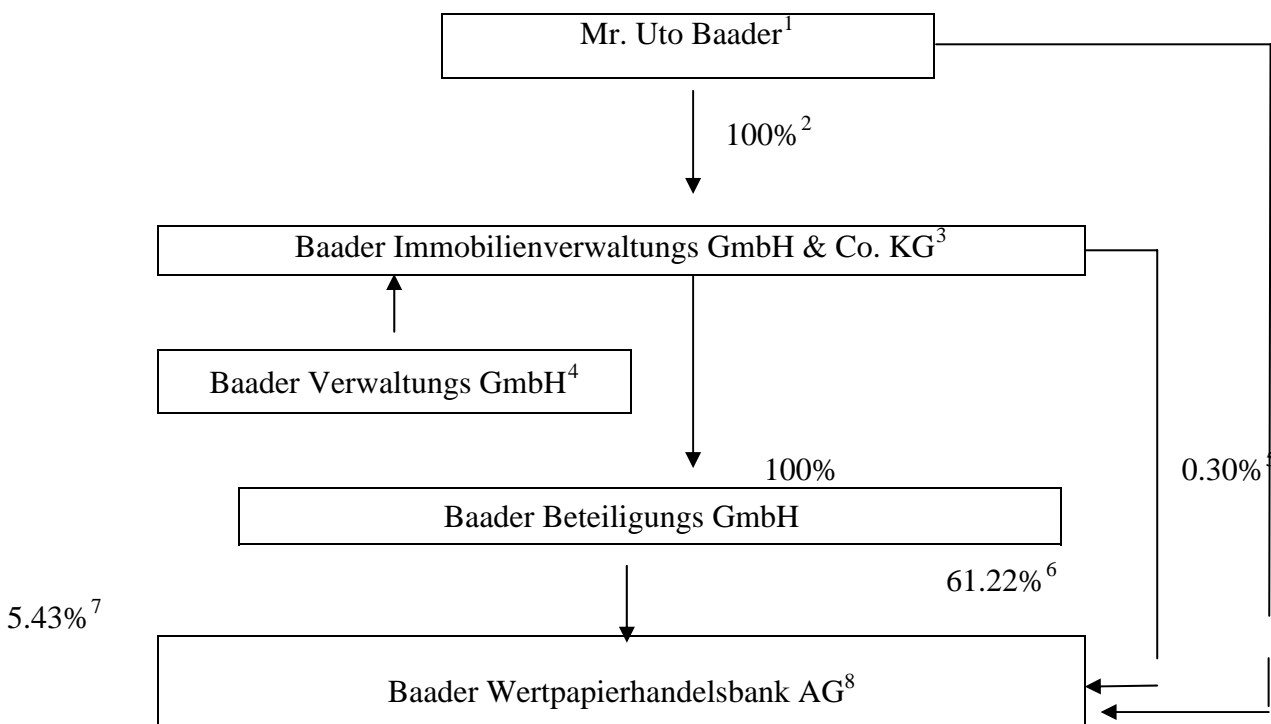
As at 31 December 2006, no Supervisory Board member owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2006, the members of the Supervisory Board held a total of 13,200 shares in Baader Wertpapierhandelsbank AG.

As at 31 December 2006, there are loans to members of the Supervisory Board totalling EUR 32,945.76 (previous year: EUR 2,277.00). The loans have an interest rate of 5.0% and maturity periods between 2 and 5 months.

The Company maintains a D&O policy. It is concluded for one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Supervisory Board for losses incurred in carrying out their work. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

10. Capital report pursuant to section 289 (4) of the HGB

1. As at 31 December 2006, the issued capital (share capital) amounted to EUR 45,908,682.00 and was divided into 45,908,682 no-par value bearer shares in accordance with section 23 (3) no. 5 of the AktG (unit shares in accordance with section 23 (3) no. 4 of the AktG). There are no other classes of shares.
2. The Board of Directors is not aware of any restrictions relating to voting rights or the transfer of shares.
3. There are the following direct or indirect stakes in the capital, which exceed 10% of the voting rights:



4. No shares with special rights have been issued.
5. There is no control over voting rights in the sense of section 289 (4) no. 5 of the HGB. The Company is not aware of any voting agreements between employee-shareholders either.
6. The statutory provisions on the appointment and dismissal of members of the Board of Directors and on amending the articles of association can be found in sections 84 and 85 of the AktG and sections 33 and 179 of the AktG. There are no differing provisions contained in the articles of association.

¹ In total 66.95% of the voting rights in Baader Wertpapierhandelsbank AG are attributable to Mr Uto Baader.

(Mr Uto Baader and Mrs Hanne Baader hold 137,512 shares in their joint custodian account (as at: 1 July))

² Mr Uto Baader is the sole limited partner in Baader Immobilienverwaltungs GmbH & Co. KG.

³ Baader Beratungs GmbH & Co. KG was merged with Baader Immobilienverwaltungs GmbH & Co. KG on 1 September 2006.

⁴ Baader Verwaltungs GmbH is the personally liable shareholder in Baader Immobilienverwaltungs GmbH & Co. KG.

Mr Uto Baader holds 100% of the shares in Baader Verwaltungs GmbH.

⁵ Exercise of 20,000 stock options (0.09%) as per the tranche of 3 May 2002 at EUR 4.28 per share (as at: 11 April).

Exercise of 22,000 stock options (0.09%) as per the tranche of 25 April 2003 at EUR 2.24 per share (as at: 11 May).

Exercise of 7,620 stock options (0.03%) as per the tranche of 9 May 2001 at EUR 10.60 per share (as at 2 June).

Exercise of 3,436 stock options (0.02%) by Mrs Hanne Baader (joint custodian account with Uto Baader; as at 6 June)

Exercise of 31,400 stock options (0.07%) by Mr Uto Baader (30,000) and Mrs Hanne Baader (1,400); (as at 11 June)

⁶ Baader Beteiligungs GmbH holds 28,104,000 shares in Baader Wertpapierhandelsbank AG (as at: 1 July).

⁷ Capital increase against contributions in kind of nominal 2,492,788 shares (as at 9 January).

⁸ Capital increase from corporate funds from EUR 22,954,341.00 to EUR 45,908,682.00 (as at: 8 June).

7. The powers of the Board of Directors to issue and buy back shares are clear from the following resolutions by the General Meeting on 19 July 2006 and 19 June 2005 recorded in the Commercial Register:

a) Capital increases

- aa) The share capital is increased on a contingent basis by up to a nominal EUR 1,200,000.00. This contingent capital increase will only be implemented by issuing up to 1,200,000 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 18 June 1999 exercise their options (Contingent Capital 1999).
- bb) The share capital is increased on a contingent basis by up to a nominal 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 2004 on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).
- cc) The Company's share capital is increased on a contingent basis by up to EUR 20,000,000.00 by issuing up to 20,000,000 new bearer unit shares (Contingent Capital 2005). 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 General Meeting resolution on 29 June 2005 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 stipulated each time. The contingent capital increase is only to be carried out in as much as use will be made of these rights. 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 stipulate the details of the contingent capital increase and its execution.

- dd) The new stock option plan 2006 was resolved in the General Meeting on 19 July 2006 and the Board of Directors was authorised to issue options to a total of 1,600,000 of the Company's shares whereby the option rights can be serviced with contingent capital, own shares or cash settlement. However, the contingent capital originally envisaged and resolved by the General Meeting of 19 July 2006 [on agenda item 7 figure a)] could not be recorded in the Commercial Register because the Company had already exhausted the limits applying to the total amount of its contingent capital. Because of the reduction in the total volume of contingent capital at the next General Meeting there is the option of creating new contingent capital to underpin the options to be issued under the stock option plan 2006.

b) Authorisation to issue options

The Board of Directors is authorised to issue a maximum of 1,600,000 stock options and grant options to a maximum total of up to 1,600,000 shares to beneficiaries in a period

starting at the end of financial year 2006 and expiring on 18 July 2010. For members of the Company's Board of Directors, the responsibility for granting options resides solely with the Supervisory Board.

The following applies to the issue of options as part of the stock option plan 2006:

(1) Beneficiaries and distribution of the options

The beneficiaries consist of members of the Company's Board of Directors and members of the management of companies, which are associated with the Company in the sense of section 18 of the AktG (Group companies), as well as other employees of the Company and its Group companies.

In this connection the options are to be distributed to the four groups of beneficiaries as follows:

- a) Members of the Company's Board of Directors may be granted up to 256,000 options.
- b) Employees of the Company may be granted up to 1,060,000 options.
- c) Members of the management of Group companies may be granted up to 60,000 option rights in total.
- d) Employees of Group companies may be granted up to 224,000 options in total.
- e) Beneficiaries may not be granted multiple options on the grounds that they belong to several groups that are entitled to options. Members of the Company's Board of Directors and members of the management or Board of Directors of Group companies will only be granted options in their capacity as such.

(2) Options

Each stock option entitles the holder to purchase a bearer share in the Company with a share in the Company's share capital of EUR 1.00 each in return for payment of the exercise price as per para. (4). The new shares will be entitled to profit sharing from the beginning of the financial year in which they were issued. The subscription and acquisition conditions can provide for the Company granting the beneficiary own shares or a compensatory payment in whole or in part instead of new shares making use of the contingent capital.

(3) Issue of the stock options / term

The Stock Option Plan has a maximum term of four years; this means that stock options cannot be issued under the Company's Stock Option Plan after 18 July 2010. 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 2006.

(4) Exercise price

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 ten 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. The issue period will start on the date on which the beneficiaries were first informed of the concrete offer to purchase stock options.

The subscription and acquisition conditions may provide for adjustments to the exercise price and/or subscription ratio in the event of measures that affect the value of the options. However, in each case the minimum exercise price is the lowest issue amount in the sense of section 9 (1) of the AktG.

(5) Performance targets

The options may only be exercised if

- a) the closing price of shares in Baader Wertpapierhandelsbank AG in floor trading on the Munich Stock Exchange (market closing price) is more than 30% above the exercise price (absolute hurdle) and
- b) on the last ten trading days prior to the options being exercised, the aggregate percentage performance of Baader Wertpapierhandelsbank AG's shares since the option's issue 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 performance targets may not be changed at a later date.

(6) Lock-up period

The options may only be exercised after a lock-up period of two years from their respective issue date. The issue date is the last date on which the beneficiary can accept the concrete offer to acquire stock options.

(7) Exercise period

Once the lock-up period has expired, the stock options may be exercised during the following five years in accordance with para. (3) subject to para. (5), in each case within a four-week period following publication of the Company's quarterly results (Q1, Q2, and Q3) and if the Company has published provisional figures for the past financial year – four weeks after publication of figures of this kind (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.

Despite the existence of the lock-up period, the options may not be exercised in the following periods:

- before the General Meetings of the Company the period between the beginning of the last day for submission of evidence of share ownership (section 123 (3) of the AktG) and the end of the third banking day following the General Meeting;
- in a period of 15 calendar days before the end of the Company's financial year;
- in a period from the day on which the Company publishes an offer to subscribe to new shares or bonds with conversion or option rights in the official organ for publication of a German stock exchange, on which shares in Baader Wertpapierhandelsbank AG's shares are traded, until the end of the date (inclusive in both cases) on which shares in Baader Wertpapierhandelsbank AG are first listed "ex rights" on the stock exchange in question. If individual days or the entire exercise period falls within a blocking period, the days for exercising will be postponed to a corresponding number of days immediately after the end of the lock-up period.

(8) Non-transferability / employment relationship

The options are not transferable but can only be exercised by the beneficiaries. In the event of a beneficiary's death, they may only be inherited by the spouse or children of the beneficiary.

The options may only be exercised if the holder of the options is in an ongoing employment relationship with the Company. Notwithstanding this, options for which the two year lock-up period has already expired at the time the statement giving notice is received (or in cases where the end of the employment relationship is not caused by notice being given – at the time the employment relationship ends) may only be exercised by the holder, taking account of the possible periods, in the next exercise period. These options will lapse with the end of the last possible exercise period if they have not been exercised by this date. Options for which the lock-up period has not yet expired at the time the statement giving notice is received (or in cases where the end of the employment relationship is not caused by the giving of notice – at the time the employment relationship ends) will lapse on this date.

(9) Further subscription and acquisition conditions:

The details relating to the granting of stock options and additional exercise conditions are set by the Supervisory Board if members of the Company's Board of Directors are affected. Otherwise the responsibility for setting these details resides with the Company's Board of Directors. In particular, the details include the selection of individual beneficiaries from the respective group of beneficiaries, the granting of options to individual beneficiaries, the determination of the execution and the procedure for handling the exercise of the options and the issue of the shares, as well as the regulations for dealing with options in special cases.

c) **Buyback of own shares**

- aa) The Company is authorised in accordance with section 71 (1) no. 7 of the AktG to buy and sell own shares for the purposes of securities trading at prices, which do not exceed or fall short of the average closing price for the shares in floor trading on the Frankfurt Stock Exchange on the 3 preceding trading days by more than 10% up to 19 January 2008.

The holdings of own shares acquired for this purpose may not exceed 5% of the Company's share capital.

- bb) The Company is also authorised in accordance with section 71 (1) no. 8 of the AktG to acquire the Company's shares, in particular, to
- be able to offer them to third parties as part of the acquisition of companies or stakes in companies,
 - offer shares for subscription to the beneficiaries under the Stock Option Plans 1999, 2004 and 2006 of Baader Wertpapierhandelsbank AG in accordance with the authorisations granted by the General Meetings on 18 June 1999, 14 July 2004 and 19 July 2006 of Baader Wertpapierhandelsbank AG or
 - withdraw 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 is valid until 19 January 2008.

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 is 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 is authorised, subject to the agreement of the Supervisory Board, to offer the Company's own shares, which were acquired on the basis of this authorisation, to holders of options for acquisition as part of the Stock Option Plan 2006 resolved by the General Meeting on 19 July 2006.

The subscription right of shareholders to these own shares is excluded to the extent that these shares are used in accordance with the above-mentioned authorisations.

The Board of Directors is also authorised, with the approval of the Supervisory Board, to withdraw 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 withdrawal or its implementation. The authorisation to withdraw shares may be exercised in full or in part.

8. There are no material agreements by the Company in accordance with section 289 (4) no. 8 of the HGB.
9. Compensation agreements in the sense of section 289 (4) no. 9 of the HGB have not been reached.

11. Risk report

Risk management

Despite refocusing the Bank's strategic direction over recent years and the increasing diversification of business activities associated therewith, the Group remains largely dependent on the tendencies of the market and the related opportunities and risks. Identifying these opportunities and risks, weighing them and finally taking chances is and remains the foundation of the Bank's daily activities.

As the parent institution, Baader Wertpapierhandelsbank AG is responsible for establishing a risk control system throughout the Group, which complies with the "Mindestanforderungen an das Risikomanagement" (MaRisk – Minimum Requirements for Risk Management) issued by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the Federal Financial Supervisory Authority) that have applied since 20 December 2005. To meet this requirement, the Board of Directors of Baader Wertpapierhandelsbank AG has stipulated both the business strategy, which includes a risk strategy that is consistent therewith, and an internal control process, which contains the rules for structural and process organisation as well as risk management and control processes including organisational guidelines, the assignment of approval powers and responsibilities for all areas affected. The functional and organisational separation of these areas is ensured up to and including the level of the Company's executive management.

While the operational identification, assessment and monitoring of risks in the respective subsidiaries is carried out by the subsidiaries themselves, communication takes place within the framework of the central reporting by the risk control department to the Board of Directors of Baader Wertpapierhandelsbank AG. In addition, the Board of Directors has centrally provided the risk control department of Baader Wertpapierhandelsbank AG with the functional authority to implement the Group-wide risk control system. Risk is managed by those responsible for the respective divisions.

Risk bearing capacity

Against the background of the Group's business activities, it is essential that the various business activities are adequately underpinned with risk capital. In this connection, the risk capital at Group level provides the basis for ensuring the Bank's risk bearing capacity. Building on this risk capital, the risk bearing capacity is then evaluated within the context of the annual planning process on the basis of an analysis of current economic framework conditions in the relevant markets and the market and risk strategy derived here from. The risk capital available is allocated to the individual subsidiaries and they assign it to the individual divisions to manage the risk positions.

Types of risk

The following four types of risk are considered as part of the risk management process:

- 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.

- 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. By contrast, the commodity price risk does not constitute a relevant market price risk in the Group.
- Liquidity risks may occur if the Group cannot fulfil its payment obligations on time because of a lack of financial solvency.
- 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.

The Bank is increasingly exposed to risks to its reputation, which adversely affect public confidence in the Company. Furthermore, the Group is exposed to general business risks resulting from changes in framework conditions, particularly on stock markets.

Credit risks

Within the Group only Baader Service Bank GmbH performs lending business as defined by section 1 (1) no. 2 of the Kreditwesengesetz (KWG – German Banking Act). This guarantees customers a low volume of (non-genuine) loans against collateral in listed securities, the lending value of which is stated very conservatively. Taking account of the collateral, the credit risk is therefore to be classified as very low overall. The following table shows lending exposure as at 31 December 2006:

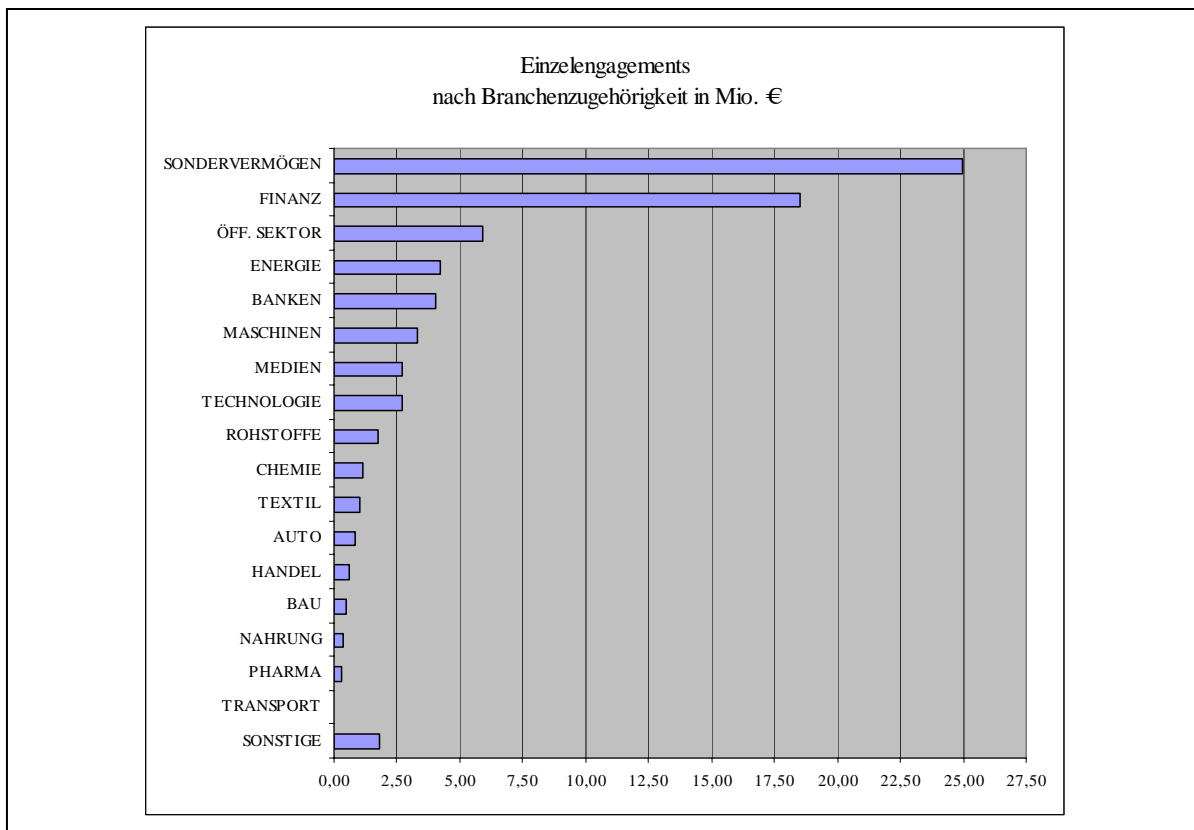
	Loans in EUR m	Contingent liabilities – irrevocable loan commitments in EUR m	90 days or more overdue as % of total exposure
Private customers	0.21	0.73	0.0%
Corporate customers	1.31	1.62	0.0%

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 either external credit ratings or internal credit checks with the corresponding credit decisions.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all obligations. A distinction must be made between the replacement risk in the event of default of a counterparty and the resulting inability to settle transactions that have been concluded on the one hand, and the advance payment risk that can arise from transactions not settled as delivery versus payment (DVP) transactions on the other. As a rule, all of the Bank's security transactions are settled as delivery versus payment transactions and regulated by our settlement banks, so no replacement risks arise in this connection. Furthermore, no derivative positions are held from which a relevant replacement risk would result. Counterparty risks in the sense of an advance payment risk may only occur in arranging borrower's note loans, since payment and execution of these transactions do not occur concurrently. At the end of the year, this advance payment risk amounted to EUR 0.31 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 by industry at the end of the year in EUR million:



The increase in the proportion of special funds from EUR 18.42 million to EUR 24.94 million compared with 2005 is due in essence to the Bank's involvement as a seed money investor for hedge funds and certificates. The virtually unchanged (compared with 2005) proportion attributable to exposure to the financial services sector amounting to EUR 18.50 million is due, on the one hand, to the development of a strategic investment portfolio such as the involvement in Parsoli Corporation Ltd., and, on the other hand, to the ongoing gradual reduction in holdings in the remaining portfolio of pre-market investments. Baader Wertpapierhandelsbank AG gave up this type of investment business in 2001 – new commitments are no longer being made. In the issue business which the Bank continues to conduct, it avoids incurring risk on principle.

At the Bank, 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 risks although the debtor was, in principle, able and willing to pay ("transfer risk event"). Business partners/counterparties are assigned to the respective country using the principle of liability attribution. 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 0.01 million in total. Accordingly, the anticipated loss in the event that these receivables all default within a single year amounted to virtually zero at the year-end.

Market price risks

In the past year, only Baader Wertpapierhandelsbank AG and Baader Service Bank GmbH 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:

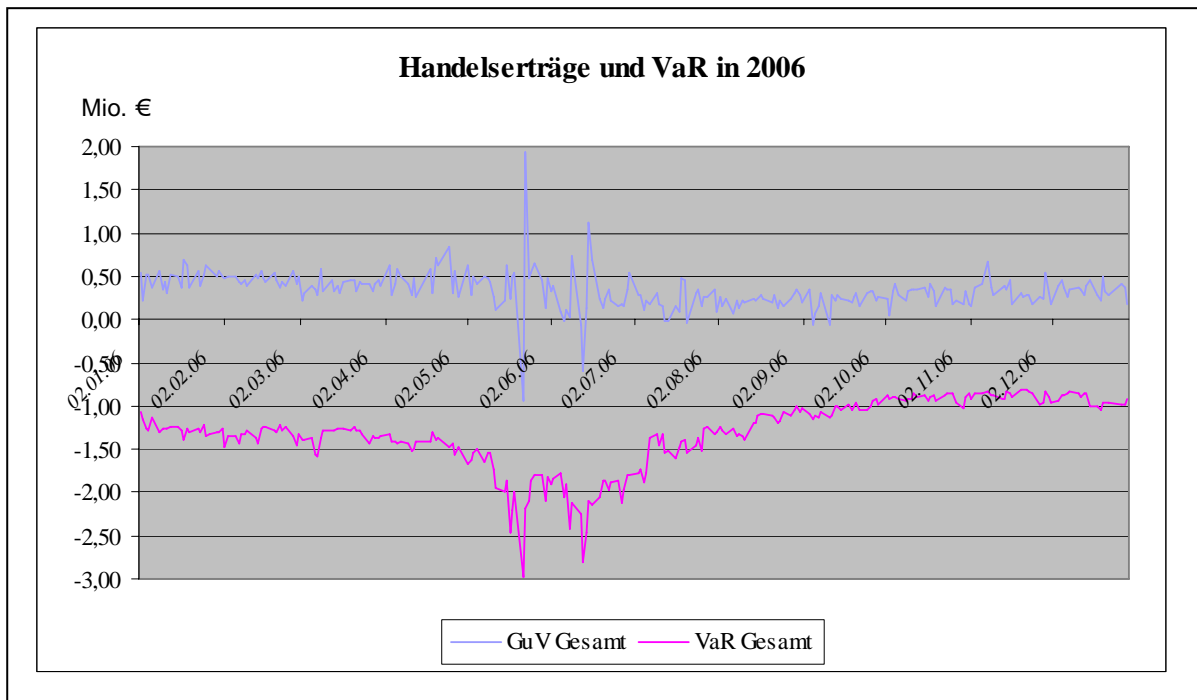
CASH MARKET		FORWARD MARKET	
EQUITIES	29.01	OPTIONS	-0.01
BONDS	1.52	FUTURES	-
FUNDS, INDEX AND FUND-LIKE CERTIFICATES	21.56	SWAPS	0.06
SECURITISED DERIVATIVES	0.86		

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 99%. The input risk parameters include a variance-covariance matrix based on the Bank's own time series which are exponentially weighted. While the calculation of this variance-covariance matrix only takes place overnight, the establishment of the VaR and its calculation against the limit takes place both overnight and during the day.

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

Value-at-Risk of the trading segments	2001	2002	2003	2004	2005	2006
Year-end VaR	0.34	0.73	0.65	0.74	0.83	0.78
Minimum VaR	0.31	0.19	0.41	0.70	0.51	0.68
Maximum VaR	4.90	1.10	1.48	1.73	1.46	2.84
Average VaR	1.26	0.40	1.12	1.04	0.84	1.19

In 2006, the average VaR stood at EUR 1.19 million and was consequently 41.7% up on 2005. This increase is essentially due to the involvement as a seed money investor for hedge funds and certificates. In 96.4% of all trading days the trading segments generated positive income. The following diagram shows the daily earnings actually generated and the VaR figures of the trading segments in EUR million:



In 2006, the VaR mostly ranged between EUR 0.75 and EUR 1.25 million with the exception of the months from May to mid-July. In this period, share markets underwent a correction (for example, the DAX fell by 13.8%), in which the Bank was exposed to correspondingly high market risks because of its substantial holdings of equities for trading purposes. The actual trading losses occurred on days on which the Bank took correspondingly substantial positions.

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.

However, the internal model for measuring market risk positions described above is not used for reporting to the supervisory authorities. In accordance with Principle I, the overall ratio must always be above 8%. For the Baader Group, it was 41.2% as at the year-end and 40.9% on average for the year; for Baader Wertpapierhandelsbank AG, these figures were 35.9% and 36.0% respectively. The Bank intends to make its reports to the supervisory authorities in accordance with the new Solvabilitätsverordnung (Solvency Ordinance), which was adopted on 14 December 2006 and came into effect on 1 January 2007, for the third quarter of 2007.

Liquidity risks

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, sufficient credit lines with banks are 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. In structural terms, the funding matrix is arranged with matching maturities.

The liquidity ratio in accordance with Principle II, which represents the ratio of weighted cash to payment obligations and may not fall below 1.0, amounted to 10.2 at the end of the year and 13.6

on average for the year at Baader Wertpapierhandelsbank AG; at Baader Service Bank GmbH, these figures stood at 8.4 and 7.7 respectively.

Operational risks

As part of Basel II, operational risks must be identified, assessed and managed and any countermeasures necessary must be arranged. In addition to compliance with statutory requirements, the primary aim of an efficient system for managing operational risks is to avoid financial losses where possible.

All areas of the Group are involved in the Baader OpRisk Management System, which was established by the Board of Directors. An OpRisk Manager was appointed for each department, whose task it is to assess the potential operational risks in his department every quarter using questionnaires and to record any losses that may have occurred in the Intranet tool provided for this purpose. The risk control department evaluates this information and identifies any action required, which is then communicated to the Board of Directors. On the basis of this information, the Board of Directors then asks the Baader Security Committee to scrutinise the measures and then decides, if necessary, on the introduction of safeguards. The Baader Security Committee consists of representatives from the IT, operating organisation, human resources, securities settlement, risk control and regulatory reporting departments and exchanges information with the risk control department. The functions of the Baader Security Committee include implementing the Baader Sicherheitskonzept (BSK – Baader Security Concept), updating guidelines and standards, compiling and maintaining the emergency handbook, carrying out threat analyses, working out recommendations for the introduction of safeguards and assisting with their implementation as well as highlighting the need for action.

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 the Company 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 limited by examining contractual documents, analysing the circumstances relating to the contract and using generally accepted master contracts. External legal advice is also sought.

According to the Bank's current knowledge, which is, however, largely based on press reports, approximately 30,000 investors lost money through Phoenix Kapitaldienst GmbH in the period from 1992 – 2005. The losses are supposed to amount to approximately EUR 180 – 200 million.

The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) established the case for compensation at Phoenix Kapitaldienst GmbH on 15 March 2005. As part of the compensation process the Entschädigungseinrichtung für Wertpapierhandelsunternehmen (EdW), a special federal fund at the Kreditanstalt für Wiederaufbau, is checking whether and to what extent investors are entitled to compensation.

According to section 4 (2) of the Einlagensicherungs- und Anlegerentschädigungsgesetz (EAEG – German Deposit Guarantee and Investor Compensation Act) the amount of each investor's compensation amounts to 90% of his claims under securities transactions up to a maximum of EUR 20,000. According to press reports, the free assets currently at the EdW's disposal are estimated at

less than EUR 10 million. Members have to provide the EdW's funds through annual contributions and special contributions (section 8 (1) of the EAEG). In the event that the compensation process requires it, the EdW has to collect special contributions and raise loans in accordance with section 8 (2) of the EAEG in conjunction with section 5 of the BeitragsVO (Contributions Ordinance). When raising loans, the EdW may, subject to the consent of the BaFin, demand special payments for the capital and interest payments. The amount of the special contributions or special payments per member is based on the proportion of the amount to be paid by the member to the contribution as a whole.

As an institution for the purposes of the Kreditwesengesetz (KWG), Baader Wertpapierhandelsbank AG is obliged by section 2 of the EAEG to insure its deposits and liabilities under securities transactions through membership of a compensation organisation. As a securities trading bank, it does not conduct any deposit business and is therefore assigned to the EdW.

At the current date it is not yet clear whether, when and to what extent the EdW will demand special payments or special contributions. While there is speculation about this, no firm information is available yet. In addition, it is known that legal opinions are being sought on claims for damages against the BaFin and the auditors, who last audited the company's accounts. A wide-ranging discussion of the legitimacy of the EAEG and consequently of the EdW is also taking place at a political level.

While the Board of Directors is of the opinion that, on the one hand, a possible special contribution is not acceptable legally, on the other hand there is an economic risk that a special contribution will be imposed since the BaFin has established a case for compensation and the EdW must pay the compensation. Account has been taken of this risk through the creation of a provision amounting to EUR 12.08 million.

At the end of the year, no significant ongoing or potential legal disputes involving material financial risks were known.

12. Forecast

Strategy and outlook

In recent years, Baader Wertpapierhandelsbank AG has expanded its position as a leading securities trading bank and the largest stock broker in Germany. As a professional for professionals, the Company wishes to protect its independence and extend its market leadership in securities transactions.

It intends to increase the number of order books related to equities and its market share of German stock markets. This can be achieved by increasing the number of secondary listings and by taking over order books related to equities or brokerage houses. To counter the pressure on margins in stock market trading, further technical and procedural options for reducing trading and settlement costs are being evaluated.

Falling margins, substantial investment expenses and requirements by the supervisory authorities will lead to increasing competitive and consolidation pressures within the European financial services sector. Over the next few years, the process of concentration among stock exchanges, trading platforms and financial institutions will continue at a national and European level. Baader Wertpapierhandelsbank wishes to participate decisively in this development.

The Bank's cash and cash equivalents are to be used selectively to be able to participate in the potential market developments. Substantial resources will be used to implement investment strategies that have a positive impact on the order flow and promise additional areas of business.

The introduction of MiFID and the requirements associated therewith will increase the pressure on small and medium sized financial institutions in particular. The value added chains in securities trading will break up in consequence. Through its new MiFIS division Baader Wertpapierhandelsbank wishes to be able to offer these financial institutions a MiFID compliant service and generate additional order flow for the Group.

The competitive and price pressures affecting issue business will increase still further. The Bank will counter this trend by expanding its distribution channels and increasing its qualitative lead in its existing network. The value added chain is to be expanded at the same time with new products and markets being added.

In financial year 2001, the Board of Directors resolved to withdraw from the investment business. There will continue to be no new commitments. The few remaining financial investments are to be sold as profitably as possible.

Within the framework of its core business areas Baader Wertpapierhandelsbank AG also wishes to expand beyond its national borders and participate in developments in up-and-coming countries. In selecting its target countries, it focuses on economic potential, legal stability, the ability to integrate in both cultural and linguistic terms and well as the development status of financial markets.

Trading links and institutional brokerage business are to be established and developed with Parsoli Corp. Ltd. in India initially. Furthermore, a Shari'ah-compliant fund (First Islamic India Fund) is to be launched.

Apart from the Indian growth market, Baader Wertpapierhandelsbank AG is focusing its attention on another market. It intends to invest in a financial services provider in Oman. The possible investment will open up access to the capital markets in the Gulf states and consequently provide the foundations for additional growth outside Germany on a broader basis.

The chances of another successful year on stock markets, particularly European markets, are assessed as good. The euro is likely to maintain its value against the dollar in 2007, since interest rates are expected to rise if anything in Europe. In the end the forecast for stock markets in 2007 depends on the policies adopted by the Federal Reserve and the performance of the American economy. The oil price is likely to remain securely at the current level because of the curbs on production adopted by the OPEC states in 2007.

By and large, Baader Wertpapierhandelsbank sees positive signals for the capital markets but also increased volatility. The good economic climate and rising prices in 2006 will increase investors' involvement. This positive basic mood leads the Bank to expect a further increase in sales in 2007.

Baader Wertpapierhandelsbank AG is well positioned in its areas of business and, given the positive framework conditions mentioned above compared with financial year 2006, assumes that the Group will increase its operating earnings in 2007. The subsidiaries' areas of business, which are largely independent of the core business of Baader Wertpapierhandelsbank AG, will make the Group's earnings less susceptible to fluctuations in the securities markets. This process will become apparent for the first time in 2007.

Growth in commission income is primarily determined by the subsidiaries' areas of business and should lead to another increase in net commission income.

Slight growth is also expected in net trading income. In 2007, it will not be possible to realise the substantial earnings from the sale and valuation of available-for-sale financial instruments and equity-accounted investments, which contributed substantially to the result in 2006.

Baader Wertpapierhandelsbank AG and its subsidiaries will continue to pay attention to maintaining its lean, efficient administrative structures. However, it is no longer possible to cover the expansion of new areas of business and the integration of subsidiaries involving the assumption of substantial administrative burdens in some cases by Baader Wertpapierhandelsbank AG with the existing resources. This will result in a further rise in administrative expenses in 2007.

For financial year 2008, a good market environment featuring rising indices and sales is expected for Baader Wertpapierhandelsbank overall. Continuing good economic prospects and the resultant probable return to rising real wages will lead to more cash flowing into capital markets and alternative investment products.

Given these premises, an increase in earnings is also achievable in 2008.

On the costs side, it is expected that the staff levels and infrastructures that are likely to be available until the end of 2007 are sufficient for the medium-term development of Group companies and will also cover the next few years' growth efficiently and professionally. In this respect, it is assumed that administrative expenses will also rise more slowly than earnings in 2008.

In the medium term, the strategic expansion into alternative investments and MiFID services as well as synergies from international investments will provide a significant boost to earnings.

Unterschleissheim, 7 March 2007
Baader Wertpapierhandelsbank AG
Board of Directors

Uto Baader

Dieter Brichmann

Stefan Hock

Christopher Schütz

Dieter Silmen

Report of the Supervisory Board

In the past financial year, the Supervisory Board performed the duties incumbent upon it in accordance with the law and the Articles of Association. It 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 in a timely manner and consulted with it on these subjects. Deviations in the course of business and earnings performance from plans and targets were explained in detail and examined by the Supervisory Board. The Supervisory Board was included in decisions of major importance.

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. The subjects of regular advice were corporate figures, changes in the earnings and employees of the Group and its subsidiaries as well as the performance of all business segments. 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.

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, with intensive support being lent to the expansion of strategic interests at home and abroad in particular. Other topics included the positioning of Baader Wertpapierhandelsbank AG, its financial performance and that of its subsidiaries, key business events and 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 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 11 December 2006, 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 11 December 2006, 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 2005. 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 2006, together with the Group management report, including the accounting, were audited by Clostermann & Jasper Partnerschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen – the auditor

elected by the General Meeting – in accordance with 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 2006 to 31 December 2006 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 2006 annual and consolidated financial statements prepared by the Board of Directors in its meeting today. The 2006 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 0.25 per no par-value share carrying dividend rights from the unappropriated surplus, to transfer EUR 15.570 million to other retained earnings and to carry the remaining amount forward to new account.

In 2006, the Supervisory Board resolved the appointment of the Director Dieter Silmen for another five years. With effect from 1 October 2006, Christopher Schütz was appointed as a further member of the Board of Directors. Mr Schütz manages MiFIS (Markets in Financial Instruments Services) which is responsible for developing, providing and marketing securities services and products that are compliant with the MiFID (Markets in Financial Instruments Directive).

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, 19 March 2007

The Supervisory Board

Dr. Horst Schiessl
Chairman

Corporate Governance Report

In accordance with item 3.10 of the German Corporate Governance Code, the Board of Directors – also reporting on behalf of the Supervisory Board – states the following with regard to corporate governance in the Baader Group:

The Baader Group places great emphasis on open and clear corporate communication. It has constantly oriented itself towards the standards of good and responsible corporate management to acknowledge and build up the trust of its investors, the financial markets, its business partners and its employees.

Declaration of Compliance in accordance with section 161 of the Aktiengesetz (AktG – German Public Companies Act)

The Board of Directors and the Supervisory Board generally recognised the recommendations of the German Corporate Governance Code. In its meeting on 11 December 2006, the Supervisory Board, together with the Board of Directors, issued an updated Declaration of Compliance for 2006 as required under section 161 of the AktG and explained the deviations from the recommendations of the German Governance Corporate Code. The Declaration of Compliance for 2006 was placed on the Company's website on 12 December 2006 and published in the electronic version of the *Bundesanzeiger* (German Federal Gazette) on 20 December 2006. All declarations of compliance and the reasons for the deviations can be called up on the website. The Declaration of Compliance for 2006 is as follows:

- 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 Management Board 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 compensation 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 stipulated the following: until the new version of the German Corporate Governance Code was announced on 24 July 2006: “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.

The decision not to provide a breakdown of the compensation of the Board of Directors' members was approved at the General Meeting of Baader Wertpapierhandelsbank AG on 19 July 2006 with a qualified majority. Under section 4.2.4, a deviation from the recommendation to disclose the compensation of the Board of Directors' members on an individual basis must no longer be explained in future.

- 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 Wertpapierhandelsbank 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".

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.

Management and corporate structure; Board of Directors and Supervisory Board working together

The Baader Group is a securities trading bank headquartered in Unterschleissheim, near Munich. The corporate and management structures are mainly based on German public company law, capital market law, the Articles of Association and the German Corporate Governance Code. As a German public company, the Company has the two-tier management and supervisory structure common under public company law. The Board of Directors is responsible for managing the Company itself. The Supervisory Board appoints, advises and supervises the Board of Directors. The management of the individual Group companies are responsible for their own business and performance. They regularly report to the Board of Directors of Baader Wertpapierhandelsbank AG and are also

monitored by their supervisory committees, in which members of the Board of Directors of Baader Wertpapierhandelsbank AG are also represented.

The Board of Directors and the Supervisory Board work together closely for the good of the Company; their joint goal is to increase its enterprise value. The Board of Directors regularly reports to the Supervisory Board in a timely manner and providing extensive details on all issues relevant to corporate planning and strategic further development, about the course of business and the Group's position, including its risk position. The By-laws of the Board of Directors stipulate that the Supervisory Board has a right of veto in important cases (see also Report of the Supervisory Board).

The Company maintains D&O insurance for the members of the Board of Directors and the Supervisory Board. It is concluded for one year and renewed annually. The insurance covers the personal liability risk in the event that claims are filed against the members of the Board of Directors or the Supervisory Board for financial loss arising when the members exercise their management and supervisory function. No deductible as defined by the German Corporate Governance Code was agreed (see also Declaration of Compliance).

Transparency

Investors, analysts and the public are equally and promptly informed. Financial calendars, annual and interim reports, ad hoc disclosures and all other relevant information are available in German and in English on the website. With regard to compliance, an insider list is maintained in which all persons with access to insider information are entered. In addition to the insider rules, we have issued internal instructions which govern trading with the Company's securities for all employees. In accordance with this, transactions in these securities are only permitted during a two-week time period following publication of the Company's figures with the approval of the Compliance Officer. These times are announced on the Baader intranet in each case.

Directors' Dealings

In accordance with section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), all members of the Board of Directors and of the Supervisory Board as well as specific employees with management duties and related parties must disclose the acquisition and the sale of Baader shares and financial instruments relating to these. All transactions disclosed are listed on our website in the annual document. The following notifications were received by 31 December 2006:

CFO Dieter Brichmann purchased 8,800 shares at EUR 5.77 on 13 April 2006 and Board of Directors member Christopher Schütz sold 3,000 Baader shares at EUR 4.70 on 13 October 2006.

The Chairman of the Board of Directors holds 66.95% of the shares issued by the Company (section 6.6 of the German Corporate Governance Code). The number of shares held by the Board of Directors and Supervisory Board members are listed in the Management Report.

General Meeting

The General Meeting has been organised and held for years on the condition that all shareholders are informed extensively and efficiently in detail before and during the General Meeting to make it easier for them to exercise their rights. For instance, the registration and proof of identification procedure for the General Meeting was changed over to the record date as early as 2006.

Shareholders who do not personally attend the General Meeting can have their voting right exercised by means of a proxy, e.g. by a credit institution or an association of shareholders. We offer our shareholders a proxy bound by instructions and appointed by the Company to be authorised before the General Meeting.

Supervisory Board

The term of the current Supervisory Board ends with the close of the 2008 General Meeting. In the year under review, there were no changes in the Supervisory Board. In 2002, the Supervisory Board dissolved an investment committee after the Company decided to give up the investment business. An audit committee established in 2002 – the aim of which was mainly to deal with issues relating to accounting, risk management, commissioning the auditor, its required independence, the fee agreed with it and the focal points of its audit – was again dissolved in 2004. 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. The entire Supervisory Board has again assumed the activities of the committee.

Compensation report pursuant to section 289 (1) no.5 of the Handelsgesetzbuch (HGB – German Commercial Code)

This compensation report explains the principles for setting the compensation of the Board of Directors and the Supervisory Board of Baader Wertpapierhandelsbank AG as well as the amounts involved and how they are structured. Furthermore, information is provided on the shares and stock options held by members of the Supervisory Board and Board of Directors and on transactions involving shares in Baader Wertpapierhandelsbank AG.

The General Meeting of Baader Wertpapierhandelsbank AG resolved as follows on 19 July 2006: “There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 HGB and section 314 I no. 6 lit. a clauses 5 to 9 HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements”. As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the Aktiengesetz (AktG – German Public Companies Act).

Compensation of the Board of Directors

The Supervisory Board is responsible for setting the Board of Directors' compensation. When setting the compensation, account is taken of the size and activities of the Company, its financial and economic position and the levels of compensation plus the way in which they are structured at comparable companies. In addition, the responsibilities and contribution of the respective member of the Board of Directors is taken into consideration.

The compensation of the Board of Directors is performance-related; in financial year 2006 it was made up of four components: fixed compensation independent of performance (salary), a performance-related component (bonus), a component with a long-term incentive (stock options) and a pension commitment (for two Board of Directors members).

The payment that is irrespective of achievement is paid monthly as salary.

The amount of the bonus is based on the Group's profit from ordinary activities. It amounts to between 0.35% and 1.05% of the profit from ordinary activities for individual members of the Board of Directors. It is paid out after the General Meeting approves the net profit. In addition to the bonus, there is the opportunity for individual members of the Board of Directors to be granted a special bonus for exceptional achievements.

The share-based payment is effected through the issue of stock options in accordance with the conditions of the stock option plans approved by the General Meeting.

There are pension commitments for two members of the Board of Directors, for whom the amount of the pension benefit depends on age, length of service and salary. The old age pension will be paid if the member of the Board of Directors leaves after reaching retirement age. It is limited to a maximum of 60% of the fixed salary which the respective member of the Board of Directors received for the final calendar year before leaving the Company.

In the event of the employment relationship being terminated prematurely, the Board of Directors' contracts do not contain any explicit compensation commitment. However, compensation may be paid under an individual severance agreement.

In the event of a change of control, individual members of the Board of Directors are not entitled to cancel their contracts of employment and, correspondingly, they are not entitled to compensation.

In financial year 2006, the Board of Directors as a whole received the following compensation according to the accrual principle:

					2006	2005
Payment irrespective of achievement		Allocation to pension provision	Performance-related pay	Components offering long-term incentive		
Salary	Other ¹⁾	Pension commitment ²⁾	Bonus	Stock options ³⁾	Total	Total
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,472,587.00	115,907.07	1,123,365.53	257,983.24	74,812.50	3,044,655.34	2,019,477.58

- 1) The compensation components listed in the "other" column mainly comprise monetary value benefits from the provision of company cars, insurance subsidies and the consumption of subsidised meals in the staff restaurant.
- 2) The pension obligations (DBO) according to IAS/IFRS for active members of the Board of Directors amount to EUR 7,846,769.00 (previous year: EUR 6,879 thousand). There is a pension obligation of EUR 228,572.00 (previous year: EUR 218,000) for former members of the Board of Directors.
- 3) The monetary value of the stock options was measured using the Black-Scholes option pricing formula. The monetary value amounts to EUR 0.9975 per share (previous year: EUR 0.43 per share).

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2006 in their present form, this will result in a bonus totalling EUR 644,287.93 thousand.

A total of 75,000 stock options were issued to the Board of Directors in financial year 2006. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2005.

For financial year *)	2005	2004	2003	2002	2001	2000	Total
Granted options	75,000	75,000	103,000	170,000	172,000	83,804	678,804
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	19,000	58,000	37,714	114,714
Exercised options	0	0	43,000	137,000	84,000	15,240	279,240
Outstanding options	75,000	75,000	60,000	14,000	30,000	30,850	284,850
Exercisable options	0	0	60,000	14,000	30,000	30,850	134,850
Residual term in months	77	65	53	40	28	16	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

Under section 15a of the Wertpapierhandelsgesetz (WpHG – Securities Trading Act), purchases and sales of Baader shares by members of the Board of Directors have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, a total of 1 purchase (3,000 shares with a nominal value of EUR 14,100.00) and 1 sale (8,800 shares with a nominal value of EUR 50,737.30) were reported.

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH in Munich, Germany. No transactions were conducted between the two companies in the past financial year. The equity interest of Mr. Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). In addition, Uto Baader holds 137,512 shares privately. In total, Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. As at 31 December 2006, the members on the Board of Director held a total of 30,860,968 shares in Baader Wertpapierhandelsbank AG.

As at 31 December 2006, there are loans to members of the Board of Directors totalling EUR 113,813.63 (previous year: EUR 87,108.79). The loans bear interest of 5.0% and have a residual term of between 6 and 8 months.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Members of the Board of Directors require the consent of the Supervisory Board before they can accept secondary employment including the acceptance of Supervisory Board mandates for Group companies. This ensures that neither the time spent nor the compensation granted for this purpose leads to a conflict with their tasks for the Company.

If the secondary employment entails Supervisory Boards mandates or mandates for comparable controlling bodies, these are listed in the notes and published on the Internet.

Compensation of the Supervisory Board

Compensation of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank AG. Accordingly, the Supervisory Board members receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The fixed compensation is paid in the final month of the financial year. The variable compensation is payable after the ordinary General Meeting that resolves on utilisation of the unappropriated surplus for the relevant financial year.

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives in the Supervisory Board receive stock options under the conditions of the stock option plans approved by the General Meeting, these benefits are the result of their position as employees of Baader Wertpapierhandelsbank AG and are independent of their work for the Supervisory Board.

For financial year 2006, the Supervisory Board received the following compensation according to the accrual principle:

		2006	2005
Fixed component	Variable component	Total	Total
EUR	EUR	EUR	EUR
174,000.00	87,290.93	261,290.93	217,291.50

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2006 in the present form, this will result in a variable compensation for financial year 2006 totalling EUR 204,828.75 thousand.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 2,400 stock options in financial year 2006. ⁽¹⁾ The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2005.

For financial year *)	2005	2004	2003	2002	2001	2000	Total
Granted options	2,440	2,640	2,800	4,000	5,200	1,590	18,670
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0		0
Exercised options	0	0	0	4,000	5,200	0	9,200
Outstanding options	2,440	2,640	2,800	0	0	1,590	9,470
Exercisable options	0	0	2,800	0	0	1,590	4,390
Residual term in months	77	65	53	40	28	16	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

(1)

The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2005, amounts to EUR 2,433.90 (previous year: EUR 1,135.20). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 0.9975 per share (previous year: EUR 0.43 per share).

Under section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, no purchases or sales by members of the Supervisory Board were reported.

As at 31 December 2006, no Supervisory Board member owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2006, the members of the Supervisory Board held a total of 13,200 shares in Baader Wertpapierhandelsbank AG.

As at 31 December 2006, there are loans to members of the Supervisory Board totalling EUR 32,945.76 (previous year: EUR 2,277.00). The loans have an interest rate of 5.0% and maturity periods between 2 and 5 months.

The Company maintains a D&O policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Supervisory Board for losses incurred in carrying out their work. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

Risk management

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.

To meet these requirements, the Board of Directors of Baader Wertpapierhandelsbank AG has established both the business strategy and the risk strategy consistent with it as well as an internal 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 trading, sales and back office processing 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 inclusive. The risk-taking capability is ensured as part of annual planning based on an analysis of the current economic conditions in the relevant market environment, the business strategy derived from this and the risk strategy consistent with it. More details on this can be found in the Management Report.

Auditor

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 legally stipulated single-entity financial statements of Baader Wertpapierhandelsbank, which are also important for the taxation and the dividend payment, are prepared in accordance with the provisions of the HGB. The Supervisory Board noted the statement of independence presented to it. The Supervisory Board obliged the auditor elected by the General Meeting to inform it of any reasons for exclusion or grounds for bias that may arise during the audit and cannot be eliminated immediately. Furthermore, the auditor should also report immediately on all findings and events material to the duties of the Supervisory Board that may arise during the audit. The auditor must inform the Supervisory Board and note in the audit report if facts are established during the course of the audit which are not consistent with the Declaration of Compliance issued by the Board of Directors and the Supervisory Board in accordance with section 161 of the AktG.

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 an unqualified audit opinion.

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BAADER WERTPAPIERHANDELSBANK AKTIENGESELLSCHAFT
 UNTERSCHLEISSHEIM
 CONSOLIDATED INCOME STATEMENT (IAS) FOR
 THE PERIOD ENDED 1 JANUARY 2006 - 31 DECEMBER 2006

Assets	Notes	31 December 2006 EUR	31 December 2005 EUR thousand
1. Cash reserve	(7, 25)	484,974.14	2,586
2. Loans and advances to banks	(8, 26)	63,438,915.59	24,057
3. Loans and advances to customers	(8, 27)	13,056,518.50	2,916
4. Allowance for losses on loans and advances	(9, 28)	-109,657.04	-23
5. Assets held for trading	(11, 29)	49,012,616.67	34,040
6. Available-for-sale financial instruments	(12, 30)	23,268,034.97	29,741
7. Equity-accounted investments	(31)	11,789,217.52	13,818
8. Property and equipment	(13, 32)	21,498,338.58	22,476
9. Intangible assets	(14, 33)	17,412,549.52	19,030
10. Goodwill	(3, 15, 34)	4,159,567.63	2,581
11. Income tax assets	(35)	11,626,557.14	126
12. Other assets	(36)	6,375,545.76	5,168
13. Deferred tax assets	(37)	25,576,183.99	27,948
Total assets		<u>247,589,362.97</u>	<u>184,464</u>
<hr/>			
Liabilities and equity	Notes	31 December 2006 €	31 December 2005 EUR thousand
1. Deposits from other banks	(17, 38)	26,444,035.85	21,143
2. Due to customers	(17, 39)	31,999,177.13	16,911
3. Liabilities held for trading	(18, 40) (19, 20,	34,541.97	0
4. Provisions	41)	19,456,950.88	6,945
5. Provisions for income taxes	(21, 42)	1,641,483.46	341
6. Other liabilities	(43)	11,550,201.88	8,281
7. Deferred tax liabilities	(21, 44) (23, 24,	3,836,827.45	3,753
8. Equity	45, 46, 47)	152,626,144.35	127,090
a) Issued capital	(45)	45,493,404.00	22,602
b) Share premium	(45)	60,977,655.15	83,473
c) Retained earnings	(45)	8,000,000.00	0
d) Revaluation reserve	(12, 45)	6,125,477.95	8,687
e) Currency translation reserve	(45)	-736.70	0
f) Consolidated net profit	(45)	30,667,902.22	12,195
Total before minority interests		151,263,702.62	126,957
d) Minority interests		1,362,441.73	133
Total liabilities and equity		<u>247,589,362.97</u>	<u>184,464</u>

BAADER WERTPAPIERHANDELSBANK AKTIENGESELLSCHAFT
 UNTERSCHLEISSHEIM
 CONSOLIDATED INCOME STATEMENT (IAS) FOR
 THE PERIOD ENDED 1 JANUARY 2006 - 31 DECEMBER 2006

Income Statement	Notes	EUR	2006 EUR	2005 EUR thousand
1. Interest income	(50)	1,429,212.06		452
2. Interest expense	(50)	-877,769.04		-933
3. Net interest expense	(50)		551,443.02	-481
4. Allowance for losses on loans and advances	(9, 51)		-62,185.55	-2
5. Net interest expense after allowance for losses on loans and advances			489,257.47	-483
6. Fee and commission income	(52)	51,134,818.0 0		35,919
7. Fee and commission expense	(52)	- 14,289,221.1 8		-11,532
8. Net fee and commission income	(52)		36,845,596.82	24,387
9. Net trading income	(5, 53)		49,720,608.86	34,891
10. Net income from available-for-sale financial instruments	(5, 54)		6,006,136.09	726
11. Net income from equity-accounted investments	(55)		6,248,211.33	824
12. Administrative expenses	(24, 56)		-63,157,002.00	-50,412
13. Profit from operations			36,152,808.57	9,933
14. Other operating income	(57)		2,042,437.86	1,641
15. Other operating expenses	(57)		-12,678,550.15	-426
16. Profit from ordinary activities			25,516,696.28	11,148
17. Income taxes on profit from ordinary activities	(21,5 8)		5,135,583.68	-3,146
18. Net profit for the period before minority interest			30,652,279.96	8,002
19. Minority interest in net profit			-80,508.42	-80
20. Net profit for the period			30,571,771.54	7,922
21. Retained earnings			96,130.68	4,272
22. Consolidated net profit			30,667,902.22	12,194

		2006 €	2005 €
Basic/diluted earnings per share	(59)	0.67	0.18

Statement of changes in equity

	Issued capital	Share premium	Retained earnings	Revaluation reserves	Currency translation reserve	Consolidated net profit	Total before minority interests	Minority interests	Equity
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	0.00	112,435,120.46
Consolidated net profit						7,922,477.32	7,922,477.32		7,922,477.32
Gains/losses								79,962.50	79,962.50
Net changes in the revaluation reserve				8,407,068.59			8,407,068.59		8,407,068.59
Comprehensive net profit for 2005				8,407,068.59		7,922,477.32	16,329,545.91	79,962.50	16,409,508.41
Change in treasury shares	164,400.00	321,258.67					485,658.67		485,658.67
Gains/losses from the previous year								4,167.50	4,167.50
Dividends paid						-2,246,517.71	-2,246,517.71		-2,246,517.71
Changes in consolidated companies/other changes		-46,916.79					-46,916.79	48,908.31	1,991.52
Equity as at 31 Dec. 2005	22,601,984.00	83,473,389.09	0.00	8,686,706.38	0.00	12,194,811.07	126,956,890.54	133,038.31	127,089,928.85
Consolidated net profit						30,571,771.54	30,571,771.54		30,571,771.54
Transfer to retained earnings			8,000,000.00			-8,000,000.00	0.00		0.00
Gains/losses								80,508.42	80,508.42
Net changes in the revaluation reserve				-2,561,228.43			-2,561,228.43	-274.17	-2,561,502.60
Net changes in the currency reserve					-736.70		-736.70		-736.70
Comprehensive net profit for 2006			8,000,000.00	-2,561,228.43	-736.70	22,571,771.54	28,009,806.41	80,234.25	28,090,040.66
Capital increases	22,954,341.00	-22,954,341.00					0.00		0.00
Change in treasury shares	-62,921.00	458,607.06					395,686.06		395,686.06
Gains/losses from the previous year								-79,962.50	-79,962.50
Dividends paid						-4,086,296.86	-4,086,296.86		-4,086,296.86
Changes in consolidated companies/other changes						-12,383.53	-12,383.53	1,229,131.67	1,216,748.14
Equity as at 31 Dec. 2006	45,493,404.00	60,977,655.15	8,000,000.00	6,125,477.95	-736.70	30,667,902.22	151,263,702.62	1,362,441.73	152,626,144.35

As at 31 December 2006, the issued capital of Baader Wertpapierhandelsbank AG amounted to EUR 45,908,682.00 and was divided into 45,908,682 no-par value shares in accordance with the Articles of Association. After deduction of the 415,278 shares held on 31 December 2006, the issued capital recognised amounted to EUR 45,493,404.00. No use was made during the financial year of the authorisation by the General Meeting on 19 July 2006 to acquire treasury shares for securities trading purposes in accordance with section 71 (1) no. 7 of the Aktiengesetz (AktG – German Public Companies Act). Use was made in financial year 2006 of the General Meeting resolution on 19 July 2006 to authorise the acquisition of treasury shares in accordance with section 71 (1) no. 8 of the AktG for purposes other than securities trading.

Cash flow statement

		2006 EUR thousand	2005 EUR thousand
1.	Net profit for the period (including minority interest in net profit)	30,572	7,922
2.	Depreciation, write-downs and reversals of write-downs on loans and advances, property and equipment, and investment securities	1,048	7,190
3.	Change in provisions	12,512	-154
4.	Other non-cash income/expense	6,681	5,047
5.	Gains/losses on disposal of property and equipment and investment securities	192	55
6.	Other adjustments (net)	401	-306
7.	= Subtotal	51,406	19,754
8.	Loans and advances		
	Loans and advances to banks	-39,382	1,177
	Loans and advances to customers	-10,053	-1,718
9.	Securities (excluding investment securities)	-7,808	-15,139
10.	Other operating assets	-10,337	161
11.	Liabilities		
	Deposits from other banks	-5,300	-2,871
	Due to customers	15,088	1,874
12.	Other operating liabilities	4,654	5,016
13.	Interest and dividends received	2,561	1,644
14.	Interest paid	-1,071	-789
15.	Income taxes paid	-1,846	-469
16.	= Cash flows from operating activities	8,566	8,640
17.	Proceeds from disposals		
	Disposals of investment securities	0	770
	Disposals of property and equipment	41	50
18.	Payments for investing activities		
	Payments to acquire investment securities	-5,212	-2,969
	Payments to acquire property and equipment	-336	-323
	Payments to acquire intangible assets	-1,710	-1,376
19.	Proceeds from the sale of consolidated companies and other business units	0	0
20.	Payments to acquire consolidated companies and other business units	0	-725
21.	= Cash flows from investing activities	-7,217	-4,573
22.	Dividends paid	-4,086	-2,247
23.	Other payments	636	443
24.	= Cash flows from financing activities	-3,450	-1,804
25.	Net change in cash and cash equivalents (total of 16, 21, 24)	-2,101	2,263
26.	Effect of exchange rate changes and changes in Group structure on cash and cash equivalents	0	162
27.	Cash and cash equivalents at beginning of period	2,586	161
28.	= Cash and cash equivalents at end of period	485	2,586
	Composition of cash and cash equivalents at 31 December		
	Cash reserve	485	2,586

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. Cash and cash equivalents were not included here.

More shares were acquired in Conservative Concept Portfolio Management AG (see note 3) with effect from 1 April 2006. In this respect, they were payments for the acquisition of investments in associates. Due to a voting agreement concluded with two other shareholders, effective from 1 October 2006, Baader Wertpapierhandelsbank AG secured effective control. From this date forward, CCPM and its subsidiaries will be included in the consolidated financial statements as part of full consolidation. This change to the consolidated companies directly affected cash and cash equivalents. It did not influence the cash flows to be presented in the cash flow statement. However, the effect on cash and cash equivalents was disregarded due to its insignificance.

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

<u>Assets</u>	<u>EUR thousand</u>
Loans and advances to banks	925
Property and equipment	86
Other assets	100
<u>Liabilities and equity</u>	<u>EUR thousand</u>
Provisions	98
Other liabilities	568

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

Unlike the previous year, cash and cash equivalents only comprise the cash reserve which is the total of the cash in hand and deposits with Deutsche Bundesbank. The figures for the previous year were adjusted accordingly. Whilst the activities of the parent company were dominating until the end of the previous financial year, the significance of Baader Service Bank GmbH, a bank in accordance with section 1 of the Kreditwesengesetz (KWG – German Banking Act) increased substantially in the past financial year. For this reason, it makes more sense no longer to define the cash and cash equivalents as the net amount of loans and advances to other banks and deposits from other banks payable on demand but instead as the cash reserve based on the usual definition used by banks.

The informative value of the cash flow statement can be regarded as small for banks. For us, the cash flow statement neither replaces liquidity/financial planning nor is it employed as a management instrument.

NOTES

INFORMATION ON THE COMPANY

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info@baaderbank.de

The Company is registered in the commercial register of Munich Local Court under the number CRB 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 operates a lending business as well as a deposit-taking and custody business within the meaning of section 1 of the Kreditwesengesetz (KWG – German Banking Act).

BASIS OF CONSOLIDATED ACCOUNTING

The consolidated financial statements of Baader Wertpapierhandelsbank AG as at 31 December 2006 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) and 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, particularly those that contain special provisions for banks. 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. Segment reporting is presented in the notes.

The Group management report fulfils the requirements of section 315 of the HGB. In accordance with section 315 of the HGB, it also includes a risk report, a remuneration report and an equity report.

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

The balance sheet date is 31 December 2006. The financial year is the calendar year.

ACCOUNTING POLICIES

(1) Principles

The consolidated financial statements for the year ended 31 December 2006 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 2006 – as in previous years – was performed on the basis of IAS 39 and the various classification and measurement principles established by this provision. To comply with the various rules of this standard, 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).

Accounting in the Baader Group is performed on the basis of uniform accounting policies in accordance with IAS 27. All fully-consolidated companies prepared their single-entity financial statements as at the balance sheet date of 31 December 2006.

If estimates or assessments are required for reporting and measurement under IASs/IFRSs, they were carried out in accordance with the respective standards. They are based on past experience and other factors such as planning and – based on current judgement – likely expectations or forecasts of future events.

We used the same accounting policies as in the consolidated financial statements for the year ended 31 December 2005. The only change was in the composition of cash and cash equivalents in the cash flow statement (see the explanations in that section). In addition, equity-accounted investments had to be adjusted in the statement of changes in non-current assets (see note 31) under cost and accumulated depreciation/amortisation.

(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 2007 were not observed in these financial statements.

The consolidated financial statements for the year ended 31 December 2006 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 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 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 2006, none of the applicable interpretations of the SIC or IRFIC were relevant and thus did not have to be observed.

The adoption of DRÄS 3 by the Deutscher Standardisierungsrat (DSR – German Standardisation Committee) and announcement of it in the Bundesanzeiger (German Federal Gazette) on 31 August 2005 meant that the German Accounting Standards (GASs) were amended such that they do not have to be applied if the consolidated financial statements are prepared in accordance with international accounting standards in the sense of section 315a of the HGB. Exceptions to this rule are GAS 15 Management Reporting and the supplementary GAS 5 (Risk Reporting) or GAS 5-10 (Risk Reporting by Financial Institutions and Financial Service Institutions) which we have taken into account in our consolidated financial statements.

The following GASs which were adopted by the DSR and published by the Federal Ministry of Justice in accordance with section 342 (2) of the HGB were also taken into account in the Group as they contain more extensive provisions for financial institutions and financial service institutions:

GAS 2-10	Cash Flow Statements of Financial Institutions
GAS 3-10	Segment Reporting for Banks

(3) Consolidated Companies

In addition to the parent company Baader Wertpapierhandelsbank AG, six subsidiaries (previous year: three) in which Baader Wertpapierhandelsbank AG holds a direct or indirect interest of more than 50% are included in the consolidated financial statements as at 31 December 2006. Of these companies, five are headquartered in Germany (previous year: three) and one is headquartered abroad. There are no subsidiaries or associates that are immaterial for transparency of the Group's net assets, financial position and result of operations.

Three subsidiaries were consolidated for the first time in the year under review.

The following companies are fully consolidated:

Company	Headquarters		Equity interest	Share capital	Equity	Total assets	Profit for the period	First-time consolidation
			%					
Baader Management AG	Unterschleissheim	€thousand	100.0	50	49	49	-0,1	31/12/03
Baader Service Bank GmbH	Unterschleissheim	€thousand	100.0	2,700	6,969	42,916	833	30/09/04
Baader Heins & Seitz Capital Management AG	Unterschleissheim	€thousand	70.0	50	180	503	34	01/01/05
Conservative Concept Portfolio Management AG	Bad Homburg	€thousand	49.96	125	1,223	2,319	135	01/10/06
Direcct AG	Bad Homburg	€thousand	96.43 ¹⁾	66	235	311	145	01/10/06
Conservative Concept AG	Zug, Switzerland	CHF thousand	99.99 ¹⁾	100	901	1,730	42	01/10/06

The company figures are based on the respective IFRS single-entity financial statements.

¹⁾ The shares in Direcct AG, Bad Homburg and in Conservative Concept AG, Zug are held indirectly via the investment in CCPM AG.

In 2005, Baader Wertpapierhandelsbank AG held a 19.96% interest in Conservative Concept Portfolio Management AG (CCPM). In the year under review, this investment was increased to 49.96% as of 1 April 2006. The purchase price for the acquisition of this investment was EUR 1,670 thousand. CCPM was included as an associate in the consolidated financial statements with its subsidiaries from this date. In accordance with IAS 28.23, each difference between the cost of the investment and the shareholder's interest in the fair values of the identifiable assets, liabilities and contingent liabilities of the associate must be reported in accordance with IFRS 3 when acquiring investments.

There were no material effects when the assets and liabilities already reported were remeasured. The calculation of the purchase price for shares in CCPM (totalling EUR 2,669 thousand) is originally based on the volume of the assets under management at the time of acquisition.

As part of the first-time consolidation of Conservative Concept Portfolio Management AG, Bad Homburg, (CCPM) the fair values of the acquired, identifiable assets and liabilities on the date of acquisition were calculated for the purposes of distributing the total purchase price of EUR 2,669 thousand (revaluation method). In particular, intangible assets not reported to date at CCPM must be identified and measured if they fulfil the recognition criteria.

The acquisition of CCPM is marked by the Company's intangible assets in the form of the Athena and DTS trading strategies. A useful life of 10 years was recognised for the identifiable intangible assets (Athena and DTS strategies) – based on the planning period for the Baader Group's long-term corporate planning.

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

These two strategies were capitalised in two stages. Using the corporate planning presented for the 2007 to 2009 planning stage, the closer stage was identified. The second stage is the virtually capitalised government perpetual. In this case, a remaining useful life of seven years following the detailed planning stage has to be assumed. A risk-free base rate which was calculated and took taxes into account and a market risk premium calculated using the tax CAPM model were recognised as capitalisation interest rates.

The carrying amount of CCPM AG's equity on the date that the equity method was applied for the first time on 1 April 2006 was EUR 704 thousand. The total value of the trading strategies after discounting which were accounted for at equity for the first time amounted to a fair value of EUR 2,395 thousand as at the date of acquisition on 1 April 2006. EUR 922 thousand of this amount is attributable to deferred tax liabilities at a tax rate of 38.53%. The trading strategies are amortised over a useful life of 10 years as part of measurement at equity. After taking the trading strategies into account and the attributable deferred tax liabilities, the fair value of CCPM AG's total equity following revaluation as at 1 April 2006 amounted to EUR 2,177 thousand. EUR 1,088 thousand of this amount was attributable to the Baader Group with an ownership interest of 49.96% under the equity method. The costs of acquiring the investment in CCPM AG of EUR 2,669 thousand thus gave rise to goodwill from measurement at equity amounting to the difference of EUR 1,581 thousand.

A voting agreement was concluded with two other shareholders of CCPM as at 1 October 2006 which irrevocably bound the latter to elect two persons recommended by Baader Wertpapierhandelsbank AG to the Supervisory Board of CCPM AG. This means that Baader Wertpapierhandelsbank AG effectively gained control of CCPM AG and its subsidiaries. In accordance with IFRS 3, this is a business combination. Since 1 October 2006, CCPM AG and its subsidiaries have been included in the consolidated financial statements as part of full consolidation.

There were no material effects when the assets and liabilities already reported were remeasured as part of full consolidation.

The carrying amount of CCPM AG's equity increased as of the date of first-time consolidation (1 October 2006) to EUR 1,109 thousand, primarily as a result of intraperiod gains. The total value of the trading strategies after discounting which were accounted for in the course of full consolidation for the first time now amounts to a fair value of EUR 2,287 thousand as at the date of first-time consolidation on 1 October 2006. EUR 880 thousand of this amount is attributable to deferred tax liabilities at a tax rate of 38.53%. The fair value of CCPM AG's total equity after revaluation as at 1 October 2006 thus amounted to EUR 2,516 thousand. EUR 1,257 of this amount is attributable to the Baader Group with an ownership interest of 49.96% and EUR 1,259 thousand to minority interests. The cost of the Baader investment in CCPM of EUR 2,835 thousand, primarily amortised to take account of net income from equity for six months, thus

resulted in goodwill amounting to the difference of EUR 1,578 thousand as at the first-time consolidation date 1 October 2006.

The purpose of Conservative Concept Portfolio Management AG is to manage, broker and invest external funds in customers' own bank accounts (agency agreement for third parties) or acting as a mediator for other managers of such accounts and brokering the financial resources of customers into funds, expressly disapplying the recognition of external funds to the Company's own accounts.

Investment and trade brokerage is via Direcct AG over the Internet (online brokerage). Direcct AG acts solely for the account and liability of CCPM AG (section 2 (10) of the KWG).

CC AG is the brokers' contracting party for investment and trade brokerage. The agreement also includes the customer base of CCPM AG, which is registered amongst the brokers as the subconsultant of CC AG. Furthermore, CC AG assumes the marketing activities relating to the certificates and hedge funds managed by CCPM.

The total profit contribution of CCPM AG and its subsidiaries for financial year 2006 amounts to EUR 352 thousand.

At the start of January 2007, the capital increase while disapplying the subscription rights of existing shareholders was registered. This reduced Baader Wertpapierhandelsbank AG's interest to 47.58%.

In financial year 2006, two companies and interests in three special funds were included in the consolidated financial statements as associates in accordance with the Investmentgesetz (InvG – German Investment Act). One company (Parsoli) and an investment interest (Conquest) have been consolidated for the first time.

The companies below were measured as associates in the consolidated financial statements using the equity method in accordance with IAS 28.

Company	Headquarters	Equity interest %	Fair value of shares EUR thousand	Assets EUR thousand	Equity EUR thousand	Liabilities EUR thousand	Profit for the period EUR thousand
SPAG St. Petersburg Immobilien- und Beteiligungs AG	Darmstadt	39.81%	311	28,469 ¹⁾	28,315 ¹⁾	154 ¹⁾	-5,690 ¹⁾
Parsoli Corporation Ltd.	Mumbai, India	24.90%	2,515	4,427 ²⁾	4,230 ²⁾	197 ²⁾	547 ²⁾
Globe CC AMI Fonds	Hannover	44.94%	1,098	2,442	-	-	³⁾
Herald Europe-CI	Frankfurt	21.40%	5,296	24,755	-	-	³⁾
Conquest BFA AMI-Fonds	Hannover	21.26%	2,570	12,093	-	-	³⁾

¹⁾ Figures are based on the audited net profit for the period as at 31 December 2005

²⁾ Figures are based on the audited annual financial statements as at 31 March 2006; equity, total assets and profit for the period were translated (EUR/INR 53.995)

³⁾ The share of Herald Europe-CI Fonds in the profit amounts to EUR 266 thousand. The share of Globe CC AMI-Fonds in the profit amounts to EUR 92 thousand. The share of Conquest BFA AMI in the profit amounts to EUR 81 thousand.

Except for SPAG, the companies are special funds or financial service providers that do not generate any revenue. SPAG does not report any revenue.

After the capital reduction at the associate SPAG St. Petersburg Immobilien und Beteiligungs AG was registered in September 2006, the previous (uniform) reporting of the SPAG shareholding was divided into two assets:

- A receivable to SPAG (separate from the shares) upon payment relating to the capital reduction of EUR 10,143,392.00 (EUR 98.00 per share) is reported under Loans and advances to customers.
- SPAG shares (following the capital reduction) are reported as an equity-accounted investment which was measured on the basis of the market price as at the balance sheet date less the amount of the separate receivable (EUR 101 – EUR 98 per share).

The separation of a receivable to SPAG which can currently be qualified as valuable resulted in a remeasurement gain in the year under review in the form of a reversal of EUR 5,667 thousand.

According to a press release published by SPAG's Board of Directors on 20 September 2006, the capital reduction-related payment to the shareholders which was originally planned for December 2006 cannot be made until after 21 March 2007 due to late publication of the resolution to reduce the capital. However, the corresponding inflow of capital is guaranteed.

Shares in Parsoli Corporation Ltd., Mumbai, India were acquired in financial year 2006 in two steps. The first share of 9.99% was purchased with effect from 20 April 2006 for a purchase price of EUR 496 thousand. The second tranche (14.91%) was acquired for EUR 2,019 thousand with effect from 14 October 2006. The consolidation at equity was based on the interim financial statements of the company as at 31 December 2006. The proportionate interest in net profit was not included due to its insignificance. The consolidation produces goodwill of EUR 170,423.28

which corresponds to the positive goodwill as no hidden reserves or hidden charges could be identified.

Parsoli Corporation Ltd. in Mumbai, India, is authorised as a financial service provider, amongst other things, by the Indian central bank (RBI) and the capital market supervisory authorities (SEBI). It is a member of the National Stock Exchange of India, its associated derivatives exchange and the Bombay Stock Exchange. The company concentrates on supporting Muslim investors with the focus on investments compliant with Shari'ah law. The Parsoli Corporation's current business areas are securities trading, asset advice and currency business as well as travel services via the subsidiary PCFL Travel House which is headquartered in India. The company's shares are listed on the Bombay Stock Exchange in Mumbai.

The ownership interest for the aforementioned investment funds is above 20% but below 50%. There is thus a refutable 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 be 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.

(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:**
Financial assets with fixed or determinable payment claims for which no active market exists are allocated to this category. An active market exists if listed prices are regularly provided by a stock exchange or a broker, for example, and these prices are representative of current transactions between external third parties. They are measured at amortised cost.
- **Held-to-maturity financial assets:**
Non-derivative financial assets with fixed or determinable payments as well as a fixed maturity may be allocated to this category if there is an active market for them and if there is an intent hold them to final maturity. They are measured at amortised cost. Again, the Baader Group did not use this category in financial year 2006.
- **Assets and liabilities held for trading:**
All financial assets that are held for trading purposes are assigned to the “assets held for trading” class. Assets held for trading include primary financial instruments (particularly interest-bearing securities and equities) and derivative financial instruments with a positive fair value. All financial liabilities that are held for trading purposes are assigned to “liabilities held for trading”. This primarily includes derivative financial instruments with a negative fair value and supply obligations arising from selling securities short.
In accordance with IAS 39, derivative financial instruments are classified as financial assets or liabilities held for trading insofar as they do not qualify as hedges used in hedge accounting.
Assets and liabilities held for trading are reported at their fair value the first time, as they are at every subsequent 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. Both first-time and subsequent measurement are 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. Equity instruments for which there is no listed price on an active market and the fair value of which cannot be reliably determined have to be measured at cost.

- Other financial liabilities

This includes 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 primary host contract under certain conditions and accounted for and measured separately at fair value as a stand-alone derivative.

Such an obligation to separate in reporting arises if the characteristics and risks of the embedded derivative are not closely linked with those of the primary host contract. In such a case, the embedded derivative can be considered part of the trading portfolio and must be reported at fair value. Changes in value must be recognised in the income statement. In contrast, the host contract is accounted for in accordance with the provisions of the assigned category of financial instrument.

However, if the characteristics and risks of the embedded derivative are closely linked with those of the primary host contract, the embedded derivative is not reported separately and the hybrid financial instrument is measured overall using the general provisions of the category to which the financial instrument was allocated.

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 or liabilities 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. Equity investments and shares in subsidiaries that are denominated in foreign currency are carried at historical cost. Foreign exchange gains and losses from capital consolidation are reported separately and directly in equity.

The annual financial statements of foreign entities that are denominated in foreign currency are translated at the spot rates on the balance sheet date as a result of their economic independence. 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):

	2006	2005
USD	1.3170	1.1797
GBP	0.67150	0.68530
CHF	1.60690	1.5551
JPY	156.93	138.90

(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 that are not held for trading purposes and that are not listed on an active market are carried at their nominal 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.

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

(10) Securities lending transactions

Securities lent as part of securities lending transactions still remain in the securities portfolio and are measured according to the rules of IAS 39. Borrowed securities, 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 and collateral received as liabilities.

(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 and have a positive fair value are also disclosed here at fair value. Market prices are used for listed products; non-listed products are measured using suitable measurement models. 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. They are accounted for at fair value. For listed securities, the closing price on the balance sheet date is the fair value. Equity instruments for which there is no listed price on an active market and the fair value of which cannot be reliably determined are measured 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. Reversals recognised in income may not be made in the case of available-for-sale financial instruments.

For listed equity instruments, changes in the fair value in subsequent periods are recognised in the revaluation reserve. This means that only impairment and sale results in effects recognised in income. If the reasons for impairment of the debt instruments no longer apply, a reversal must be recognised in income up to the amount of the amortised cost. The amount exceeding the amortised costs must be reported in the revaluation reserve.

(13) Property and equipment

The buildings reported under this item as well as the operating and office equipment are carried at cost, less depreciation. Impairment losses are charged in the event of expected lasting impairment. Land is reported at cost.

Useful lives are determined by taking expected economic lives as well as legal and contractual restrictions into account. All property and equipment is depreciated on a straight-line basis using the following periods:

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

Depreciation and write-downs charged 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

From a Group point of view, only purchased intangible assets are combined under the Intangible assets item. They primarily comprise purchased software licenses, purchased order books and trading strategies acquired as part of a company acquisition. They are carried at cost and reduced by straight-line amortisation. Impairment losses are charged in the event of expected 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
Trading strategies	10*)
Software	3-5

*) The useful lives were calculated on the basis of long-term (10-year) corporate planning.

(15) Goodwill

Goodwill is 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, an impairment loss is charged on the basis of the long-term corporate planning of the related Group companies. In financial year 2006, no reasons for impairment were discernible in goodwill.

(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 primarily 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 2006 that had to be classified as financial leases.

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

Financial liabilities are carried at amortised cost.

(18) Liabilities held for trading

Derivative financial instruments that have a negative fair value and supply obligations arising from selling securities short must be disclosed as liabilities held for trading. Liabilities held for trading are measured at fair value.

(19) 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 (defined benefit plan).

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 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 10% fluctuation corridor was exceeded in this financial year. In accordance with IAS 19, the amount exceeding the corridor is distributed across an average future activity period of 10 years and recognised as an expense.

The assumptions on which the actuarial calculations have been based are:

	31 December 2006	31 December 2005
Discount rate	4.0% and 4.5%	4.0% and 4.5%
Return on plan assets	4.2% and 4.5%	4.5%
Changes in salaries	2.0% and 3.0%	2.0 % and 3.0%
Pension adjustments	2.0%	2.0%

(20) Other provisions

Other provisions are recognised for uncertain obligations to third parties and on onerous contracts in the amount of the claims to be expected. Provisions for expenses that do not relate to an external commitment may not be carried in accordance with IASs/IFRSs.

(21) Income taxes

Current 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 are derived from differences in the carrying amounts of an asset or a liability and the respective tax carrying amount. In the future, this is likely to either increase or reduce income taxes (temporary differences). They are measured at the country-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. Income tax assets and provisions for income taxes are not netted against one another and are recognised individually. Generally, they are not discounted. Deferred tax assets and liabilities are recognised 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 directly 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.

(22) Trust activities

Trust activities that are based on managing or placing assets on behalf of third parties are not reported in the balance sheet. Fees and commission from these transactions are included in the income statement under the net fee and commission income item.

(23) Treasury shares

Treasury shares held in the Group on the balance sheet date 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 offset against the share premium. Gains and losses from trading in treasury shares are credited or charged directly to equity.

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

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.

a) Stock Option Plan 2000

Under the Stock Option Plan 2000, a total of 1,789,782 stock options were issued to beneficiaries. 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.

The lock-up period of two years has expired for all of the stock options granted under this option plan, i.e. all options from this plan may already be exercised.

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

Under the Stock Option Plan 2004, a total of 599,080 stock options were issued to beneficiaries. The Stock Option Plan 2004 had a term of two years and expired on 13 July 2006. The last tranche was allocated on 26 May 2006.

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.

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.

c) Stock Option Plan 2006

The Board of Directors is authorised, with the approval of the General Meeting of 19 July 2006, to issue a maximum total of 1,600,000 stock options beginning with the close of financial year 2006 until the end of 18 July 2010 and to grant the beneficiaries options on up to 1,600,000 shares overall.

The Stock Option Plan has a maximum term of four years; this means that stock options can no longer be issued under the Company's Stock Option Plan after 18 July 2010. 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 profit for the past financial year.

Each stock option entitles the bearer to subscribe to a bearer share of the Company at a share attributable to it of EUR 1.00 in the Company's share capital in exchange for payment of the exercise price. The new shares carry dividend rights from the beginning of the financial year in which it is issued. The subscription and acquisition rights may provide for the Company also being able to grant the beneficiary own shares or a remuneration payment in part or in full instead of new shares by making use of the Contingent Capital.

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 10 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. The exercise period begins on the date on which the beneficiaries are informed for the first time of the concrete offer to acquire stock options.

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 exercise price by more than 30% (absolute hurdle) and (b) on the last 10 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 performance targets may not be changed at a later date.

The options may only be exercised after a lock-up period of two years from their respective issue date. The issue date is the day on which the beneficiaries can accept the concrete offer to acquire stock options at the latest.

The stock options may be exercised in the five years following expiration of the lock-up period, subject to the reasons below, in each case four weeks after publication of the Company's quarterly figures (Q1, Q2, and Q3) and – to the extent that the Company publishes preliminary figures for the concluded financial year – four weeks after the publication of such figures (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 details for granting the stock options and the additional exercise conditions are determined by the Supervisory Board if the members of the Company's Board of Directors are affected. Otherwise, responsibility for determining these details lies with the Company's Board of Directors. The details primarily include selecting individual beneficiaries of options from the respective group of beneficiaries, granting options to individual beneficiaries, determining the execution and the procedure for conducting the exercise of options and issue of shares as well as rules on how to treat options in special cases.

The table below provides an overview of all granted, lapsed and exercised options. Numbers and exercise prices were adjusted in line with the capital increase from the share premium and the related bonus issue.

	2005	2004	2003	2002	2001	2000	1999	Total
Granted options	299,480	299,600	323,000	468,600	517,800	240,382	240,000	2,388,862
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	20.18	-
Forfeited options	17,060	11,580	15,800	70,000	164,400	125,428	69,000	473,268
Exercised options	0	0	95,200	343,000	246,500	16,936	-	701,636
Waived *)	0	0	0	0	0	0	171,000	171,000
Outstanding options	282,420	288,020	212,000	55,600	106,900	98,018	0	1,042,958
Exercisable options	0	0	212,000	55,600	106,900	98,018	0	472,518
Residual term (in months)	77	65	53	40	28	16	-	-

*) 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 2006, the beneficiaries made use of their stock options. A total of 302,436 shares were subscribed to at the exercise prices EUR 1.12 (EUR 2.24), EUR 2.14 (EUR 4.28) and EUR 2.96 (EUR 5.92). This resulted in an expense of EUR 4,588.25 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 2006 – 24 May 2006 | Share price: | EUR 5.43 |
| 2. Period 2: | 28 July 2006 – 24 August 2006 | Share price: | EUR 4.26 |
| 3. Period 3: | 26 October 2006 – 22 November 2006 | Share price: | EUR 4.43 |

The stock options granted from the Stock Option Plan 2004 (and all the following stock option plans) are accounted for under the provisions of IFRS 2 Share-Based Payment. The stock option plans are 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.

	2005	2004	Total
Granted options	282,420	299,600	582,020
Option price	0.9975	0.43	-
Total staff costs	281,713.95	128,828.00	410,541.95
Staff costs in financial year 2006	82,166.57	64,414.00	146,580.57

The staff costs are distributed over the two-year period during which they are incurred. Proportionate costs were recorded for 12 months for the stock options from 2004 and for 7 months for the stock options from 2005.

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

The exercise hurdles (absolute and relative hurdles) can only be taken into account approximately when measuring the options. However, these hurdles are deemed to have been overcome. In addition, the exercise windows can only be taken into account approximately 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 measurement approach chosen is rather conservative overall, even with this value-reducing deduction of the two-year options since after comparing the measurement gains/losses for US and European options from a conservative perspective, the more expensive US option measurement was preferred and furthermore both value-reducing exercise hurdles also remain unconsidered from a conservative perspective. The finite differences method with dividend distribution was used as the measurement model for these US options.

The following input parameters were chosen to measure the options:

1. The strike price of the recently-issued options to be measured from the Stock Option Plan 2004 was EUR 6.02.
2. Constant dividend distributions by Baader Wertpapierhandelsbank AG of EUR 0.10 p.a. are assumed.
3. To estimate the expected future volatility of Baader's shares, an implied volatility of 23% was assumed for the seven-year option (because of a lack of options on Baader's shares traded on the market) and 19% for the two-year option. The historical volatility of Baader's shares seems too high as a benchmark for the expected future volatility and is therefore less suited for measurement purposes.
4. The euro swap curve, which showed an interest rate of 3.91% for the seven-year option and 3.51% for the two-year option was assumed as the risk-free interest rate.
5. EUR 4.80 was used as a basis on the measurement date as a measurement price for the Baader shares.
6. Measurement was carried out on the date that the options were granted (26 May 2006).
7. Measurement of the short options which expire in 2013 resulted in a price of EUR 1.239 per option. Measurement of the long options which expire in 2008 resulted in a price of EUR 0.242 per option. This results in measurement of employee stock options of EUR 0.9975 per stock option.

SIGNIFICANT DIFFERENCES IN ACCOUNTING METHODS BETWEEN IAS/IFRS AND THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

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:

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.

Securities

Financial assets held for trading (assets and liabilities 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 available for sale 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.

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.

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.

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.

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)).

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.

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.

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.

Equity

Based on the rules of IAS 39, changes in measurement attributable to the available-for-sale portfolios and also effective portions of the measurement gains and losses on cash flow hedges must be taken directly to equity. This type of recognition directly in equity is not found in German accounting.

Treasury shares held on the balance sheet date are deducted from equity in accordance with IASs/IFRSs; gains and losses from treasury shares are charged directly to equity under reserves. In accordance with the provisions of HGB, a reserve for treasury shares must be recognised in the amount of the treasury shares reported on the assets side of the balance sheet while net trading income is recorded in the income statement.

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

(25) Cash reserve

The cash reserve is composed of the following items:

	31 December 2006	31 December 2005
Cash in hand	453.45	417.62
Deposits with Deutsche Bundesbank	484,520.69	2,585,378.45
Total	484,974.14	2,585,796.07

(26) Loans and advances to other banks

	31 December 2006 Germany	31 December 2006 Other countries	31 December 2005 Germany	31 December 2005 Other countries
Payable on demand	50,064,290.40	5,710,898.34	20,063,100.00	2,979,097.01
Other loans and advances	6,872,519.91	791,206.94	1,015,032.96	0.00
Loans and advances to banks	56,936,810.31	6,502,105.28	21,078,132.96	2,979,097.01
Allowance for losses on loans and advances	-6,916.55	-15,084.28	-2,195.84	0.00
Total	56,929,893.76	6,487,021.00	21,075,937.12	2,979,097.01

Loans and advances to other banks include deferred interest of EUR 56,984.55. The remaining maturities of the loans and advances to other banks are presented in the maturity structure (see note 69).

(27) Loans and advances to customers

	31 December 2006	31 December 2005
German customers	11,252,650.14	646,09.58
- -Companies	10,512,697.76	195,891.29
- -Private individuals	739,952.38	450,206.29
- -Other	13,156.83	0.00
International customers	1,790,711.54	2,270,323.35
- -Companies	1,559,323.69	2,125,229.00
- -Private individuals	231,387.85	145,094.35
- -Other	0.00	0.00
Loans and advances to customers	13,056,518.50	2,916,420.93
Allowance for losses on loans and advances	-87,656.21	-20,471.70.
Total	12,955,705.47	2,895,949.23

Loans and advances to customers include deferred interest of EUR 13,156.83. The remaining maturities of the loans and advances to customers are presented in the maturity structure (see note 69).

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

	Affiliates		Other investees and investors	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Loans and advances to customers	0.00	0.00	10,163,863.49	20,471.49
Total	0.00	0.00	10,163,863.49	20,471.49

Loans and advances to customers primarily include a receivable to SPAG St. Petersburg Immobilien und Beteiligungen AG (SPAG) of EUR 10,143,392.00. The receivable constitutes an equity repayment claim against the company due to a General Meeting resolution of SP AG. The repayment claim amounts to EUR 98.00 per share. Measuring the total exposure of SP AG as at 31 December 2006 at a market price of EUR 101.00 leaves a carrying amount of EUR 3.00 per share for the investment, which is still reported under the Equity-accounted investments item.

Loans and advances to customers contain loans and advances of EUR 10,425 thousand for which no interest payments are made.

The amounts reported under Loans and advances to customers less the allowance corresponds to the fair value of the loans and advances extended.

(28) 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	
	2006	2005	2006	2005	2006	2005	2006	2005
As at 1 January	22,667.54	166,828.89	0.00	0.00	0.00	0.00	22,667.54	166,828.89
Additions	62,185.55	2,196.05	0.00	0.00	0.00	0.00	62,185.55	2,196.05
Disposals								
- Utilisation	2,196.05	146,357.40	0.00	0.00	0.00	0.00	2,196.05	146,357.40
- Reversals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Changes in consolidated companies	27,000.00	0.00	0.00	0.00	0.00	0.00	27,000.00	0.00
As at 31 December	109,657.04	22,667.54	0.00	0.00	0.00	0.00	109,657.04	22,667.54

Taking write-offs and recoveries on loans and advances written off into account, the additions and reversals recognised in income led to an allowance for losses on loans and advances of EUR 62,185.55 (previous year: EUR 2 thousand).

(29) Assets held for trading

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

	31 December 2006	31 December 2005
Bonds and other fixed-interest securities	5,286,506.98	1,665,147.36
thereof:		
negotiable securities	5,286,506.98	1,665,147.36
listed securities	5,286,506.98	1,665,147.36
Equities and other non-fixed-interest securities	43,674,630.82	32,374,871.97
thereof:		
negotiable securities	43,188,948.19	32,374,871.97
listed securities	42,736,175.77	29,122,579.32
Positive fair value of derivatives	51,478.87	0.00
Total	49,012,616,67	34,040,019,33

Assets held for trading include shares of a convertible bond in the amount of EUR 1,525 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.

(30) 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 affiliates	Equity investments	Equities and other non-fixed-interest securities	Bonds and debt securities	Other equity investments
Cost					
- as at 1 January 2006	0.00	4,030,579.85	52,717,607.94	3,697,487.50	0.00
- additions	0.00	1,000.62	377,701.20	473,030.27	0.00
- reclassifications	0.00	-999,000.00	0.00	0.00	0.00
- disposals	0.00	0.00	12,167,904.17	58,187.50	0.00
- as at 31 December 2006	0.00	3,032,580.47	40,927,404.97	4,112,330.27	0.00
Revaluation reserve					
- as at 1 January 2006	0.00	2,762,751.88	8,213,325.62	0.00	0.00
- additions	0.00	5,286.00	801,324.86	-95,634.90	0.00
- disposals	0.00	512,081.36	3,945,523.36	0.00	0.00
- as at 31 December 2006	0.00	2,255,956.52	5,069,127.12	-95,634.90	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 2006	0.00	107,056.71	41,525,847.19	47,950.00	0.00
- current write-downs	0.00	1,000.00	0.00	0.00	0.00
- reclassifications	0.00	0.00	0.00	0.00	0.00
- disposals	0.00	0.00	9,648,124.41	0.00	0.00
- as at 31 December 2006	0.00	108,056.71	31,877,722.78	47,950.00	0.00
Carrying amounts					
- as at 31 December 2005	0.00	6,686,275.02	19,405,086.37	3,649,537.50	0.00
- as at 31 December 2006	0.00	5,180,480.28	14,118,809.31	3,968,745.37	0.00
thereof					
negotiable securities	0.00	5,180,478.15	14,030,019.76	3,968,745.37	0.00
listed securities	0.00	5,180,478.15	12,572,299.75	3,968,745.37	0.00

The available-for-sale financial instruments include deferred interest of EUR 76,083.22.

(31) Equity-accounted investments

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

	Equity-accounted investments
Cost	
- as at 1 January 2006	12,993,817.60
- adjustment to the previous years	8,384,061.73
- additions	6,030,221.53
- disposals	-14,163,824.16
- as at 31 December 2006	13,244,276.70
Accumulated changes from measurement at equity	438,500.00
Write-downs	
- as at 1 January 2006	0.00
- adjustment to the previous years	7,560,395.97
- current write-downs	0.00
- disposals	0.00
- reversals of write-downs	5,666,836.79
- as at 31 December 2006	1,893,559.18
Carrying amounts	
- as at 31 December 2005	13,817,483.36
- as at 31 December 2006	11,789,217.52
thereof	
negotiable securities	11,789,217.52
listed securities	2,825,117.52

The adjustment in the case of cost and accumulated write-downs of EUR 7,560,395.97 in each case were to rectify errors. In 2004, the equity-accounted investment in SPAG was mistakenly reported as an addition at a net carrying amount of EUR 2,993,817.60 under cost. The gross cost amounted to EUR 11,321,379.33 on this date and the accumulated write-downs to EUR 8,327,561.73.

Furthermore, the proportionate interests in the net profit of the previous year increase the cost item by EUR 823,665.76.

Disposals under the cost item primarily relate to the equity repayment claim against SPAG St. Petersburg Immobilien und Beteiligungen AG (SPAG) in the amount of EUR 10,143,392.00 which is reported under the Loans and advances to customers item. The repayment claim amounts to EUR 98.00 per share. Measuring the total exposure of SPAG as at 31 December 2006 at a market price of EUR 101.00 leaves a carrying amount of EUR 310,512.00 for the investment, which is still reported under the Equity-accounted investments item.

The reversals of write-downs only relate to the shares in SPAG (see note 3).

(32) 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 2006	5,479,092.01	23,557,851.92
- additions	246,706.98	89,160.70
- disposals	692,736.62	0.00
- changes in consolidated companies	174,385.29	0.00
- as at 31 December 2006	5,207,447.66	23,647,012.62
Reversals of write-downs in the year under review	0.00	0.00
Write-downs		
- as at 1 January 2006	3,834,473.99	2,726,005.74
- current write-downs	386,554.79	852,449.70
- disposals	597,352.12	0.00
- changes in consolidated companies	153,989.60	0.00
- as at 31 December 2006	3,777,666.26	3,578,455.44
Carrying amounts		
- as at 31 December 2005	1,644,618.02	20,831,846.18
- as at 31 December 2006	1,429,781.40	20,068,557.18

There was no reason to charge impairment losses. No earlier impairment losses were reversed in the year under review.

(33) Intangible assets

The following overview presents the changes in intangible assets:

	Software	Order books	Trading strategies
Cost			
- as at 1 January 2006	17,469,582.66	15,946,666.00	0.00
- additions	1,735,232.01	0.00	2,286,287.79
- disposals	359,529.53	0.00	0.00
- reclassifications	0.00	0.00	0.00
- as at 31 December 2006	18,845,285.14	15,946,666.00	2,286,287.79
Reversals of write-downs in year under review	0.00	0.00	0.00
Write-downs			
- as at 1 January 2006	10,484,130.08	3,901,936.00	0
- current write-downs	2,650,341.50	2,794,814.00	60,165.47
- disposals	225,697.64	0.00	0.00
- reclassifications	0.00	0.00	0.00
- as at 31 December 2006	12,908,773.94	6,696,750.00	60,165.47
Carrying amounts			
- as at 31 December 2005	6,985,452.58	12,044,730.00	0.00
- as at 31 December 2006	5,936,511.20	9,249,916.00	2,226,122.32

As part of the acquisition of the 49.96% interest in Conservative Concept Portfolio Management AG, the two trading strategies were identified as intangible assets which were previously excluded from the approach as internally generated assets, but must be carried separately as goodwill in the course of the acquisition.

(34) Goodwill

	Goodwill
Cost	
- as at 1 January 2006	2,581,093.59
- additions	1,578,474.04
- disposals	0.00
- reclassifications	0.00
- as at 31 December 2006	4,159,567.63
Reversals of write-downs in year under review	0.00
Write-downs	
- as at 1 January 2006	0.00
- current write-downs	0.00
- disposals	0.00
- reclassifications	0.00
- as at 31 December 2006	0.00
Carrying amounts	
- as at 31 December 2005	2,581,093.59
- as at 31 December 2006	4,159,567.63

The goodwill recognised is the net amount from the cost of business combinations and proportionate equity. Except for the trading strategies, no hidden reserves were ascertainable in identifiable assets and liabilities.

Additions to goodwill are solely attributable to the acquisition of the cash-generating unit CCPM. See also the additional explanations under note 3.

As at the 2006 balance sheet date, the Company reported the following goodwill in the IFRS consolidated financial statements:

Subsidiaries	Goodwill EUR thousand	Initial recognition Financial year
Baader Service Bank GmbH		
Baader Heins & Seitz Capital Management AG	963	2004
Conservative Concept Portfolio Management AG	1,618	2005
	1,578	2006
Total	4,159	

The impairment tests required for goodwill were carried out using an acknowledged measurement method, the discounted cash flow method, by discounting the cash flows expected after taxes for the subsidiaries based on long-term corporate planning with the help of a risk-adequate and maturity-matching capitalisation interest rate.

Using the corporate planning available for the 2007 to 2009 planning stage, the closer stage (detailed planning stage) was identified. Based on the findings from the first stage, a constant value was identified for the purposes of capitalising the government perpetual with regard to the annual cash flow. A risk-free base rate which was calculated and took taxes into account and a market risk premium calculated using the tax CAPM model were recognised as capitalisation interest rates.

The impairment test conducted did not reveal an impairment loss since the recoverable amount in each case substantially exceeded the reported goodwill.

(35) Income tax assets

Income tax assets relate to claims by the Group against the tax authorities for actual overpayment of taxes in the amount of EUR 11,626,557.14. As a result of the Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften (SEStEG – German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules), the previous system for reducing corporation tax has been replaced by the payment of corporate income tax credit in instalments. Overall, this has resulted in the capitalisation of the present value of the corporate income tax credit of EUR 11.6 million.

(36) Other assets

The other assets are composed of the following items:

	31 December 2006	31 December 2005
Other assets	6,146,120.62	4,665,035.87
Prepaid expenses	229,425.14	502,798.08
Total	6,375,545.76	5,167,833.95

Other assets include reinsurance claims to cover provisions for pensions of EUR 2,117 thousand.

(37) Deferred tax assets

Deferred tax assets constitute the potential income tax relief from timing differences between the carrying amounts of the assets and liabilities in the consolidated balance sheet in accordance with IAS/IFRS and the tax base amounts in accordance with the local tax law provisions of the Group companies. They are recognised when it is probable that the future tax benefit can actually be realised.

The Group has deferred tax assets in the amount of EUR 25,576 thousand. EUR 37 thousand of this was charged directly to equity.

Deferred tax assets were recognised in the following items:

	31 December 2006	31 December 2005
Loss carryforwards	25,364,444.78	27,905,209.78
Provisions for pensions	174,843.27	42,786.25
Available-for-sale financial instruments	36,895.94	0.00
Total	25,576,183.99	27,947,996.03

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.

Deferred tax assets from loss carryforwards arose as follows:

	Baader Wertpapierhandelsbank AG	Baader Service Bank GmbH	Total
Loss carryforward as at 31 December 2005 (EUR thousand)	142,172	3,060	145,232
- Use of loss carryforward in 2006	-12,549	-909	-13,458
= Loss carryforward as at 31 December 2006 (EUR thousand)	129,623	2,151	131,774
x Tax rate in %	38.53%	36.53%	-
= Tax claims as at 31 December 2006 (EUR thousand)	49,944	786	50,730
-50% valuation allowance (EUR thousand)	-24,972	-393	-25,365
= Deferred tax assets as at 31 December 2006 (EUR thousand)	24,972	393	25,365
- Deferred tax assets as at 31 December 2005 (EUR thousand*)	-27,355	-551	-28,757
Reversal of/addition to deferred tax assets/ tax expense in 2006 (EUR thousand)	-2,383	-158	-2,541

*) calculated based on a preliminary loss carryforward of EUR 144,823 thousand

In financial year 2006, tax loss carryforwards that are expected to be used amounted to EUR 131,774 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 write-downs charged in the past on shares in a subsidiary. According to an expert report 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 additions 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 38.53%/36.53%, deferred tax assets amount to EUR 50,730 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 tax assets this year, as part of a Group measurement policy.

In line with this, deferred tax assets on unused tax loss carryforwards of EUR 25,365 thousand were recognised in the consolidated financial statements for the year ended 31 December 2006. This resulted in a deferred tax expense of EUR 2,541 thousand recognised in income under the income taxes item in financial year 2006 following the recognition of deferred tax assets in the amount of EUR 28,757 thousand on 31 December 2005.

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 2006.

The change in deferred tax assets from measurement differences in provisions for pensions of EUR 132,057.02 is recognised in income as a deferred tax expense under the income taxes item.

According to the draft bill available as at 6 February 2007, from 2008 onwards the corporate income tax rate is set to be reduced from the current 25% to 15% and the basic trade tax rate from the current 5% to 3.5%. The aim is to reduce the average overall burden on corporations from the current 38.8% to 29.8%. In the current annual financial statements, the Group's current tax rate was recognised as it cannot yet be assumed with adequate certainty that the future tax rate will come into effect. To take future tax rates into account, it must be ensured that there are no longer any obstacles to fulfilling the material effectiveness requirements for the introduction of the amended tax rates as part of the legislative process; in Germany this is taken for granted when the Bundesrat (upper house of the German parliament) approves the tax laws passed.

(38) Deposits from other banks

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

	31 December 2006	31 December 2005
Payable on demand	13,423,437.61	7,339,034.30
With agreed maturity or notice	13,020,598.24	13,804,667.00
Total	26,444,035.85	21,143,701.30

The “with agreed maturity or notice” item comprises a loan for the refinancing of the business premises totalling EUR 13,020,598.24. The remaining maturities of the deposits from other banks are presented in the maturity structure (see note 69).

(39) Due to customers

Amounts due to customers primarily result from the subsidiary Baader Service Bank GmbH and is comprised as follows:

	31 December 2006	31 December 2005
German customers	8,958,500.77	6,183,423.82
- Companies	3,757,607.28	1,221,750.35
- Private individuals	5,178,779.91	4,961,673.47
- Other	22,113.58	0.00
International customers	23,040,676.36	10,727,641.12
- Companies	21,250,694.94	8,821,520.73
- Private individuals	1,789,981.42	1,906,120.39
- Other	0.00	0.00
Total	31,999,177.13	16,911,064.94

The due to customers item includes deferred interest of EUR 22,113.58. The remaining maturities of the amounts due to customers are presented in the maturity structure (note 69).

(40) Liabilities held for trading

Liabilities held for trading include derivatives with negative fair values.

	31 December 2006	31 December 2005
Negative fair values of derivatives	34,541.97	0.00
Total	34,541.97	0.00

(41) Provisions

Provisions are composed of the following items:

	31 December 2006	31 December 2005
Provisions for pensions	6,412,493.00	5,241,940.00
Other provisions	13,044,457.88	1,702,626.23
Total	19,456,950.88	6,944,566.23

Changes in provisions for pensions:

	2006	2005
Provisions for pensions (DBL) as at 1 January	5,241,940.00	4,800,703.00
Addition	1,392,260.00	832,680.00
Fair value change and transfer to plan assets	-142,428.00	-481,214.00
Reclassifications/change in consolidated companies	-79,279.00	89,771.00
Provisions for pensions (DBL) as at 31 December	6,412,493.00	5,241,940.00

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 note 19).

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

	2006	2005
Plan assets as at 1 January	708,830.00	185,324.00
Transfer/withdrawal	106,513.00	470,476.00
Return on plan assets	35,915.00	10,738.00
Benefits	-17,886.00	0.00
Other changes/changes in consolidated companies	-11,191.00	42,292.00
Fair value as at 31 December	822,181.00	708,830.00

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:

	2006	2005
Provisions for pensions (DBL) including plan assets as at 1 January	5,950,770.00	4,986,027.00
Current service cost	798,134.00	498,037.00
Interest cost	344,967.00	234,093.00
Settled actuarial gains/losses	203,184.00	-63,301.00
Settled past service cost	45,975.00	163,851.00
Other changes/changes in consolidated companies	-108,356.00	132,063.00
Unsettled past service cost	322,486.00	484,746.00
Unsettled actuarial gains/losses	1,068,274.00	1,251,727.00
Pension obligations (DBO) as at 31 December	8,625,434.00	7,687,243.00

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 2006 amounts to EUR 8,625 thousand (previous year: EUR 7,687 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 1,068 thousand (previous year: EUR 1,252 thousand), from changes in pension plans of EUR 322 thousand (previous year: EUR 485 thousand) and changes in the fair value of plan assets of EUR 822 thousand (previous year: EUR 709 thousand).

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

	As at 1 January 2006 EUR thousand	Reclassifications EUR thousand	Utilisation EUR thousand	Reversal EUR thousand	Addition EUR thousand	As at 31 December 2005 EUR thousand
Staff	4	0	4	0	0	0
Litigation	162	0	0	0	5	167
Cost	998	0	850	0	12,148	12,296
Miscellaneous	538	0	325	10	377	580
Taxes	0	0	0	0	1	1
Total	1,702	0	1,179	10	12,531	13,044

Other provisions primarily include a provision for the special contribution to be expected to the Entschädigungseinrichtung der Wertpapierhandelsunternehmen (EdW – German Compensatory Fund of Securities Trading Companies) as well as the cost allocation of supervisory authorities.

In the period from 1992 – 2005, Phoenix Kapitaldienst GmbH caused losses for approximately 30,000 investors according to information currently available, which is based largely on press reports however. The losses are said to amount to approximately EUR 180 – EUR 200 million.

The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the Federal Financial Supervisory Authority) established on 15 March 2005 that Phoenix Kapitaldienst GmbH should pay out compensation. As part of the compensation proceedings, the EdW – a special federal fund with the Kreditanstalt für Wiederaufbau (KfW) – examined whether and to what extent the investors are entitled to compensation.

In accordance with section 4 (2) of the Einlagensicherungs- und Anlegerentschädigungsgesetz (EAEG – German Deposit Guarantee and Investor Compensation Act), each investor is entitled to compensation of 90% of his/her receivables from securities trading but a maximum of

EUR 20,000. According to information in the press, it is estimated that the EdW currently has free assets of just under EUR 10 million at its disposal. The EdW's funds must be raised by its members through annual contributions and special contributions (section 8 (1) of the EAEG). In the event that the compensation proceedings require it, the EdW must collect special contributions and raise loans in accordance with section 8 (2) of the EAEG in conjunction with section 5 of the Beitragsverordnung (BeitragsVO – Contribution Regulation). When raising loans, the EdW may demand special payments for the redemption and interest-payments. The amount of the special contributions or special payments per member depends on the percentage of the amount to be paid most recently by the member of the total contribution revenue.

As an institution in terms of the KWG, Baader Wertpapierhandelsbank AG has an obligation under section 2 of the EAEG to guarantee its deposits and liabilities from securities trading through membership of a compensatory fund. As a securities trading bank, it does not have any deposits and is therefore classified as belonging to the EdW.

It is not yet certain whether and when the EdW special payments or special contributions will be demanded and in what amount. While the company has an idea, there is no solid evidence relating to this. It is also known that compensation claims against the BaFin and the most recent auditors of the financial statements are being investigated as part of legal reports. In addition, there is a wide-ranging debate at political level about the legality of the EAEG and therefore about the EdW.

While Baader Wertpapierhandelsbank AG's Board of Directors believes that a potential special contribution is not acceptable legally, there is a business risk that a special contribution will be collected since BaFin has established that there are grounds for compensation and the EdW has to pay out compensation. This risk was taken into account in the Group by recognising a provision in the amount of EUR 12,078 thousand.

(42) Provisions for income taxes

The provisions for income taxes of EUR 1,641,483.46 are the current tax liabilities of the Group companies for which no legally valid tax bill has yet been issued.

(43) Other liabilities

Other liabilities of EUR 11,550,201.88 (previous year: EUR 8,281 thousand) primarily include outstanding invoices and accrued liabilities (EUR 9,087 thousand) and salary deductions (EUR 979 thousand) still to be paid.

Other liabilities also include cash receipts for the capital increase at CCPM AG of EUR 278,312.50. This capital increase was solely subscribed to by external third parties.

(44) Deferred tax liabilities

Deferred tax liabilities constitute the potential income tax charges from timing differences between the carrying amounts of the assets and liabilities in the consolidated balance sheet in accordance with IASs/IFRSs and the tax base amounts in accordance with the local tax law provisions of the Group companies.

Deferred tax liabilities were recognised in the following items:

	31 December 2006	31 December 2005
Assets held for trading	1,669,963.02	1,295,202.49
Available-for-sale financial instruments	1,309,139.49	2,457,643.88
Intangible assets	857,724.94	0.00
Provisions for pensions	0.00	221.74
Total	3,836,827.45	3,753,068.11

The changes in deferred tax liabilities from measurement differences in the available-for-sale financial instruments category of EUR 1,148,504.39 are charged directly to equity in the revaluation reserve. The recognition or dissolution of deferred tax liabilities from measurement differences in assets held for trading and provisions for pensions of EUR 374,538.79 in total was recognised in the net profit for the period as income tax expense.

Deferred tax liabilities arose in connection with intangible assets in the company acquisition and purchase price allocation of CCPM. They relate to the trading strategies identified as intangible assets and are reversed in line with the useful lives of the assets to the benefit of income taxes.

(45) Equity

	31 December 2006 EUR	31 December 2005 EUR
a) Issued capital	45,493,404.00	22,601,984.00
b) Share premium	60,977,655.15	83,473,389.09
c) Retained earnings	8,000,000.00	0.00
d) Revaluation reserve	6,125,477.95	8,686,706.38
e) Currency translation reserve	-736.70	0.00
f) Consolidated net profit	30,667,902.22	12,194,811.07
Total before minority interests	151,263,702.62	126,956,890.54
Minority interest	1,362,441.73	133,038.31
Equity	152,626,144.35	127,089,928.85

a) Issued capital

The issued capital (share capital) on 31 December 2006 comprised 45,908,682 no-par value bearer shares totalling EUR 45,908,682.00.

	Shares
Number of shares outstanding at 1 January 2006	22,601,984
Plus: Treasury shares held at 31 December of the previous year	352,357
Bonus issue	22,954,341
Number of shares issued on 31 December 2006	45,908,682
Less: Treasury shares held at the balance sheet date	415,278
Number of shares outstanding at 31 December 2006	45,493,404

Before elimination of the treasury shares, the issued capital amounts to EUR 45,908,682.00. 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 December 2006		31 December 2005	
	€thousand	Shares	€thousand	Shares
Issued shares	45,909	45,908,682	22,954	22,954,341
./. Treasury shares held	415	415,278	352	352,357
= Outstanding shares (issued capital)	45,494	45,493,404	22,602	22,601,984
+ Shares of authorised capital not yet issued	11,477	11,477,170	11,477	11,477,170
Total	56,971	56,970,574	34,079	34,079,154

In accordance with section 71 (1) no. 7 of the AktG, the General Meeting on 19 July 2006 authorised Baader Wertpapierhandelsbank AG to buy and sell own shares initially up to 19 January 2008 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 19 July 2006, 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 Baader Wertpapierhandelsbank AG's 1999 and 2004 Stock Option Plans in accordance with the authorisation by the General Meetings on 18 June 1999 and 14 July 2004 and to offer them to the persons listed in the resolution of the General Meeting on 19 July 2006 (Board of Directors and employees of Group companies) for subscription as part of the 2006 Stock Option Plan of Baader Wertpapierhandelsbank AG in accordance with the resolution of 19 July 2006 or to withdraw them. The authorisation is limited to the acquisition of own shares up to a maximum of

10% of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, in order to pursue one or more of the stated goals. The authorisation is initially valid until 19 January 2008. 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 is 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 is authorised, with the approval of the Supervisory Board, to offer the Company's treasury shares that were acquired as a result of this authorisation to holders of options as part of the 2006 Stock Option Plan resolved by the General Meeting of 2006.

The subscription right of the shareholders to these treasury shares is disappplied insofar as these shares are used in accordance with the aforementioned authorisations.

The Board of Directors is 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 19 July 2006 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 January 2008.

b) 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.

c) Retained earnings

Retained earnings comprise other retained earnings of EUR 8,000 thousand (previous year: EUR 0 thousand). The addition is based on the General Meeting resolution of 19 July 2006.

d) 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 from the capital consolidation of Baader Heins & Seitz Capital Management AG 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.

	2006 €thousand	2005 €thousand
Measurement of available-for-sale financial instruments	7,230	10,976
Deferred taxes from measurement of available-for-sale financial	-1,273	-2,457
Capital consolidation of gradual acquisition	168	168
Total	6,125	8,687

e) Currency translation reserve

The currency translation reserve includes foreign exchange gains and losses that arose in capital consolidation. Exchange rate differences from the consolidation of foreign subsidiaries that do not report in the reporting currency were included here.

f) 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 2006. 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 0.25 per share is to be proposed to the General Meeting on 26 June 2007. The distribution total is EUR 11,373 thousand for the 45,493,404 shares that are currently outstanding. In the previous year, a dividend of EUR 0.18 per share was distributed.

An amount of EUR 15,750 thousand is due to be appropriated to retained earnings. The remaining unappropriated surplus will be carried forward to new account.

(46) 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 January 2006	Additions	Expiry/ utilisation	Contingent capital 31 December 2006
Issuance of shares	900	900	0	1,800
Convertible bonds/warrants from bonds with warrants	10,000	10,000	0	20,000
Total	10,900	10,900	0	21,800

The General Meeting on 19 July 2006 resolved a contingent capital increase of up to EUR 1,200,000.00 in real terms. This contingent capital increase will only be implemented by issuing up to 1,200,000 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 19 July 2006 resolved a further 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 2004 on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).

The share capital was contingently increased by up to EUR 20,000,000.00 by means of the General Meeting resolution of 19 July 2006 through the issue of up to 20,000,000 new bearer shares (Contingent Capital 2005). The contingent capital serves to grant rights to the holders or creditors of convertible bonds and/or of warrants from bonds with warrants issued up to 28 June 2010 by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest in accordance with the resolution of the General Meeting of 29 June 2005. 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 were 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 contingent capital increase and its implementation.

In the General Meeting of 19 July 2006, the new stock option plans were resolved and the Board of Directors was authorised to issue options on a total of up to 1,600,000 shares of the company. The options can only be serviced through contingent capital, treasury shares or cash payments. However, it was not possible to enter the originally intended contingent capital that was resolved under agenda item 7a) of the General Meeting on 19 July 2006 into the commercial register because the Company had already made use of the thresholds attributable to the total volume of their contingent capital. The reduction in the total volume of the contingent capital in the forthcoming General Meeting provides the opportunity to create new contingent capital to underlay the options to be issued under the 2006 Stock Option Plan.

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

(47) Authorised capital

Date of resolution	Original amount	Utilised for capital increases in previous years	Utilised in 2005 for capital increases	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 2,295,434.00 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 9 July 2007. Shareholders' subscription rights may be disappplied, 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 subscription rights, it can only disapply shareholders' subscription 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 9,181,736.00 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' subscription rights and determine the further details of the capital increase in each case and the terms of the share issue. Shareholders' subscription rights may only be disappplied under the terms of a capital increase against non-cash contributions 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 by 31 December 2006. Authorised Capital I amounted to EUR 2,295,434.00 as at 31 December 2006, and Authorised Capital II amounted to EUR 9,181,736.00.

(48) Foreign currency items

The following assets and liabilities were reported in foreign currency on the balance sheet date:

	2006 €thousand	2005 €thousand
Loans and advances to banks	2,213	962
Loans and advances to customers	55	484
Assets held for trading	23	0
Available-for-sale financial instruments	396	0
Other balance sheet items	54	0
Foreign currency assets	2,741	1,446
Deposits from other banks	3	0
Due to customers	1,244	1,596
Liabilities held for trading	22	0
Other balance sheet items	405	0
Foreign currency liabilities	1,674	1,596

(49) Derivative transactions

Derivative transactions were conducted for both trading and hedging purposes. Except for one case, the transactions involved exchange-traded stock options and futures.

	Fair value 31 December 2006		Fair value 31 December 2005	
	Positive	Negative	Positive	Negative
Derivatives used for trading purposes	22,968.87	34,541.97	0.00	0.00
Derivatives used as hedging instruments for cash flow hedge accounting	28,510.00	0.00	0.00	140,866.31
Total	51,478.87	34,541.97	0.00	140,866.31

In the case of the derivative transactions for hedging purposes, received and paid option premiums are reported as assets held for trading and are measured at their nominal amount. Similarly, margin obligations and claims on futures are recognised as liabilities held for trading and are 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).

CONSOLIDATED INCOME STATEMENT DISCLOSURES

(50) Net interest expense

The net interest expense is composed of the following items:

	2006	2005
Interest income from	1,429,212.06	452,479.42
- credit and money market transactions	1,429,212.06	452,479.42
- fixed-interest securities	0.00	0.00
Interest expense	-877,769.04	-933,584.63
Total	551,443.02	-481,105.21

Interest expenses are composed primarily of interest expenses for loans amounting to EUR 547,181.24 and interest expenses on client funds amounting to EUR 228,551.36.

(51) Allowance for losses on loans and advances

The allowance for losses on loans and advances in the consolidated income statement is composed as follows:

	2006	2005
Additions to allowance	-62,185.55	-2,196.05
Reversals	0.00	0.00
Total	-62,185.55	-2,196.05

(52) Net fee and commission

	2006	2005
Fee and commission income	51,134,818.00	35,919,083.55
- Brokerage fee income	39,133,439.99	28,026,003.93
- Order routing	5,857,812.86	2,819,109.19
- Capital market services	2,008,533.63	1,970,644.46
- Brokerage of promissory note loans	1,709,374.83	3,047,924.49
- Brokerage commissions	1,624,907.18	9,292.27
- Management and performance fee	348,615.95	46,109.21
- Other fee and commission income	452,133.56	0.00
Fee and commission expense	-14,289,221.18	-11,531,690.63
- Brokerage fee expenses	-1,782,428.09	-2,349,718.34
- Order routing	-2,190,910.15	-594,333.06
- Capital market services	-31,050.00	-35,387.13
- Brokerage of promissory note loans	-170,398.63	0.00
- Settlement fees	-9,038,796.09	-7,058,639.39
- Other fee and commission expense	-1,075,638.22	-1,493,612.71
Total	36,845,596.82	24,387,392.92

(53) Net trading income

Net trading income reflects net income from trading with securities and derivatives. All of the financial instruments in the trading portfolio are measured at fair value. To measure listed products, we use market process; for non-listed trading transactions, measurement of the fair value is based on internal price models. In addition to realised and unrealised earnings from trading activities, net trading income includes the interest and dividend income as well as refinancing costs attributable to these transactions.

	2006	2005
Securities trading	49,712,904.24	34,845,753.33
- Interest and dividends	696,530.55	624,756.48
- Securities	27,462,734.64	21,049,240.70
- Options and futures	57,191.87	-6,181.59
- Price differences	21,496,447.18	13,177,937.74
Foreign currencies	7,704.62	45,204.33
- Exchange differences resulting from foreign currency transactions	12,638.40	21,137.10
- Other	-4,933.78	24,067.23
Total	49,720,608.86	34,890,957.66

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

Capital and measurement gains/losses from the sale of available securities and investments are reported under net income from available-for-sale financial instruments.

	2006	2005
Interest and dividend income	549,326.68	433,503.80
- Fixed-interest securities	171,268.11	278,626.40
- Equities/other non-fixed-interest securities	21,220.48	63,364.30
- Investments in other investees	356,838.09	91,513.10
Gain/loss on the sale of available-for-sale financial instruments	5,457,809.41	614,969.51
- Equities/other non-fixed-interest securities	5,457,809.41	614,969.51
- Investments in other investees	0.00	0.00
Write-downs	-1,000.00	-322,547.75
- Write-downs	-1,000.00	-322,547.75
- Reversals of write-downs	0.00	0.00
Total	6,006,136.09	725,925.56

(55) Net income from equity-accounted investments

	2006	2005
Share of net income	6,248,211.33	823,665.76
Goodwill impairment	0.00	0.00
Total	6,248,211.33	823,665.76

The share of net income comprises the reversal of the write-down in the case of SPAG and the proportionate profit from the special funds.

In segment reporting, net income from equity-accounted investments is disclosed in the Consolidation column.

(56) Administrative expenses

	2006	2005
Staff costs	-37,699,767.18	-27,118,221.39
- Salaries and wages	-33,626,516.61	-24,423,165.28
- Social security contributions	-2,573,982.56	-2,210,695.32
- Expenses for pensions and other benefits	-1,499,268.01	-484,360.79
Other administrative expenses	-18,712,909.36	-16,151,509.87
Amortisation of intangible assets, depreciation of property and equipment and write-downs	-6,744,325.46	-7,141,947.92
- Operating and office equipment	-386,554.79	-2,899,200.65
- Property	-852,449.70	-936,749.35
- Intangible assets	-5,505,320.97	-3,305,997.92
Total	-63,157,002.00	-50,411,679.18

The salaries and wages item contains variable salary components in the amount of EUR 16,367 thousand (previous year: EUR 9,282 thousand). Expenses in conjunction with the allocation to reserves of the pension reserves (EUR 1,170 thousand), as well as the expenses from defined contribution plan commitments (EUR 51 thousand), are contained in the expenses for pensions and other benefits.

(57) Other operating income/expenses

	2006	2005
Other operating income	2,042,437.86	1,640,913.51
Other operating expenses	-12,678,550.15	-425,603.99
Total	-10,636,112.29	1,215,309.52

The other operating income encompasses items which cannot be allocated to other items in the consolidated income statement. This mainly involves income from remuneration for non-monetary benefits from the use of company cars and the provision of stock options (EUR 1,186

thousand), of prior-period income (EUR 99 thousand), rental income (EUR 267 thousand) and income from sponsoring (EUR 178 thousand).

Other operating expenses encompasses items which cannot be allocated to other items in the consolidated income statement. They primarily relate to the allocation to a provision in the amount of EUR 12,078 thousand for potential utilisation by the EdW in connection with the payment of investors who suffered losses due to the collapse of Phoenix Kapitalgesellschaft GmbH. A more detailed description of the facts can be found under note 41.

(58) Income taxes on profit from ordinary activities

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

	2006	2005
Current income taxes	-3,712,915.38	-1,445,282.32
Refund of corporate income tax credit	11,608,564.08	0.00
Deferred taxes	-2,760,065.02	-1,700,548.84
Total	5,135,583.68	-3,145,831.16

The deferred taxes of the deferred tax assets include tax expense from the dissolution of benefits recognised as assets arising from tax loss carryforwards of EUR 2,541 thousand which were not used in the financial year (see note 37).

	2006	2005
Deferred tax assets	-2,408,707.98	-938,138.87
Deferred tax liabilities	-351,357.04	-762,409.97
Total	-2,760,065.02	-1,700,548.84

In financial year 2006 the deferred taxes are calculated together with the tax rates specific to the enterprise.

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.

	2006 €thousand	2005 €thousand
Net profit before income taxes in accordance with IASs/IFRSs	25,517	11,148
Group income tax rate (%)	38.53%	38.58%
Expected income tax expense in financial year	9,843	4,301
Effects of expenses with no impact on taxes	1,201	689
Effects of tax-free income	-1,794	-509
Effects of loss carryforwards	-5,241	-2,446
Reversals of deferred taxes on loss carryforwards	2,541	851
Recognition of corporate income tax credit as asset	-11,608	0
Effects of taxes from previous years recorded in the financial year	96	243
Other effects	-163	17
Income tax expense	-5,136	3,146

(59) 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 numerator), which is divided by the weighted number of common shares (denominator) outstanding on average during the financial year. The previous year's figures were adjusted due to the capital increase from the share premium and the share split related to this.

	2006	2005
Profit for the period	30,571,771.54	7,922,477.32
Weighted average number of outstanding shares	45,357,287	44,999,440
Earnings per share	0.67	0.18

The diluted earnings per share is also EUR 0.67. The exercisable stock options that are "in the money" (see note 24), which are accounted for in the calculation of the weighted average number of outstanding shares for the diluted earnings per share, do not affect the amount.

There is authorised capital totalling EUR 11,477,170.00 for which the subscription rights of the shareholders can be disapplied in accordance with section 203 (2) of the AktG (see note 47). This authorised capital was not included in the calculation of diluted earnings as it has no diluting effect in the present period.

As the Company can choose to grant treasury shares to serve the employee stock option plans, the contingent capital increases (see note 46) do not have any diluting effects. This also applies to the contingent capital increase through the issue of convertible bonds as the authorisation has not yet been.

The net profit is not subject to any dilution.

(60) Segment reporting

Segment reporting in the consolidated financial statements of Baader Wertpapierhandelsbank AG as at 31 December 2006 is classified by business segments. Four sub-activities have been defined as the Group's primary business segments: Specialist Activities and Proprietary Trading, Agency Business, Capital Market Services and Financial Portfolio Management. In the Others/Consolidation column, along with reports of movements that do not relate directly to the four 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 2006, the Group managed, as a provider of specialist activities, 10,128 primarily foreign order books related to equities, 7,917 order books for bonds and profit participation certificates, and 101,705 order books for warrants, certificates and ETFs and 829 order books for funds. As a provider of specialist activities, it 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. The focus here is on trading in exchange-traded derivatives. Baader Heins & Seitz Capital Management AG 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 as 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.

The Financial Portfolio Management segment was set up in financial year 2006. Financial portfolio management comprises the management of individual assets invested in financial instruments for others with scope for making decisions. In its function as an investment manager, Baader Service Bank offers alternative investments. This business segment also includes the operations of Conservative Concept Portfolio Management AG and Conservative Concept AG which focus on designing and implementing alternative investment strategies and specialised in employing futures and options in the form of single hedge funds, managed accounts and certificates.

Breakdown by business segment

Financial year 2006	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Management	Others/ Consolidation	Group
Net interest expense	-88,033.20	136,571.96	27,026.18	475,878.08	0.00	551,443.02
Allowance for losses on loans and advances	0.00	29,339.77	3,250.00	29,595.78	0.00	62,185.55
Net interest expense after allowance for losses on loans and advances	-88,033.20	107,232.19	23,776.18	446,282.30	0.00	489,257.47
Net fee and commission income	27,271,409.18	6,217,248.40	1,960,906.23	1,674,756.06	-278,723.05	36,845,596.82
Net trading income	44,146,079.41	5,345,863.31	437,631.73	12,401.36	-221,366.95	49,720,608.86
Net income from available-for-sale financial instruments	418,098.59	0.00	11,480,274.29	29,387.06	-5,921,623.85	6,006,136.09
Net income from equity-accounted investments	0.00	0.00	0.00	0.00	6,248,211.33	6,248,211.33
Net income from financial operations	44,564,178.00	5,345,863.31	11,917,906.02	41,788.42	105,220.53	61,974,956.28
Directly attributable administrative expenses	28,827,515.11	-7,705,841.78	-1,033,681.61	-1,271,724.79	0.00	38,838,763.29
Other operating income	10,289,663.19	-71,044.22	46,630.45	44,722.57	-366,757.90	10,636,112.29
Earnings after directly attributable income/expenses	32,630,375.68	3,893,457.90	12,915,537.27	935,824.56	-540,260.42	49,834,934.99
Indirectly attributable administrative expenses	14,609,116.84	-7,012,485.91	-1,637,594.64	-1,462,390.95	403,347.90	24,318,238.71
Profit from ordinary activities	18,021,260.57	-3,119,028.01	11,277,942.63	-526,566.39	-136,912.52	25,516,696.28
Segment assets in €thousand	110,504	49,149	35,605	15,639		210,897
Segment liabilities in €thousand	35,633	47,971	4,320	2,056		89,980
Risk-weighted assets in €thousand	130,523	34,063	25,194	7,595		197,375
Allocated capital in €thousand	93,675	42,368	10,510	6,074		152,626
Profitability of the allocated capital in regard to profit before taxes	19.2%	-7.4%	107.3%	-8.7%		16.7%
Investments in property and equipment and in intangible assets in the reporting period, in €thousand	1,206	643	139	2,351		4,357
Write-downs of segment assets in €thousand	5,424	1,096	139	85		6,744
Average number of employees during the year	93	48	7	10	94	252

Breakdown by business segment (previous year)

Financial year 2005	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Management	Others/ Consolidation
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 allowance for losses on loans and advances	-653,149.67	164,395.61	5,452.80	0.00	-483,301.26
Net fee and commission income	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	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 €thousand	91,854	34,401	27,458	0	153,713
Segment liabilities in €thousand	23,140	28,064	1,984	0	53,188
Risk-weighted assets in €thousand	118,253	23,708	21,455	0	163,416
Allocated capital in €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 €thousand	1,152	600	97	0	1,849
Write-downs of segment assets in €thousand	5,993	1,019	130	0	7,142
Average number of employees during the year	89	49	7	75	220

The allocated capital disclosed in segment reporting corresponds to the consolidated equity reported in the balance sheet.

OTHER DISCLOSURES

(61) Risk reporting

Please refer to the comments in the Risk Report, which is a part of the Group Management Report, for details of market price risks and credit risks. No significant interest rate change risks existed for the Group as at 31 December 2006.

(62) 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 already shown by the accounting treatment.

	31 December 2006	31 December 2005
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	2,315,866.96	1,367,564.48

(63) 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 while securities that have been borrowed are not carried. Expenses and income resulting from securities lending transactions were, insofar as they involved the past financial year, taken into account in the consolidated income statement under net fee and commission income in line with their term.

	31 December 2006	31 December 2005
Lent securities	84,285.00	0.00
Borrowed securities	14,087.50	291,812.26

(64) Trust activities

The trust activities not reported in the balance sheet amounted to EUR 190 thousand on the balance sheet date.

(65) Other financial obligations

There are financial obligations, deriving from rental contracts for office space and car parking spaces, totalling EUR 1,523 thousand, with remaining terms of between 7 to 52 months.

In addition, there are obligations arising from vehicle leases and leases for operating and office equipment in the amount of EUR 7,652 thousand, with remaining terms of between 3 to 52 months. EUR 2,730 thousand of this is attributable to the “less than one year” term band and EUR 4,922 to a term of between 1 and 5 years.

(66) Collateral

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

	31 December 2006	31 December 2005
Loans and advances to banks	5,690,179.51	2,554,900.00
Loans and advances to customers	0.00	381,097.16
Assets held for trading/available-for-sale financial instruments	12,205,671.15	8,844,782.00
Other assets	2,862.48	511.28
Total	17,898,713.14	11,781,290.44

The collateral was primarily provided for conducting securities trading, securities lending transactions and to cover 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 payments (margin requirements) for listed options and futures trading conducted through the Bank. As a rule, they are made available with a maturity of 6 months. The Lombard loans are backed by valuable collateral, as a rule through the pledging of securities. On 31 December 2006, the fair value of the securities pledged to Baader Service Bank GmbH was EUR 3,376,787.36.

(67) Borrowing costs

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

(68) Fair value of financial instruments

The individual assets and liabilities are measured 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. Where available, market prices (for securities, for example) were used for measurement. Internal measurement models with current market parameters were used if it was not possible to determine a market price. For reasons of simplicity, the fair value was stated as the balance sheet value 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 of 31 December 2006.

(69) Maturity structure

The consolidated balance sheet, broken down by maturity, presented the following picture at the 2006 balance sheet date:

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No expiration	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Assets						
Cash reserve	485	0	0	0	0	485
Loans and advances to banks	63,439	0	0	0	0	63,439
Loans and advances to customers	10,891	2,072	93	0	0	13,056
Allowance for losses on loans and advances	-110	0	0	0	0	-110
Assets held for trading	45,467	2,021	1,525	0	0	49,013
Available-for-sale financial instruments	0	3,573	396	0	19,299	23,268
Equity-accounted investments	0	0	0	0	11,789	11,789
Property and equipment	0	0	0	0	21,498	21,498
Intangible assets	0	0	0	0	17,412	17,412
Goodwill	0	0	0	0	4,160	4,160
Income tax assets	18	0	4,644	6,965	0	11,627
Other assets	3,906	0	882	1,472	116	6,376
Deferred tax assets	0	0	25,576	0	0	25,576
Total assets	124,096	7,666	33,116	8,437	74,274	247,589
Liabilities and equity						
Deposits from other banks	13,423	0	13,021	0	0	26,444
Due to customers	31,999	0	0	0	0	31,999
Liabilities held for trading	0	0	0	0	35	35
Provisions	0	13,044	0	0	6,412	19,456
Provisions for income taxes	0	1,642	0	0	0	1,642
Other liabilities and accruals	5,141	6,409	0	0	0	11,550
Deferred tax liabilities	1,693	1,377	361	406	0	3,837
Equity	0	0	0	0	152,626	152,626
Total liabilities and equity	52,256	22,472	13,382	406	159,073	247,589

The consolidated balance sheet, broken down by maturity, presented the following picture at 31 December 2005:

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No expiration	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Assets						
Cash reserve	2,586	0	0	0	0	2,586
Loans and advances to 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
Income tax assets	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 income taxes	0	341	0	0	0	341
Other liabilities	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

(70) 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.

	2006 EUR	2005 EUR
Audit of the annual accounts	418,650.00	346,110.00
Other confirmation and valuation services	39,440.00	0.00
Tax consultancy services	82,920.41	72,790.93
Other services performed	30,044.00	31,106.30
Total	571,054.41	450,007.23

(71) Employees

An average of 252 staff (226 staff in the previous year) were employed by Baader Wertpapierhandelsbank AG Group in the year under review. At the balance sheet date there were 266 employees. 165 were employees in trade-related areas and 101 were employees in the administration departments. The Group's workforce comprises 70 female employees and 196 male employees who come from 12 countries.

(72) Related party disclosures

The General Meeting of Baader Wertpapierhandelsbank AG resolved the following on 19 July 2006: "There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 HGB and section 314 I no. 6 lit. a clauses 5 to 9 HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements". As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the Aktiengesetz (AktG – German Stock Companies Law).

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 2006), EUR 1,858 thousand is reported as the total compensation for members of the Board of Directors in financial year 2006. This includes non-cash compensation of EUR 116 thousand which must be treated as monetary value benefits for tax purposes. In specific cases, the total remuneration also contains the remuneration granted for the financial year for assuming executive body functions at consolidated companies (EUR 12 thousand). Based on accrual accounting under commercial and accounting law, and subject to the Baader Wertpapierhandelsbank AG annual financial statements being available in the present form for financial year 2006, the variable remuneration for financial year 2006 (to be disbursed in 2007) amounts to EUR 644 thousand.

In accordance with the accrual principle:

	2006 EUR	2005 EUR
Board of Directors		
- fixed compensation	1,472,587.00	1,773,855.10
- variable compensation	257,983.24	146,921.00
Total	1,730,570.24	1,920,776.10

The members of the Board of Directors also receive, along with their fixed compensation and the performance-related variable compensation, options deriving from the Baader Wertpapierhandelsbank AG stock option plan (see note 24). A total of 75,000 stock options were issued to the Board of Directors in financial year 2006. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2005.

	2005	2004	2003	2002	2001	2000	Total
Granted options	75,000	75,000	103,000	170,000	172,000	83,804	678,804
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	19,000	58,000	37,714	114,714
Exercised options	0	0	43,000	137,000	84,000	15,240	279,240
Outstanding options	75,000	75,000	60,000	14,000	30,000	30,850	284,850
Exercisable options	0	0	60,000	14,000	30,000	30,850	134,850
Residual term (in months)	77	65	53	40	28	16	-

The Bank provides for pensions for two members on the Board of Directors and one former member of the Board. The existing pension obligations (DBO) as at 31 December 2006 in accordance with IASs for active Board of Directors members and former Board of Directors members amount to EUR 8,075,341 (previous year: EUR 7,097 thousand).

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 conducted by the members of the Board of Directors to be provided in the notes. In accordance with section 15a of the WpHG, purchases and sales by members of the Board of Directors must be reported and published if they exceed a yearly exemption of EUR 5000.00. The Company publishes these on its Internet website. In the financial year, one purchase (3,000 shares to the value of EUR 14,100.00) and one sale (8,800 shares to the value of EUR 50,737.30) were reported.

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH in Munich, Germany. No transactions were conducted between the two companies in the past financial year. The equity interest of Mr. Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). Furthermore, Uto Baader holds 137,512 shares privately. In total, Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. As at 31 December 2006, the members on the Board of Director held a total of 30,860,968 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Compensation of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank. Accordingly, the Supervisory Board members receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a

variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The fixed compensation is paid in the final month of the financial year. The variable compensation is payable after the ordinary General Meeting that resolves on utilisation of the unappropriated surplus for the relevant financial year.

For financial year 2006, the Supervisory Board received the following compensation according to the accrual principle:

	2006 EUR	2005 EUR
Supervisory Board (without indemnification or disbursements)		
- fixed compensation	174,000.00	185,600.00
- variable compensation	87,290.93	31,691.50
Total	261,290.93	217,291.50

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2006 in the present form, this will result in a variable compensation for financial year 2006 totalling EUR 204,828.75 thousand.

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives on the Supervisory Board receive stock options under the conditions of the stock option plans resolved by the General Meeting of 14 July 2004, these payments are due to their position as employees of Baader Wertpapierhandelsbank AG and are independent of their supervisory function.

As employees of the Company, the employee representatives on the Supervisory Board received 2,400 stock options overall in financial year 2006. The table below shows the changes in the stock options of the employee representatives on the Supervisory Board for financial years 2000 to 2005.

	2005	2004	2003	2002	2001	2000	Total
Granted options	2,440	2,640	2,800	4,000	5,200	1,590	18,670
Exercise price	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0	0	0
Exercised options	0	0	0	4,000	5,200	0	9,200
Outstanding options	2,440	2,640	2,800	0	0	1,590	9,470
Exercisable options	0	0	2,800	0	0	1,590	4,390
Residual term (in months)	77	65	53	40	28	16	-

The monetary value of the stock options for the employee representatives on the Supervisory Board who received stock options in 2005 as employees of the Company amounts to EUR 2,433.90 (previous year: EUR 1,135.20). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 0.9975 per share (previous year: EUR 0.43 per share).

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 Supervisory Board to be provided in the notes. In accordance with section 15a of the WpHG, purchases and sales by members of the Supervisory Board must be reported and published if they exceed a yearly exemption of EUR 5,000.00. The Company publishes these transactions on its Internet website. In the financial year, no purchases or sales by members of the Supervisory Board were reported.

As at 31 December 2006, no Supervisory Board member owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2006, the members of the Supervisory Board held a total of 13,200 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O policy. It is concluded for a period of one year and is extended annually. The insurance covers the personal liability risk in the event that claims are filed against the members of the Supervisory Board for financial loss arising when the members exercise their function. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

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

	2006 EUR	2005 EUR
Board of Directors	113,813.63	87,108.79
Supervisory Board	32,945.76	2,277.56

Loans to members of the Board of Directors in financial year 2006 were provided with maturity periods as at 31 December 2006 of 6 to 8 months respectively and an interest rate of 5%. Loans to members of the Supervisory Board (including loans provided to the employee representatives in the Supervisory Board) were provided in financial year 2006 with a maturity period as at 31 December 2006 of 2 to 5 months and an interest rate of 5%.

(73) 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 the special funds of Citigroup Investment Deutschland Kapitalanlagegesellschaft mbH (CID), is managed suitably and has the financial resources to meet 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.

Furthermore, Baader Wertpapierhandelsbank AG also assumes liability for its subsidiary Baader Service Bank GmbH for their liabilities from BSB's contract with J.P. Morgan Securities Ltd. (JPM) to a maximum of EUR 20 million. There is a contractual agreement in place between BSB und JPM to settle foreign currency forward contracts.

(74) Corporate Governance Code

The company's Declaration of Compliance was issued by the Board of Directors and the Supervisory Board in November/December 2006 and made permanently available to the shareholders. This took place by means of the publication of the Declaration of Compliance on the company's Internet website on 12 December 2006 and publication in the electronic Bundesanzeiger (German Federal Gazette) on 20 December 2006.

(75) 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 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

Member of the Administrative Board of Parsoli Corporation Ltd., Mumbai, India (since 20 May 2006)

Mr Dieter Brichmann, Penzberg

Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim

Executive of Baader Service Bank GmbH, Unterschleissheim

Chairman of the Supervisory Board of Baader Management AG, Unterschleissheim

Chairman of the Supervisory Board of Baader Heins & Seitz Capital Management AG, Unterschleissheim
(since 18 July 2006)

Chairman of the Supervisory Board of Conservative Concept Portfolio Management AG, Bad Homburg
(since 25 October 2006)

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

Vice Chairman of the Supervisory Board of Mox Telecom AG, Ratingen (until 31 October 2006)

Vice Chairman 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

Member of the Stock Exchange Council of Börse München (Munich Stock Exchange), Munich

Mr Christopher Schütz, Starnberg

Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim (since 1 October 2006)

Supervisory Board

Dr Horst Schiessl, Munich

Age: 64

Occupation: Lawyer

Member of the Supervisory Board since: 26 February 1999

Chairman of the Supervisory Board 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

Member of the Supervisory Board of System Consult AG, Munich (since 19 October 2006)

Dr Christoph Niemann, Meerbusch

Age: 69

Occupation: Banker

Member of the Supervisory Board since: 10 July 2002

Chairman of the Supervisory Board of Baader Wertpapierhandelsbank AG, Unterschleissheim

Member of the Supervisory Board of HSBC Trinkaus & Burkhard KGaA, Duesseldorf (until September 2006)

Member of the Administrative Board of HSBC Trinkaus & Burkhard KGaA, Duesseldorf (since September 2006)

Dr Norbert Juchem, Munich

Age: 54

Occupation: Management Consultant

Member of the Supervisory Board since: 15 July 2003

Mr Helmut Schreyer, Munich

Age: 64

Occupation: Banker

Member of the Supervisory Board since: 14 July 2004

Chairman of the Administrative Board of Oldenbourg GmbH & Co. KG, Munich

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 Merklingshaus, Vaterstetten

Age: 44

Occupation: Bank Employee

Member of the Supervisory Board since: 21 May 2003 (employee representative)

Mr Thomas Wiegelmann, Sulzbach, Taunus

Age: 38

Occupation: Bank Employee

Member of the Supervisory Board since: 26 June 1998 (employee representative)

(76) Group shareholding

Name / headquarters	Equity share in %	Most recent annual financial statements	Equity (total)	Net profit of the previous financial year
Baader Management AG, Unterschleissheim *)	100.00	31 December 2006	EUR 48,537.74	EUR -167.01
Baader Service Bank GmbH, Unterschleissheim *)	100.00	31 December 2006	EUR 6,484,196.06	EUR 906,740.84
Baader Heins & Seitz Capital Management AG, Unterschleissheim *)	70.00	31 December 2006	EUR 186,479.30	EUR 40,582.87
Conservative Concept Portfolio Management AG, Bad Homburg *)	49.96	31 December 2006	EUR 1,221,450.12	EUR 326,314.59
Direct AG, Bad Homburg *)	96.43	31 December 2006	EUR 234,629.42	EUR 181,062.69
Conservative Concept AG, Zug *) ²⁾	99.99	31 December 2006	EUR 541,381.40	EUR 279,434.23
SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt *)	39.81	31 December 2005	EUR 28,315,157.80	EUR 5,690,491.56
Parsoli Corporation Ltd., Mumbai *) ¹⁾	24.90	31 March 2006	EUR 4,230,496.49	EUR 547,370.40
U.C.A. AG, Munich	13.81	31 March 2005	EUR 26,506,522.48	EUR 3,443,402.18
KST Beteiligungs AG, Stuttgart	8.27	31 December 2005	EUR 21,273,080.65	EUR 5,734,981.86
BEN Bavarian Equity Network GmbH, Munich	20.00	31 December 2005	EUR 65,526.29	EUR -3,634.33
Stillking Film Group N.V., Amsterdam ³⁾	7.19	31 December 2005	EUR 7,383 thousand	EUR 2,263 thousand
Brain Abwicklungsgesellschaft AG, Breisach	9.09			Insolvent

Company information based on audited and/or published single-entity financial statements

*) Companies included in the consolidated financial statements

¹⁾ The equity and net profit of the previous financial year were translated (EUR/INR 53.995)

²⁾ The equity and net profit of the previous financial year were translated (EUR/CHF 1.6069)

³⁾ The equity and net profit of the financial year ended 31 December 2005 were translated (EUR/USD 1.1797)

Unterschleissheim, 7 March 2007
Baader Wertpapierhandelsbank AG
Board of Directors

Uto Baader

Dieter Brichmann

Stefan Hock

Christopher Schütz

Dieter Silmen

Auditors' Report

We audited the consolidated financial statements – comprising the balance sheet, the income statement, the statements of changes in equity and the cash flow statement, 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 2006. The preparation of the consolidated financial statements and group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to 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 German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the 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 includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's 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 has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations and cash flows of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bremen, 16 March 2007

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Clostermann)
Auditor

(Lamm)
Auditor

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