



**CONSOLIDATED FINANCIAL STATEMENTS 2008**  
**BAADER BANK AG**

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## **Group Management Report**

### **1. Business and framework conditions**

#### **The market**

In 2008, stock markets were subjected to significant falls across the globe. The leading German index began the year at 8,067 points, sank to 4,014 points by mid-October and climbed again to 4,810 points by the end of the year. As a result of this, the DAX suffered a year-on-year loss of 40%. German small caps also fell victim to these developments. The MDAX dropped by 43% and the SDAX ended the year down 46%. The TecDAX suffered even greater losses ending the year with a minus of 48%. Over the course of the year, the European DJ STOXX index fell by 44%.

On a euro basis, the Dow Jones index of the 30 largest US industrial stocks closed the year 31% below its level at year-end 2007. The Nasdaq 100 ended the year with a loss of 39% (adjusted for currency translation effects). Die Börse in Tokio schloss das Jahr 2008 gemessen am Nikkei 225 auf Euro-Basis mit einem Minus von 25 %.

The BRIC countries were also unable to escape the downward trend triggered by the financial crisis. The Chinese share index SSEB in Shanghai dropped 68%. The SENSEX in India fell by 59%. RTS, the Russian share index, slumped 71%. The Brazilian BOVESPA ended the year with a fall of 53%.

As a result, revenues on German stock exchanges fell by 13.1% to EUR 2,477 billion in 2008 according to the order book statistics, including Xetra. At the same time, the number of shareholders (direct shareholders and fundholders) in Germany sank by 9.6% to 9.3 million. In terms of the number of direct shareholders alone, this represents a 12.2% decline to 3.6 million (source: Deutsches Aktieninstitut, as at October 2008).

2008 proved to be a year of contrasts for commodities. Whilst commodity prices, from energy sources to precious and industrial metals right through to foodstuffs, beat record after record during the first six months of the year, these shrank to almost one-third in the second half of the year based on the S&P GSCI Commodity index. Where the price for a barrel of crude oil surged to a record high of almost USD 148 in July, it subsequently plummeted to below USD 50 within the space of a few months, resulting in an overall drop of 54%. Commodities sensitive to economic trends, such as petrol (before tax) and copper dropped by 59% and 54% respectively. In contrast, the price of gold rose by 5.5%, lean hogs by 5%, cane sugar by 9% and cocoa by 31% over the course of the year.

Against the backdrop of the jitters on the financial markets, central banks adjusted interest rates during the year. Due to the fact that combating inflation was initially the highest priority for both the US central bank (the Fed) as well as the European Central Bank, central banks lowered interest rates dramatically as a result of deflationary tendencies on the markets. Particularly after the insolvency of US investment bank Lehman Brothers, the yield difference between top rated bonds and securities with a low credit standing drifted apart on a large scale. To a large extent, this is attributable to the lack of transparency in so-called toxic securities, which plummeted in value as a result of the sub-prime crisis, are not listed on the stock exchange and are therefore being issued without securities prospects. They are also lacking market valuation which would have been ensured on the stock exchange. This lack of

transparency contributed to the situation becoming even worse for these toxic securities which is why immediate action is required on the part of the regulators.

As a result of the sombre sentiment on financial markets, issue activities came to a standstill. In the second half of the year, the financial crisis prevented many IPO candidates from entering the capital market. The IPOs of Schott Solar AG and Deutsche Bahn AG were postponed indefinitely, resulting in GK Software, Ropal Europe and SMA Solar being the only three companies to go public in 2008.

Following the implementation into German law of the EU's MiFID (Markets in Financial Instruments Directive) on 1 November 2007, after more than one year it is evident that the banks did not seize this opportunity to differentiate themselves from the competition positively in terms of a best execution policy. Rather the institutions simply limited themselves to fulfilling the minimum legal requirements thus implementing the directive in a bureaucratic manner.

### **Baader Bank AG's market position**

In an overall catastrophic year for the stock exchange in 2008 and one of the most difficult in the history of the Company, Baader Bank AG needed to react in a particularly level-headed manner in order to sound out opportunities for the aftermath of the crisis with a strategic view to the future and to act accordingly. For this reason, the Bank continued investing in its core business areas as part of its growth strategy. This was implemented at several levels. Significant steps in this strategy were the acquisition of the order book specialist companies Deutsche Börsenmakler GmbH (DBM) and the purchase of N. M. Fleischhacker AG, both based in Frankfurt, Germany. Receiving its full banking licence represents a milestone in the history of the Company.

The takeover of DBM in February 2008 (retroactive to 1 January 2008), the leading order book management company in stock exchange fund trading, also pushed Baader Wertpapierhandelsbank – its legal form at the time – into becoming the leading German securities trading bank in the stock exchange fund business. With this strategic measure, the Bank significantly expanded its own portfolio of tradable securities in the attractive fund trading growth market, boosting its diversification strategy for securities services. This acquisition simultaneously represented the further strengthening of the core business of securities trading. In addition to trading in actively managed funds, DBM was the specialist for securitised derivatives, shares and bonds. In June, DBM was retroactively merged (as of 1 January 2008) with Baader Bank AG.

In December 2008, N. M. Fleischhacker AG was acquired with effect from 1 January 2009. The range of securities managed by the stock brokerage company, founded in 1902 by Moritz Fleischhacker, ranges from German and foreign shares on both the regulated market as well as over-the counter to bonds through to actively managed funds. These transactions mean that Baader Bank is further strengthening its leading position as securities trading specialist on the Frankfurt Stock Exchange. Baader Bank is thus sending a clear signal that it continues to play an active role in the consolidation of the industry.

An important landmark event in the history of the Company took place in July 2008 when the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Federal Financial Supervisory Authority) approved the former Baader Wertpapierhandelsbank AG's application

for a full banking licence. In doing so, BaFin granted the now Baader Bank AG an extension to its permit to conduct banking business pursuant to Section 1 (1a) Clause 2 Numbers 1a, 1c and 3 as well as Clause 3 of the *Kreditwesengesetz* (KWG – German Banking Act) (investment advice, placement business, financial portfolio management as well as own account deals) as well as to conduct banking business pursuant to Section 1 (1) Clause 2, Numbers 1, 2, 5, 8 and 9 of the KWG (deposit business, lending business, safe custody business, guarantee business and giro business).

With effect of this notification, Baader Bank became a member of the *Entschädigungseinrichtung deutscher Banken* (EdB – Compensation Fund of German Banks), thus leaving the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensation Organisation of Securities Trading Organisations). October saw the Bank's membership in the *Einlagensicherungsfonds des Bundesverbandes deutscher Banken* (the Deposit Protection Fund of the Association of German Banks), in the *Prüfungsverband deutscher Banken* (the Auditing Association of German Banks) and in the *Bayerischer Bankenverband* (the Bavarian Association of Banks). This meant that the requirements were met to merge with the wholly-owned subsidiary of Baader Bank AG, Baader Service Bank GmbH.

In 2008, Baader Bank continued expanding its global network of trading memberships. In May, it became a member of the London Stock Exchange, thus obtaining direct access to Europe's largest stock exchange. This membership enabled the Bank to increase significantly its quality of trading once again, particularly in English stocks. This was followed in December by trading membership in Chi-X Europe Limited, a Multilateral Trading Facility (MTF) based in London. With these connections, Baader Bank has once again widened the spectrum of available trading centres both for its own securities traders as well as its customers.

The IPO market collapsed in the year under review – only three IPOs were made during 2008. In this context, Baader Bank's activities in this field were impacted by extreme restraint. However, the Capital Market Services area executed a total of 14 transactions with an issue volume of almost EUR 28 million, among them a capital increase for Impreglon AG, representing a year-on-year fall in volume of 85%.

Baader Bank also resolutely pursued the strategy already taken in previous years, of tapping into new sources of income outside Germany, consequently providing the opportunity for additional growth outside Germany on a broader basis. Accordingly, Muscat-based Gulf Baader Capital Markets S.A.O.C. (GBCM), a company founded with two partner companies, began operations in January. In September, activities were extended to the stock exchanges in Dubai and Abu Dhabi via GBCM. In addition, GBCM acquired a 50% stake in the stock broker Stock Securities LLC, founded in 2004 by Gulf General Investment Company (GGICO), both based in Dubai. The new company, which now trades under the name of Gulf Baader Capital Markets LLC, Dubai, is a member of the Dubai Financial Market (DFM) and Abu Dhabi Exchange (ADX) stock exchanges. This has enabled Baader to extend its Gulf network in the United Arab Emirates, thus providing German investors with access to these important capital markets in the Arabian Gulf. In turn, investors based here utilise Baader Bank's global network of trading memberships. With this investment, Baader Bank aims to profit from the momentum on the capital markets in the Gulf States in both the mid-term and the long-term.

The holding in Parsoli Corporation Ltd., based in Mumbai, India, in which Baader holds 21.9%, was not increased. In comparison with the Arab countries, the environment in India

significantly worsened. In terms of its investment in Parsoli, the situation in India means that Baader Bank's expectations were not met.

Following the positive initial response to the MiFID-compliant services developed by Baader Bank in 2006 and 2007 in the MiFIS division (Markets in Financial Instruments Services), interest in these services decreased strongly throughout the year under review. For this reason, Baader Bank decided to discontinue this division as an independent unit with responsibility directly at Board of Director level and integrate it into the existing business segments.

In view of increased volatility and a distinct growth in volume in bond trading, the strategy that Baader pursued in 2004, expanding the institutional bond business, bore fruit. Revenues and earnings in this area increased noticeably, primarily in the second half of 2008. At the same time, Baader expanded its product and customer range, thus gaining additional market shares. In the process, the range of issues traded continued growing internationally, including in the USA and Canada. The success experienced in this business segment showed setbacks in the market were cushioned by expanding the product range with institutional bond trading.

In the year under review, Baader Service Bank GmbH once again took a giant leap forward as a result of its significant business diversification. The continued expansion of synergy effects from cooperating with the parent company and other subsidiaries proved advantageous. In addition, the Company succeeded in winning a series of new cooperation partners and their respective affiliated customer bases. This enabled Baader Service Bank to broaden substantially its role as an all-round service provider for asset managers and other institutional customers as well as an arranger of financial innovations. The main products managed by the Bank still include certificates, public funds, single hedge funds and funds of hedge funds as well as managed accounts.

The most important source of income for Baader Service Bank remained the financial commission business. In this area, it provides fund and certificate initiators, strategy providers, fund managers, asset management companies, other banks, insurance companies and asset managers at home and abroad with access to the most important stock exchanges and uses its transaction expertise in acting as an execution broker. While this was primarily the case in trading with Eurex products in the past, there was a stronger turn in the year under review towards cash market trading via Xetra and Xontro, not least due to the connection to the parent company. Additional customers were also won for trading in spot foreign exchange and forward transactions. Trading also commenced in foreign currency options. In the US futures and US options business, the organisational conditions were optimised and trading was successfully expanded.

In the course of expanding the value added chain, Baader Service Bank further expanded its complementary range of services. The Bank generally endeavoured to contribute simultaneously at several stages in the production process, e.g. as an investment manager and execution broker, in addition to its function as the account-managing bank. Considerable organisational efforts were made in financial portfolio management, account and custody account management, risk controlling, reporting and in the consultation services including by means of additional employees and major technical work. This was ultimately reflected in the visibly higher volume of these services and not least by their contribution to earnings, particularly in the form of commission income.

In the Alternative Investment Strategies business segment which was created in 2005, Baader increased its investment in Conservative Concept Portfolio Management AG (CCPM) to

59.8% in order to further intensify the successful cooperation to date. In 2008, the CCPM Athena absolute return strategy showed a positive performance of 11.1% year-on-year, which contributed to CCPM significantly increasing its assets under management.

The CCPM business performance is primarily determined by the results of the products offered both with regard to the income position of those participating in the profits as well as with regard to the performance of the managed assets. Compared with previous years, 2008 was comparatively difficult in this respect for the first six months of the year. With a performance of almost 11% in 2008, and with a slightly negative performance in only one month, the Athena strategy implemented by CCPM set itself apart significantly and impressively from the general performance in the industry. With the amendment to investment law and the creation of the UCITS III Directive, the path was clear for a public fund based in Germany, which CCPM launched on the market on 23 June 2008 together with Universal Investment. With the public fund, CCPM was able to adhere to the requirements for managing directive-compliant special funds in a way that made the implementation of the Athena option strategy possible.

The proven Athena strategy is thus being implemented in the subsequently established Athena UI fund in a way identical to other Athena products. At present, around EUR 420 million has been invested in this investment strategy with a focus on absolute return.

Baader Heins & Seitz Capital Management AG only manages institutional customers. This group of customers comprises banks and savings banks, insurance companies, pension funds, local governments and local companies. In December, Baader Bank AG increased its stake by 5% to 75%. In this connection, the company was renamed Baader & Heins Capital Management AG. Despite the turbulence on capital markets, the company succeeded in maintaining its leading position by means of constant and trust-building customer support and the integration of new employees and in boosting its earnings. This reflects a high level of customer satisfaction with the company.

At the end of 2008, Baader was managing 13,667 order books related to equities. Securitised derivatives such as warrants, certificates and ETFs accounted for 269,680 of these order books; bonds and participation certificates accounted for 16,567 and actively managed funds accounted for 8,287. Baader Bank thus managed a total of 308,201 order books as at 31 December 2008, which corresponds to an increase of 49.3%.

## 2. Results of operations

The following overview comprises the main elements of the income statement for 2008 and 2007, together with the respective changes.

	<b>2008 EUR thousand</b>	<b>2007 EUR thousand</b>	<b>Change</b>	
			<b>EUR thousand</b>	<b>%</b>
Net interest income	1,047	1,686	-639	-37.9
Allowance for losses on loans and advances	-3,069	0	-3,069	-
Net fee and commission income	38,970	46,538	-7,568	-16.3
Net trading income	59,279	52,019	7,260	14.0
Net income from available-for-sale financial instruments and companies carried at equity	-4,260	7,677	-11,937	-
Administrative expenses	-87,729	-75,823	-11,906	15.7
<b>Profit from operations</b>	<b>4,238</b>	<b>32,097</b>	<b>-27,859</b>	<b>-86.8</b>
Other income and expenses, net	7,410	2,813	4,597	>100.0
<b>Profit from ordinary activities</b>	<b>11,648</b>	<b>34,910</b>	<b>-23,262</b>	<b>-66.6</b>
Tax income/expense	-2,888	-6,325	-3,437	-54.3
<b>Net profit for the period before minority interests</b>	<b>8,760</b>	<b>28,585</b>	<b>-19,825</b>	<b>-69.4</b>

The effects of the financial crisis on the capital markets continued to impact revenues in the financial services industry. Despite the difficult situation on the market, the Baader Group maintained its position in the market, generating presentable profit for the year as a result of its broad-based positioning.

Profit from ordinary activities is comprised of the individual segment results as follows: Special Activities and Proprietary Trading EUR 22,809 thousand (previous year: EUR 36,183 thousand), Agency Business EUR -801 thousand (previous year: EUR -2,016 thousand), Capital Market Services EUR -6,277 thousand (previous year: EUR 1,584 thousand) and Financial Portfolio Management EUR -2,331 thousand (previous year: EUR -1,209 thousand).

EUR -1,753 thousand (previous year: EUR 368 thousand) is related to the non-attributable consolidation items.

Net interest income of EUR 1,047 thousand (previous year: EUR 1,686 thousand) is primarily a result of interest income from the deposit business of subsidiary Baader Service Bank GmbH as well as interest expenses for refinancing the administrative building in Unterschleissheim. The fall in net interest income is chiefly attributable to increased liquidity requirements in securities trading.

The allowance for losses is made up of write-downs of uncollectable receivables of EUR 16 thousand and write-downs on loans and advances to customers of EUR 3,053 thousand. The latter is principally attributable to loans and advances granted by subsidiary Baader Service Bank GmbH.

At EUR 38,970 thousand, net fee and commission income was down 16.3% year-on-year, thus reflecting both a lower trading volume as well as changes in the market models on stock



exchanges. Whilst the Capital Market Services segment was chiefly impacted by investor restraint (EUR 432 thousand after EUR 3,029 thousand in the previous year), the Special Activities and Proprietary Trading segment felt the effects of all changes together in the form of lower commission income and earnings from order routing (EUR 28,560 thousand from EUR 33,115 in the previous year). However, a positive contribution to earnings can be seen from the Financial Portfolio Management segment (EUR 4,421 thousand from EUR 3,583 thousand in the previous year).

The pleasing growth in net trading income in financial year 2008 is primarily attributable to the Agency Business segment (EUR 19,481 thousand from EUR 8,500 thousand in the previous year). Trading in actively managed funds, which was begun in 2008, contributed significantly to net trading income for the Special Activities and Proprietary Trading segment (EUR 40,248 thousand from EUR 43,943 thousand in the previous year).

The net income from available-for-sale financial instruments and from companies carried at equity fell EUR 11,937 thousand to EUR -4,260 thousand overall. This decrease is primarily a result of write-downs on securities from available-for-sale financial instruments recognised in income. Net income from companies carried at equity is composed from a share of net income of EUR -178 thousand and impairment of goodwill of EUR 729 thousand. The impairment of goodwill affects the goodwill contained in the carrying amount at equity of Parsoli Corporation Ltd. The impairment is a result of the company's continued negative earnings contributions.

Administrative expenses climbed by EUR 11,905 thousand (15.7%) year-on-year to EUR 87,729 thousand.

With regard to administrative expenses, EUR 49,378 thousand is attributable to staff costs (previous year: EUR 44,853 thousand), EUR 31,628 thousand to other administrative expenses (previous year: EUR 23,939 thousand) and EUR 6,722 thousand to amortisation of intangible assets and depreciation of property and equipment (previous year: EUR 7,032 thousand). The EUR 4,525 thousand increase in staff costs is primarily a result of the Company's higher employee figures. The change in other administrative expenses is marked by one-time expenses of EUR 1,219 thousand due to a banking software project, EUR 1,000 thousand due to creating a provision for legal and consultancy costs as well as expenses in connection with the merger of DBM Deutsche Börsenmakler GmbH. The creation of the provision is directly related to the write-downs of EUR 2,981 thousand on loans and advances to customers and is posted as an allowance for losses on loans and advances. This provision aims to achieve protection on the balance sheet against legal risks resulting from processing open loans and advances to customers. The amortisation of intangible assets and depreciation of property and equipment are chiefly attributable to the order books acquired, the administrative building in Unterschleissheim, trading software as well as CCPM AG trading strategies.

Net other income and expenses mainly relates to income from the reversal of provisions (EUR 8,752 thousand), from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options (EUR 496 thousand), prior-period income (EUR 862 thousand), rental income (EUR 59 thousand) and income from sponsoring (EUR 218 thousand). Income from the reversal of provisions is determined in the majority of cases by the reversal of the EUR 8,650 thousand provision for possible use by the EdW. Receipt of the full banking licence in July 2008 and the related admission to the

*Einlagensicherungsfonds des Bundesverbandes deutscher Banken* has resulted in the full discontinuation of this provision.

Other expenses are chiefly attributable to a write-down on the Parsoli Corporation Ltd. convertible bond (EUR 1,638 thousand) and impairment of goodwill – carried out over the year – resulting from the first-time consolidation of Baader Service Bank GmbH (EUR 963 thousand).

Taxes reported for financial year 2008 contain actual income taxes for the past financial year amounting to EUR 2,255 thousand, income from accrued interest from corporate income tax credit of EUR 1,241 thousand as well as deferred taxes of EUR 7,874 thousand.

### 3. Net assets

The overview below illustrates the main items on the balance sheet for financial year 2008 compared with the previous year.

<b>Assets</b>	<b>2008 EUR thousand</b>	<b>2007 EUR thousand</b>	<b>EUR thousand</b>	<b>Change %</b>
Cash reserve	1,221	3,273	-2,052	-62.7
Loans and advances to other banks	166,016	75,338	90,678	>100.0
Loans and advances to customers	23,661	2,521	21,140	>100.0
Allowance for losses on loans and advances	-3,095	-62	-3,033	-
Assets held for trading	42,292	47,627	-5,335	-11.2
Available-for-sale financial instruments				
a) Shares and equity investments	12,438	8,926	3,512	39.3
b) Bonds and debt securities	441	378	63	16.7
Equity-accounted investments	16,634	38,216	-21,582	-56.5
Land and buildings	18,469	19,322	-853	-4.4
Other property and equipment	1,511	1,524	-13	-0.9
Intangible assets and goodwill	45,619	17,113	28,506	>100.0
Income tax assets	11,806	12,071	-265	-2.2
Other assets	6,965	9,189	-2,224	-24.2
Deferred tax assets	21,021	23,977	-2,956	-12.3
<b>Total Assets</b>	<b>364,999</b>	<b>259,413</b>	<b>105,586</b>	<b>40.7</b>
<b>Equity &amp; Liabilities</b>				
Deposits from other banks	31,834	19,751	12,083	61.2
Amounts due to customers	98,111	41,430	56,681	>100.0
Liabilities held for trading	38,890	0	38,890	-
Provisions	11,436	17,314	-5,878	-33.9
Income tax liabilities	1,287	2,560	-1,273	-49.7
Other liabilities	18,997	12,723	6,274	49.3
Deferred tax liabilities	4,227	1,733	2,494	>100.0
Shareholders' equity	160,217	163,902	-3,685	-2.2
<b>Total liabilities and shareholders' equity</b>	<b>364,999</b>	<b>259,413</b>	<b>105,586</b>	<b>40.7</b>

Total assets rose by EUR 105,586 thousand or 40.7% to EUR 364,999 thousand in the year under review.

The cash reserve primarily includes deposits with Deutsche Bundesbank of EUR 1,221 thousand.

Loans and advances to other banks relate to the credit balances necessary for the settlement of stock market transactions. This item has increased strongly compared to the previous year. This change is primarily a result of integrating DBM Deutsche Börsenmakler GmbH and taking out a *schuldschein* note loan. However, a positive cash flow from operating activities also contributes to an increase in bank assets. The investment of customer deposits is also recognised under this item. These also increased during the financial year in line with the rise in amounts due to customers.

An increase in loans and advances to customers by EUR 21,140 thousand to EUR 23,661 thousand is primarily attributable to Baader Service Bank GmbH's customer business. Furthermore, a capital repayment by SPAG St. Petersburg Immobilien und Beteiligungs AG, based in Darmstadt (Germany), of EUR 1,553 has also been capitalised.

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

Available-for-sale financial instruments primarily consist of shares and other non-fixed interest securities totalling EUR 11,298 thousand, equity investments of EUR 1,140 thousand, as well as bonds and debt securities totalling EUR 441 thousand. The holdings of shares and other non-fixed-interest securities rose primarily as a result of reclassifying fund units that belonged to companies consolidated at equity in the previous year. On contrast, the carrying amount fell by EUR 1,853 thousand due to write-downs recognised in income. The reason for the decline in equity investments is chiefly attributable to lower carrying amounts of EUR 1,944 thousand.

Equity-accounted investments relate to the investments in SPAG St. Petersburg Immobilien- und Beteiligungs AG in Darmstadt, Parsoli Corporation Ltd. in Mumbai, Gulf Baader Capital Markets S.A.O.C. in Muscat, BAM Berlin Asset Management GmbH in Berlin as well as fund units in Herald Europe and in Conservative Concept Hedge Fund Ltd. This change in the balance sheet item is attributable to deconsolidation of interests and to impairments as a result of negative proportionate earnings contributions and write-downs.

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 chiefly due to acquiring DBM and the related capitalisation of order books (EUR 11,589 thousand) and goodwill (EUR 21,148 thousand).

In essence, the income tax assets are the result of capitalising the present value of the corporation tax credits in the Group amounting to EUR 11,693 thousand.

Other assets mainly include shares in a convertible bond of Parsoli Corporation Ltd. in Mumbai in the amount of EUR 3,321 thousand. This item also includes receivables from fees and commission and price differences of EUR 1,843 thousand and prepaid expenses of EUR 664 thousand.

Deposits from other banks comprise long-term loans of EUR 11,913 thousand taken out to finance the administrative building.

The amount due to customers item is mainly attributable to the deposits of customers with Baader Service Bank GmbH. However, this also contains a *schuldschein* note loan taken for EUR 21,000 thousand taken out by Baader Bank AG.

Liabilities held for trading are composed of delivery commitments arising from short sales of securities amounting to EUR 38,337 thousand as well as derivatives with negative fair values of EUR 553 thousand.

The provisions are primarily intended for pension obligations in the amount of EUR 9,290 thousand.

Other liabilities and provisions primarily relates to provisions for staff costs amounting to EUR 7,438 thousand as well as trade payables of EUR 6,436 thousand.

Equity dropped by EUR 3,685 thousand (2.2%) from EUR 163,902 thousand to a total of EUR 160,217 thousand. However, with an equity ratio of 43.9%, the Company has competitive capital resources, which ensures further growth.

#### **4. Financial position**

The Group's liquidity was guaranteed at all times during the period under review. At the balance sheet date, cash reserves of EUR 1,221 thousand, short-term loans and advances to other banks of EUR 166,016 thousand, amounts due from customers of EUR 23,661 thousand as well as available-for-sale assets held for trading and bonds and debt securities of EUR 42,733 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 157,333 thousand. This results in a net balance-sheet liquidity surplus of EUR 73,203 thousand (previous year: EUR 81,873 thousand).

On the balance-sheet date, the Group had committed but unutilised credit lines of EUR 55,040.

Apart from the acquisition of DBM, which led to an outflow of EUR 39,194 thousand in cash and cash equivalents, no other material investments were made in financial year 2008. The acquisition of N.M. Fleischhacker AG effective from 1 January 2009 will lead to an outflow of liquidity in the first six months of 2009. The exact purchase price for the acquisition of the shares has not yet been established.

Baader Bank AG took up a *schuldschein* note loan in the fourth quarter of 2008, which lead to proceeds of EUR 21,000 thousand.

Overall, the Group's results of operations, net assets and financial position all remain stable.

#### **5. Supplemental report**

Effective from 1 January 2009, Baader Bank AG acquired N. M. Fleischhacker AG, based in Frankfurt.

The range of securities managed by Fleischhacker stretches from German and foreign shares on both the regulated market as well as over-the counter to bonds through to actively managed funds. For Baader Bank AG, this acquisition represents the further development of its leading role as a specialist in securities trading in Germany.

We refer to the notes for details relating to the acquisition of N. M. Fleischhacker AG.

We are unaware of other key importance occurring after the end of financial year 2008.

## **6. Declaration in accordance with Section 312 of the *Aktiengesetz* (AktG – German Public Companies Act)**

In accordance with Section 312 of the AktG, the Board of Directors prepared a dependent company report, which concludes with the following declaration:

“According to the circumstances known to the Board of Directors at the time when the legal transactions or other measures listed in the dependent company report were performed, Baader Bank 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 Bank 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 298 to 333 year-on-year. The Group’s workforce comprises 101 female employees and 232 male employees who come from 12 countries.

The Baader Group places particular emphasis on the high level of qualifications and further education of its employees. In 2008, personnel activities focused on furthering qualified employees and junior management.

Its offering of additional social benefits for its staff increases Baader Bank’s attractiveness as an employer. Thus, the Baader Group grants all employees voluntary financial support of EUR 10 thousand upon the birth of an own child. In 2008, a total of EUR 50 thousand was paid out.

By means of its own provident fund – Baader Unterstützungskasse e.V. – the Group has an independent social organisation to be able to guarantee post-employment benefits within the context of occupational pension provision to all Group employees.

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 Bank AG and its subsidiaries 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 Bank AG's administrative centre is located in Unterschleissheim. In addition, the Company operates branches in Düsseldorf, Dortmund, Frankfurt am Main and Stuttgart.

## **9. Compensation report pursuant to Section 315 (2) No. 4 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 Bank 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 Bank AG.

The General Meeting of Baader Bank 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 single-entity 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 AktG.

### **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 2008, 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 (share 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 0.4% and 1.2% 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 Annual 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.

For the 2008 financial year as a whole, total compensation for the members of the Board of Directors was as follows:

					2008	2007
Payment irrespective of achievement		Allocation of Pensions-provision	Performance related pay	Components with long-term incentive effect		
Salary	Other <sup>1)</sup>	Pension commitment <sup>2)</sup>	Bonus	Stock options <sup>3)</sup>	Total	Total
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,749,260.00	138,200.00	1,243,114.00	614,400.00	74,799.85	3,819,773.85	4,998,329.46

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 IASs/IFRSs for active members of the Board of Directors amount to EUR 8,490,204.00 (previous year: EUR 9,735 thousand).

3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 per share).

The performance-related remuneration is paid after completion of the 2008 annual financial statements by the Annual General Meeting of Baader Bank AG.

A total of 64,250 stock options were issued to the Board of Directors in financial year 2008. The following table shows changes to the stock options of members of the Board of Directors for the 2001 to 2007 financial years.



For financial year *)	2007	2006	2005	2004	2003	2002	2001	Total
Options granted	64,250	63,750	75,000	75,000	103,000	170,000	172,000	723,000
Exercise price	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
Options forfeited	12,850	3,750	0	0	0	19,000	58,000	93,600
Options exercised	0	0	0	37,500	103,000	151,000	114,000	405,500
Options outstanding	51,400	60,000	75,000	37,500	0	0	0	223,900
Exercisable options	0	0	75,000	37,500	0	0	0	112,500
Residual term in months	76	65	53	41	28	16	4	

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

Under Section 15a of the *Wertpapierhandelsgesetz* (WpHG – German 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. No purchases or sales were reported in the financial year.

Majority ownership of Baader Bank 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 Bank 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 Mr Uto Baader's shares equate to 66.95% of the issued capital of Baader Bank AG. Over and beyond this, no member of the Board of Directors owned more than 1% of the share capital of Baader Bank AG as at 31 December 2008. As at 31 December 2008, members of the Board of Directors held a total of 31,007,468 shares in Baader Bank AG.

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 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 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 Bank 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 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 Bank AG and are independent of their work for the Supervisory Board.

For the 2008 financial year as a whole, total compensation for the members of the Supervisory Board was as follows:

		2008	2007
Fixed component EUR	Variable component EUR	Total EUR	Total EUR
150,000.00	84,771.98	234,771.98	389,737.72

The variable compensation component is paid after completion of the 2008 annual financial statements by the Annual General Meeting of Baader Bank AG.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 2,550 stock options <sup>1)</sup> in financial year 2008. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2001 to 2007.

For financial year *)	2007	2006	2005	2004	2003	2002	2001	Total
Options granted	2,550	2,760	2,400	2,640	5,000	9,600	4,800	29,750
Exercise price	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
Options forfeited	0	0	0	0	0	0	0	0
Options exercised	0	0	0	1,320	5,000	9,600	4,800	20,720
Options outstanding	2,550	2,760	2,400	1,320	0	0	0	9,030
Exercisable options	0	0	2,400	1,320	0	0	0	3,720
Residual term in months	76	64	53	41	29	16	4	

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

<sup>1)</sup> The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2007, amounts to EUR 2,968.71 (previous year: EUR 5,600.40). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 per share).

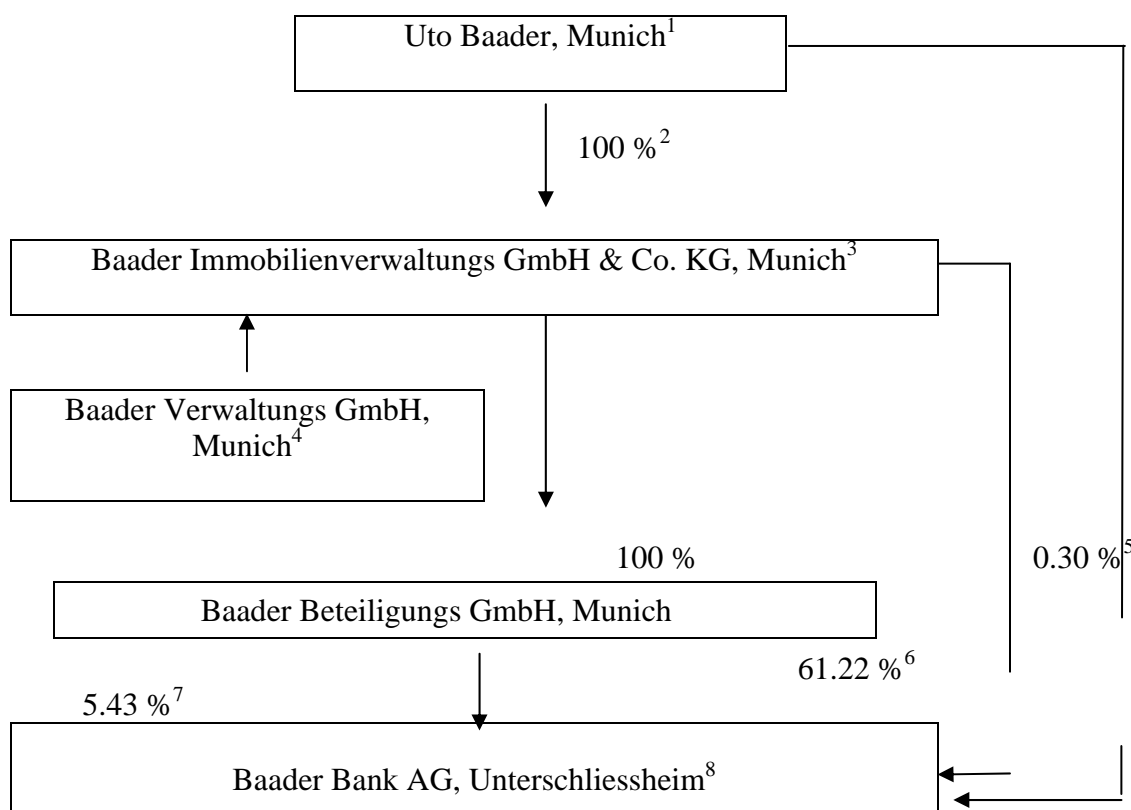
Under Section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. No purchases or sales were reported in the financial year.

As at 31 December 2008, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2008, members of the Supervisory Board held a total of 10,589 shares in Baader Bank AG.

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 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 315 (4) of the HGB

1. As at 31 December 2008, 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 (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:



<sup>1</sup> In total, 66.95% of the voting rights in Baader Bank 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))

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

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

<sup>4</sup> 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.

<sup>5</sup> 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 Ms Hanne Baader (joint custodian account with Uto Baader (as at 6 June))

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

<sup>6</sup> Baader Beteiligungs GmbH holds 28,104,000 shares in Baader Bank AG (as at: 1 July).

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

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

4. No shares with special rights have been issued.
5. There is no control over voting rights in the sense of Section 315 (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 the AktG. There are no differing provisions contained in the Articles of Association.
7. The powers of the Board of Directors to issue shares result from the following resolutions by the General Meeting on 19 July 2006 and 26 June 2007 recorded in the Commercial Register:

**a) Capital increases**

- a. The Company share capital was contingently increased up to a nominal amount of EUR 1,200,000.00 by means of the Annual General Meeting resolution of 18 June 1999, changed by the resolution of the Annual General Meeting of 19 July 2006. 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 Bank AG 1999 Stock Option Plan on the basis of the authorisation issued on 18 June 1999 exercise their options (Contingent Capital 1999).
- bb) The Company share capital was contingently increased up to a nominal amount of EUR 600,000.00 by means of the Annual General Meeting resolution of 14 July 2004, changed by the resolution of the Annual General Meeting of 19 July 2006. 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 Bank AG 2004 Stock Option Plan on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).
- cc) The Company share capital was contingently increased by up to EUR 10,000,000.00 by issuing up to 10,000,000 new no-par value bearer shares following resolution by the Annual General Meeting of 29 June 2005, changed by resolution of the Annual General Meeting of 19 July 2006 and by resolution of the Annual General Meeting of 26 June 2007. 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 25 June 2012 on the basis of the General Meetings' resolution on 29 June 2005 and on 26 June 2007 by Baader Bank AG or by a company in which Baader Bank AG holds a direct or indirect majority interest (Contingent Capital 2005).

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) By **resolution of the Annual General Meeting of 26 June 2007**, the share capital of the Company was contingently increased by up to a nominal amount of EUR 1,600,000.00. This contingent capital increase will only be implemented by issuing up to 1,600,000 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 Bank AG 2006 Stock Option Plan on the basis of the authorisation issued on 19 July 2006 exercise their options (Contingent Capital 2007).
- ee) Following resolution by the Annual General Meeting of 26 June 2007, the Board of Directors is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 22,954,341.00 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 25 June 2012. The shareholders should be granted subscription rights. However, with the approval of the Supervisory Board, the Board of Directors may disapply shareholders' subscription rights from fractions; disapply shareholders' subscription rights in order to issue the new shares against cash contributions at an issue price that is not materially lower than the quoted market price of existing listed shares at the time the issue price is finalised (Section 183 (3) Clause 4 of the AktG) where disapplication of the subscription rights may only relate to those shares with a theoretical value that does not exceed 10% of the share capital; disapply shareholders' subscription rights in order to issue shares against non-cash contributions to acquire companies, equity interests or parts of companies or assets – including by means of all share deals – and in the event of business combinations (Authorised Capital 2007).

**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 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 Paragraph (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 profit 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 Bank 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 Bank 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 Bank 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 Paragraph (3) subject to Paragraph (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 Annual 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 Annual 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 Bank 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 and 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 25 November 2009.

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 Bank AG in accordance with the authorisations granted by the Annual General Meetings on 18 June 1999, 14 July 2004 and 19 July 2006 of Baader Bank AG or
- 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 valid until 25 November 2009.

The shares will be acquired via the stock exchange. The price paid by Baader Bank AG per share may not exceed the average closing price for the no-par value shares

of Baader Bank AG in floor trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares 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 Bank AG, that were acquired as a result of this authorisation, to third parties when companies, parts of companies or equity interests or assets are acquired – including by means of all-share deals – and in the event of business combinations.

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 1999, 2004 and 2006 Stock Option Plans resolved by the General Meeting.

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 Bank AG that are purchased as a result of this authorisation without a further resolution by the Annual 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 315 (4) No. 8 of the HGB.
9. Compensation agreements in the sense of Section 315 (4) No. 9 of the HGB have not been reached.

## **11. Risk report**

### **1. Principles of risk management**

The financial market crisis, which began in Autumn 2007 with increasing defaults on the mortgage market in the USA and resulting in many banks failing amid numerous banking scandals, impacted international stock exchanges with stock prices falling sharply. Across the globe, indices slumped and banks were rescued from bankruptcy by means of cash injections and government guarantees in the billions. Financial markets were pounded by bad news on an almost daily basis. Today, this is also occurring in other industries. In spite of this crisis, which has led to immense share price declines across stock exchanges throughout the world, Baader showed that it was able to generate stable income despite rapidly falling markets thanks to its current business orientation and its highly efficient risk and crisis management. The correctness of Baader's diversification of its business segments, which it has focussed on for many years, proved itself in one of the hardest hitting financial market crises for decades and protected Baader from the losses that other financial services providers and banks suffered in the past financial year. This diversification forms the basis of Baader's business and risk strategy, helping to minimise business risks to the greatest possible extent. Furthermore, and particularly in these times of crisis, it is essential to identify, assess, aggregate, manage and monitor risks even more intensively and to communicate these risks to the relevant decision maker without delay. Only by reacting in this way can the relevant measures be taken to prevent risks becoming a reality. The Baader Group manages its risks by means of a framework of principles, organisation structures, measurement and monitoring processes, early warning systems as well as state-of-the-art technical equipment closely aligned to business segment activities. In addition, special care is taken at Baader to ensure that the various business activities and the related risks are suitably backed with equity in accordance with the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management).

### **2. Risk bearing capacity**

With this basic conviction as a starting point, the Group's management is regularly provided with an overview of the forms that all the risks take within the Group based on the MaRisk. This basis guarantees that the Group's risk-hedging potential covers all material risks at all times, thus ensuring the risk-bearing capacity required. For this reason, special attention is paid to the risk bearing capacity as part of establishing the business and risk strategy.

At least once a year, the Group Risk Control department calculates the risk bearing capacity of the Baader Group for the coming financial year. The objective in doing so is to ensure the minimum income statement result and retaining equity as shown on the balance sheet, but also to ensure the minimum equity required by the supervisory authorities and at the same time to serve the demands of equity providers in the long-term. In so doing, the available aggregate risk cover is compared with the unexpected and worst case losses. Overall, the risk potential should not exceed the available aggregate risk cover.

The risk capital that is provided to cover for unexpected losses is then distributed across the individual types of risk and serves as a maximum limit of the losses that can be absorbed for each type of risk. The risk capital is also distributed across the individual banks within the Group. Among the types of risk identified, the following can be considered material within the Baader Group and are backed with risk capital: credit risks, counterparty risks,

investment risks, issuer risks, country risks, market price risks, operational risks and measurement risks. In addition to this, liquidity risks, business risks, reputation risks and model risks are considered material risks. Due to it being difficult to quantify the risk potential of these types of risks, no separate risk capital is provided for these risks. Losses from these types of risks are sufficiently covered by the available risk capital reserve. In contrast, property risk is not considered an immaterial risk.

Once at year, at the start of the financial year, the limits are determined by Group management. They may also be adjusted over the year if the business activity and/or the risk position or result of operations of the Group make this necessary. Furthermore, the limits are self-absorbing i.e. they are reduced by any losses and apply throughout the day and overnight. Any limits exceeded are reported to Group management as part of daily reporting. The Group Risk Control department is responsible for daily monitoring and communication of the limit drawdowns.

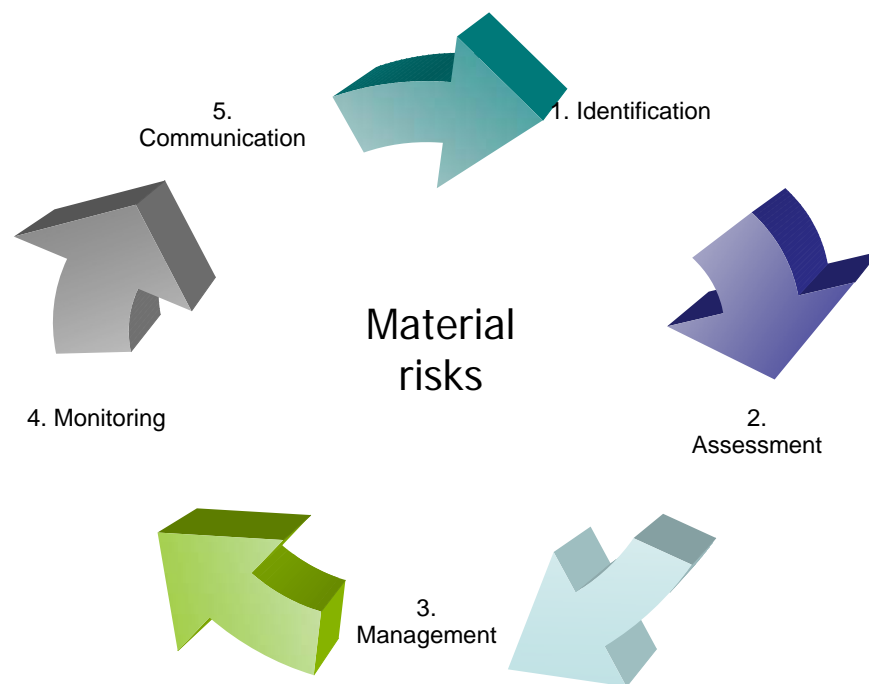
### **3. Business and risk strategy**

At the end of each financial year, the business strategy and the risk strategy consistent with the business strategy for the coming financial year for the Baader Group are developed as part of a strategy meeting of the Group management and the manager of the Risk Controlling department.

The objectives and plans of the main business activities laid down in the business strategy as well as Baader's risk bearing capacity are taken into account here. In addition, an analysis of the general economic conditions, the market environment, staff capacity and the technical and organisational facilities forms the basis of this strategy. The Group Risk Control department checks the existing risk strategy based on the available aggregate risk cover for the Baader Group. The business and risk strategy, the allocation of the risk capital across the individual risk types and business segments and the limits for the following financial year are then adopted as part of a Group resolution.

### **4. Internal control system**

The internal control system required in accordance with the MaRisk is divided into structural and process organisation as well as risk management and risk control processes; an integral part of the structural and process organisation is the separation of functions. This ensures that activities which are incompatible with each other are carried out by different employees. For example, risk control activities are strictly separated from units that bear position responsibility. The separation of functions is guaranteed in the Group up to and including Group management level and also applies in deputising cases. Furthermore, Baader has set up suitable risk management and control processes which guarantee identification, assessment, management and monitoring and communication of material risks within the Group in line with the MaRisk. These processes ensure that material risks are identified in good time, completely recorded and presented in an appropriate manner. In addition, these processes are regularly reviewed and adapted to changing conditions in a timely manner.



- **Identification** of new risks is taken into account in an “Activities in new products and markets” project which is launched by the initiating division. In so doing, the relevant business segments examine the planned activities and identify the relevant risk content. Existing activities are reviewed on an ongoing basis.
- **Assessment** of risks is carried out using detailed analyses in risk control, which then develops a concept for managing and monitoring these risks.
- A sophisticated limit system and ongoing **monitoring** of the risks make **management** possible for the trading systems.
- **Communication** is in the form of daily reports and timely notifications of limits being exceeded to the trading officers and Group management.

Brief descriptions of the identified risk types are presented below:

### Counterparty default risks

A distinction is made in counterparty default risks between credit risks, counterparty and issuer risks, country risks and investment risks. In doing so, an overall limit per borrower unit based on credit checks is determined for the risk types credit risk, counterparty risk and issuer risk. The daily utilisation of these limits is monitored and is reported to Group management as part of the Group Risk Control department’s daily report. If a limit is exceeded, the Group managers responsible for monitoring and the market unit concerned are notified immediately in a separate report. The limits for country and investment risks are also monitored separately and the results also make up part of the daily report. Baader carries out its credit checks using an internal rating procedure in which a rating grade is allocated to each borrower unit based on a calculated overall score. In order to enter into a business activity with a new borrower unit, an application must be received in writing from Trading and the relevant credit rating documentation must be submitted to the Group Risk Control department. The Group Risk Control department then establishes a credit decision including

a limit proposal, based on the internal rating, and makes this available to Group management for resolution. The decision on limits is taken by Group management on a majority basis.

Within the Group, only Baader Service Bank GmbH currently performs lending business as defined by Section 1 (1) No. 2 of the *Kreditwesengesetz* (KWG – German Banking Act). This guarantees private and corporate customers (non-genuine) Lombard loans against collateral in listed securities, the lending value of which is set at an extremely conservative level and/or against bank guarantees.

The following table shows lending exposure as at 31 December 2008:

	<b>Total credit exposure EUR million</b>	<b>Drawdowns EUR million</b>	<b>Unutilised loan commitments EUR million</b>	<b>Evaluated collateral EUR million</b>
Private customers	31.13	10.26	20.87	37.89
of which employees	1.01	0.55	0.46	0.00
Corporate customers	5.38	1.67	3.71	4.36
<b>TOTAL</b>	<b>36.51</b>	<b>11.93</b>	<b>24.58</b>	<b>42.25</b>

Furthermore, only money market deposits at banks are made within the Group as part of the lending business. As described above, these money market deposits are limited and controlled as part of monitoring borrower units for the risk type named. Due to the fact that the total transaction countervalue in the credit risk can be considered a risk exposure, this represents a material risk for Baader.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all of his or her 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 part of the replacement risk, Baader pays particular attention to special OTC derivative transactions. Baader trades derivatives only on derivative exchanges which are subject to daily margin requirements. Because Baader is not a clearing member of these exchanges, the transactions between Baader and the relevant clearing member must be settled. A counterparty risk then arises from the settlement claim vis-à-vis the clearing member. For this reason, the replacement risk in derivative trading is classified as a material risk and is thus monitored and reported on a daily basis. Each transaction conducted is weighted against the respective limit of the borrower unit.

In contrast, when settling/brokering *schuldschein* note loans (financial commission business) where Baader plays the role of counterparty as part of the purchase agreement, an advance payment risk exists due to the fact that payment and transfer of the instrument do not occur concurrently. For Baader, this risk only relates to the seller of the *schuldschein* note loan and exists for the time period between payment and transfer of the instrument. Consequently, the advance payment risk is classified as a material risk and this monitored and reported on a daily basis. Here too, each transaction conducted is weighted against the respective limit of the borrower unit until the instrument has been transferred.

An issuer risk is understood as the risk of the deterioration in creditworthiness or the default of an issuer. A loss as part of an issuer risk results in the impairment of this issuer's shares,

bonds and certificates. For this reason, the issuer risk is considered a material risk. As part of the market price risk, losses due to issuer risks would reduce the corresponding market price limits and thus the risk capital made available for the market price risk. Therefore, no additional risk capital is made available for the risk type 'issuer risk'. Furthermore, a one-day holding period is assumed for the items in the trading book which means that monitoring and limiting the positions separately would be inappropriate.

Country risk represents the danger that receivables due to cross-border transactions and/or in foreign currency may not be received as a result of sovereign measures (exchange controls or prohibition of cross-border delivery of securities). For this reason, the country risk is considered a material risk. Due to the fact that losses from country risks would reduce the corresponding market price limit as part of the market price risk and thus the risk capital made available for market price risks, there is no additional risk capital made available for the type of risk 'country risk'.

Baader considers the investment risk as material and therefore monitors this using the market price and special analyses (discounted cash flow, peer group) as well as any credit resolutions resulting from this. Furthermore, limit drawdowns of the risk capital made available are calculated on a daily basis and this is reported to the entire Board of Directors as part of daily reporting.

**Market price risks**

Market price risk is the risk of a fluctuation in the value of a given item due to changes in market prices, e.g. share prices, exchange rates, interest rates and volatility. At the end of the year, the following risk positions with the following fair values were held in EUR million in the trading book:

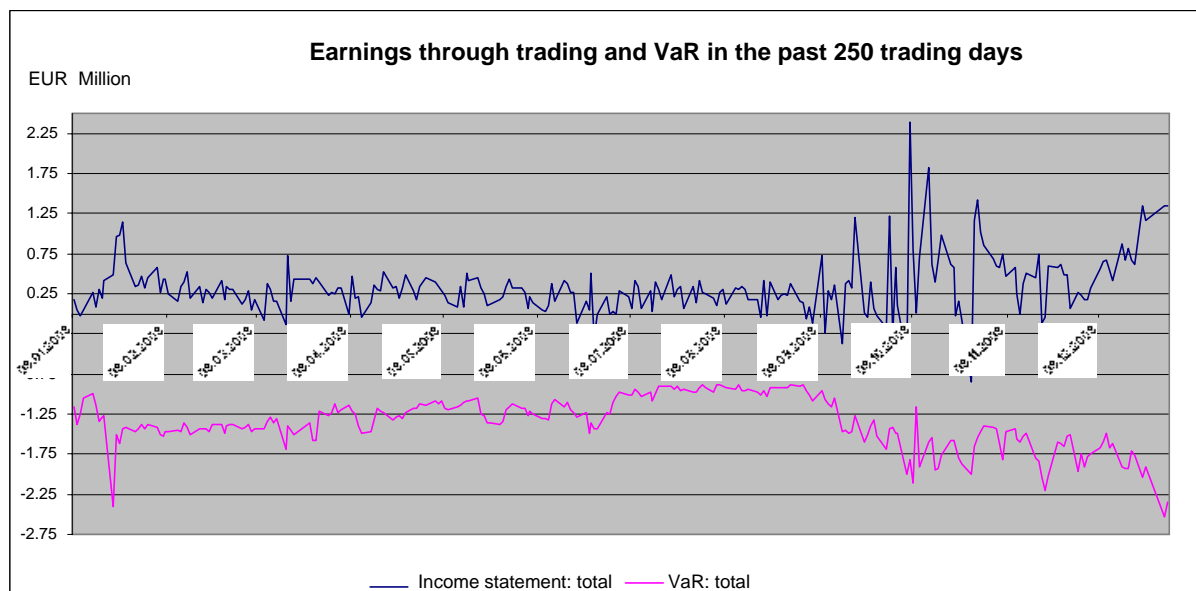
<b>CASH MARKET</b>		<b>FORWARD MARKET</b>	
Equities	11.24	Options	0.00
Bonds	6.80	Futures	26.07
Funds, Index- and Funds-Linked Certificates	-25.33	Swaps	1.23
Securitised Derivatives	1.15		

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

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

Value-at-Risk of trading segments	2008	2007	2006	2005	2004
Year-end VaR	2.59	1.32	0.78	0.83	0.74
Minimum VaR	1.05	1.11	0.68	0.51	0.70
Maximum VaR	2.79	2.73	2.84	1.46	1.73
Average VaR	1.56	1.36	1.19	0.84	1.04

In accordance with the MaRisk, the quality of our VaR model is constantly reviewed using the ratio of the VaR figures to the change in the position's fair value based on actual price changes as part of backtesting (clean backtesting). Furthermore, the model is reviewed based on dirty backtesting. In so doing, the actual generated earnings are compared with the VaR figures of the trading segments. The graph below shows this comparison for the last 250 trading days (EUR million):



In addition, the risk situation is analysed by means of worst case scenarios with extraordinary market price changes for the individual segments.

The overall capital ratio in accordance with the *Solvabilitätsverordnung* (SolvV – German Solvency Ordinance) must be below 8.0% at all times. This was at 18.21% for Baader at year-end with an annual average of 22.12%.



## **Operational risks**

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

The risk potential is evaluated, i.e. operational risks are identified and assessed, by the Group Risk Control department using questionnaires/special self-assessments to be filled out the operational risk managers. The findings from the information collected are first presented to the Baader Security Committee, which proposes measures to Group management. Where necessary, Group management commissions the Security Committee to implement the measures. The findings are part of the quarterly MaRisk report to Group Management and the Supervisory Board.

Along with filling in the questionnaires, it is the operational risk manager's responsibility to report losses that occur from operational risks. An application has been made available for this purpose, in which losses from EUR 1 thousand upwards are to be recorded. Significant losses are immediately analysed with regard to their causes. Significant losses are considered those of over EUR 50 thousand. Resulting measures are reported on a quarterly basis in the MaRisk report. In financial year 2008, losses totalling EUR 5,048 thousand were reported. The highest individual loss here was EUR 3,980 thousand and can be classified under the Basel II category Settlement, Sales and Process Management.

The provision formed in financial years 2006 and 2007 for special contributions expected to the EdW in conjunction with the Phönix Kapitaldienst GmbH loss as determined by BaFin was reversed in financial year in the amount of EUR 8,650 thousand. Upon receiving the full banking licence, Baader Bank AG became a member of EdB and thus left EdW.

At the end of the year, the Bank was aware of the following material legal dispute involving material financial risks:

On 21 December 2007, Baader concluded a master contract with a software company for the full implementation of a core banking software system by 31 December 2008. As stipulated in Section 14 of the master contract, Baader Service Bank GmbH is the beneficiary (contract on behalf of a third party). In order to carry out the collaboration, numerous additional individual agreements were concluded, such as a software licence agreement, project agreement, software maintenance agreement and data centre agreement. On 29 July 2008, the contract was cancelled for good reason with no notice period. The contractual partner is claiming EUR 500 thousand in unsettled invoices for amounts that Baader Bank AG has withheld and reported under liabilities.

For around two years, Baader Service Bank (BSB) GmbH has been executing transactions for customers that have been referred to the Bank by their investment advisors. These are known as advice-free transactions i.e. the customers simply have their accounts with BSB and forward their buy orders to the Bank via their investment advisor. In order to execute the transactions, credit agreements have been concluded with the customers and these are backed by bank guarantees from Austrian banks. Over the course of the third quarter, the customers' trading strategy significantly dropped in value within hours resulting in the net liquidation value of customers' assets falling below zero. Customers were asked to put up a margin, which they then did not do. When this occurred, BSB cancelled the credit agreements and withdrew the bank guarantees. A demand was made for the losses over and above the credit

agreements but remained unpaid by customers. As at 31 December 2008, the amount in question is approximately EUR 2,900 plus approximately EUR 350 thousand. In December 2008, two customers initiated legal proceedings against Baader Service Bank GmbH. The customers maintain that they suffered loss due to omissions. The amounts in dispute are EUR 315 thousand and EUR 150 thousand. In addition to this, numerous other customers have announced their intention to join the legal proceedings. As part of the ongoing proceedings, the Bank intends to reach an overall settlement with all customers in order to end the disputes. For Baader Service Bank GmbH, this risk has resulted in a total of EUR 3,980 thousand in specific impairment allowances and provisions.

### **Measurement risks**

Measurement risk is considered the risk that the fair value of individual items on the balance sheet could sink, thus necessitating a write-down. Due to the fact that special assets such as order books are subject to the risk of impairment, this risk is considered material and is backed by risk capital.

### **Liquidity risks**

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

For example, securities with varying market liquidities exist. Low or non-existent market liquidity in individual trading products means that transactions in these products – both to establish and to close out positions – are impacted or impossible. In order to counter this risk, analyses are prepared by the Group Risk Control department at regular intervals and communicated to the Group management concerned. They serve as a basis for deciding on the measures required.

Securing payment obligations is carried out as part of the Group's short term liquidity management. The close consultation between securities trading and cash management ensures the coordination of the daily cash flows from these departments. Particular strains on liquidity from these departments are communicated immediately. A liquidity status showing the current liquidity situation is also generated on a daily basis.

The Group's medium- to long-term liquidity surplus is calculated and reported regularly and is used to manage excess liquidity and as a basis for investment decisions. At Baader, short-term liquidity requirements are secured by corresponding loans and advances to other banks which are payable on demand and by various credit lines.

Experiences gained through the financial market crisis have shown that the liquidity risk represents a substantial risk potential and is therefore to be considered a material risk. For this reason, an additional limit system and reporting system have been introduced for the liquidity risk. An emergency liquidity plan regulates the necessary procedures in a crisis situation. In the coming financial year, the aim is also to introduce the possibility of tapping into new sources of financing. Baader does not consider providing risk capital for "damages" caused by the liquidity risk as expedient. However, in order to deal with the risk potential satisfactorily, we are currently working on significantly improving management of the liquidity risk.

## **Business risks**

Business risk describes the uncertainty that accompanies the operation of a business. Compared with financial risks such as liquidity or market price risk, it is more dependent on qualitative factors that set the parameters for the future finance risk and can be subdivided into industry features, competitive position and management quality. The business risks are considered a material risk due to the Baader being dependent on the current market situation in terms of earnings. This risk is countered in the business strategy and the responsible action of the Board of Directors. Diversification of business segments forms the basis of Baader's business strategy, helping to minimise business risks to the greatest possible extent. Therefore, Baader does not consider providing risk capital for losses as a result of a business risk as necessary.

## **Reputation risks**

Reputation risks are when public confidence in the Baader Group could be negatively impacted as a result public reporting on a transaction, a business partner or a commercial routine. In the medium-term, a loss of reputation could result in financial damages by customers leaving the Bank or by the lack of new customers. For this reason, reputation risks are considered a material risk. At present, no risk capital has been made available due to the difficult in quantifying potential losses in reputation. Losses due to reputation risks are covered by the available risk capital reserves. The possibility of transferring the risk by insurance will be examined and possibly entered into in the coming financial year.

## **Model risks**

Model risks are the risk that a model may be incorrectly designed or may be unsuitable for the selected application or may be inappropriately applied or the incorrect data may have been entered or a model that is no longer up-to-date or is inconsistent. For this reason, there is the danger that insufficient risk capital has been made available for one or more of the types of risks. For this reason, model risks are considered a material risk. Because the necessary risk capital is extremely difficult to quantify, no risk capital has been made available. Losses due to model risks are covered by the available risk capital or the available risk capital reserves for the respective type of risk.

## **Property risks**

A property risk is represented by the danger of depreciation in value of property owned by the Bank. The property on Weihenstephaner Str. 4, 85716, Unterschleissheim serves as the administration centre and trading centre, and is classified as an operating asset. The property is insured at cost (value when new excluding land costs) for dangers/damage such as damage by fire, from excessive voltage, storm, hail, water, fire extinguisher leakage, damage by a vehicle, smoke, sonic booms, unmanned flying objects, their parts or their load. The scope of the insurance as well as the sum insured is checked on a yearly basis in collaboration with the insurance broker. The operating organisation documents the relevant damages to the property and examines emergency scenarios and reports any damage to the member of management responsible. Due to the fact that the property is primarily used by the Bank itself and there is no intention in entering into the property business, Baader considers the property risk non material.

## 12. Outlook

### Strategy and outlook

Over the past year, Baader Bank AG has expanded its position as a leading specialist in securities trading and the largest stock broker in Germany. As a company that aspires to set benchmarks in its industry, Baader Bank AG has been successfully pursuing the strategy for several years to offer additional or related services to its core competences of securities trading and thus to generate new income fields.

It is the Bank's declared aim to increase the number of order books as well as the market share on German stock exchanges, particularly by increasing the number of cross-listings. To counter the pressure on margins in stock market trading, options for reducing trading and settlement costs are constantly evaluated.

It can still be assumed that 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. It is expected that the process of concentration amongst stock exchanges, trading platforms and financial institutions will continue at a national and European level over the next few years. Baader Bank AG is well prepared to help shape this development actively.

However, the key factor for Baader Bank's business in the near future will be the effects of the financial market crisis which significantly impacted the industry in 2008. This has resulted in the financial market crisis significantly influencing the banks capacity to contract debt as well as securities trading. Banks and insurance companies will not have an easy task in winning back the investors' trust which has been lost.

Baader Bank anticipates that the financial market crisis and its consequences will be detrimental to the economic environment in the mid- to long-term. However, the effects on Baader Bank itself must be viewed in a more differentiated fashion. In the first instance, it must be noted that Baader Bank's core business is not directly affected by the crisis due to the fact that it does not have sub-prime papers in its securities account. Even so, the loss of investors' confidence – sparked by the crisis – in securities such as shares, securitised derivatives and funds will have an effect on Baader Bank's core business, stock market trading (specialist activities). Whilst a decline in income is to be anticipated in these areas, Baader Bank may at the same time profit in trading fixed-interest forms of investment as a result of investor irritation for several reasons.

This has benefited Baader Bank AG's bonds segment as trading on electronic platforms has largely come to a standstill with the resulting effect that the original broker agency business is experiencing a renaissance. A continued high return difference between bonds threatened by default and risk-free bonds (credit spreads) is expected in bond trading. This is an environment that could prove advantageous to bond trading in 2009.

Trading in securitised derivatives may continue to be negatively impacted by the often unwarranted distrust of what are generally and incorrectly categorised as certificates. However, because it can be assumed that high volatility on the market will continue, derivatives trading should also receive some stimulation here.

Due to the fact that, following trading in securitised derivatives and actively managed funds, share transactions on the Frankfurt Stock Exchange are also to be migrated from Xontro to the electronic platform Xetra II in 2009, Baader Bank anticipates an increased need for liquidity as a result of a changing market model in conjunction with this migration.

The direct effect of the financial crisis may have a particular negative impact on the valuation of the Bank's investments in Germany and abroad.

We can assume that the consolidation process will continue to accelerate among securities trading companies as a result of the financial market crisis. For this reason, Baader Bank anticipates a significant decline in competitors in the mid- and long-term. On account of its good capital resources as well as its high IT standard, something that is increasingly crucial in remaining competitive, Baader Bank expects to profit from this process. An example of this is the acquisition of N. M. Fleischhacker AG, effective from 1 January 2009.

The competitive and price pressures affecting issue business will further increase. 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.

Despite negative economic growth and a significantly bleak capital market environment, Baader Service Bank GmbH expects its operating business to make continued progress in 2009 and 2010. The positioning of the Bank as the leading service provider for asset managers and fund managers is to be developed further in a targeted fashion.

Baader Service Bank's strategic focus as an arranger of financial innovations (certificates and funds) with a high level of quality in advice and service will continue to be pursued intensively. In the process, the Bank intends to utilise its competences in settling securities even more intensely in order to take up a leading position as provider of subscription, settlement and delivery of structured products and to enable stock exchange trading for these products in cooperation with the Group parent. In its role as investment manager, the Bank focuses first and foremost in supporting customers in launching funds.

As part of facilitating the Bank's ambitious business objectives, it will be necessary to adjust internal resources to the growing operating business. Particular attention will be paid to optimising processes in the area of customer support.

The planned merger with the parent company in 2009 is also crucial in this scenario. As part of the merger, synergies will be leveraged in the areas of IT, processing as well as risk controlling by means of streamlining the Group structure. At the same time, this step will generate the basis for continued growth in the core business areas which are currently covered by Baader Service Bank. A merger will mean that the services that, to date, have been offered by two institutions, can now be bundled into a financially sound and efficient banking unit. At the same time, Baader Bank is expanding its equity base for the business operated by Baader Service Bank.

As a result of significant growth in the deposit business (volume in security accounts) and an increasingly substantial liquidity surplus at Baader Service Bank, cash and cash equivalents will continue to be used on a targeted basis in order to increase net interest income. Part of the cash and cash equivalents is also to be used to invest in customers' investment strategies

(seed money) in order to generate higher commission income as well as offer the customer greater sales potential.

As a result of Baader Service Bank's continued dynamic growth, the management expects a positive business development and an increase in the Bank's profitability in 2009 and 2010, resulting in a growing share in consolidated net profits.

Due to the fact that revenues of the subsidiary Conservative Concept Portfolio Management AG (CCPM) are largely dependent on performance, reliable forecasts of business performance are only possible with reservations, particularly in light of global market turbulence. However, it can be expected that the hedge funds/alternative investments sector will generally continue its decline, particularly in view of the difficult situation on financial markets. This may well result in investor interest in CCPM products from the BC1 and the DTS strategies sliding even further in 2009. However, on the assumption that the turbulent market environment on the S&P 500 will continue, the CCPM Athena strategy is expected to develop positively. In this type of environment, a significant expansion in client funds under management is anticipated in comparison with 2008. In comparison with 2008, this is expected to be accompanied with a significant improvement in income from profit participation. For this reason, an overall substantial increase in client funds under management can be assumed for 2009, an effect that should provide the basis for significant growth in earnings.

In order to participate in economically up-and-coming regions, Baader Bank AG is in the process of also growing beyond national borders in its core business areas. In selecting its target countries, it focuses on economic potential, legal stability, as well as the development status of financial markets. Furthermore, Baader Bank AG always carefully weighs up to what extent the target countries have the potential to develop from a very promising niche into a veritable market. At the same time, Baader Bank AG must be able to offer genuine additional benefits in the respective target countries.

In light of the ongoing financial crisis, it will be extremely difficult to achieve the same profits in financial year 2009 as in 2008. Whilst Baader Bank AG has been successful in optimising and developing the range of its own business areas and thus increasingly expanding its range of offers in spite of market fluctuations, the development of commission and net trading income is expected to decline. This also applies to administration costs to the same extent. In addition, further write-downs are expected on available-for-sale instruments. Overall, it can be assumed that particularly the business areas of the subsidiaries that are largely independent of Baader Bank AG's core business will positively influence the Group's earnings situation.

Risks still exist for financial year 2010 that are primarily a result of the consequences of the financial crisis. However, a moderate growth in the global economy and a normalisation of capital markets is again anticipated for 2010. Under these conditions, the Bank's Board of Directors expects, from 2010 onwards, an increase in earnings while administrative expenses simultaneously rise more slowly.

The strategy taken in the past of positioning the Bank to cover as many types of securities as possible will pay off in terms of profits. Even if the crisis should last longer than anticipated, Baader Bank AG still expects that it will generate profits.

Unterschleissheim, 18 March 2009  
Baader Bank AG  
The Board of Directors

Uto Baader, Dieter Brichmann,  
Stefan Hock, 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 Bank AG and the Group and monitored and supported the work of 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 was also intensively involved in creating 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 Bank 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 Bank 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 Directors' meetings were made available to him in a timely manner.

The Supervisory Board regularly addressed the matter of Corporate Governance. The Supervisory Board fundamentally adopted the recommendations of the German Corporate Governance Code. In its meeting of 19 December 2008, 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 Corporate Governance Code. This declaration is reproduced in the Annual Report and is available on Baader Bank AG's website.

In its meeting of 19 December 2008, the Supervisory Board conducted a test of the efficiency of its own activities; the result was positive. The Supervisory Board is also of the firm opinion that in the past financial year Baader Bank AG fulfilled the recommendations of the Corporate Governance Code in accordance with its Declaration of Compliance of December 2008. 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 Bank AG for the year ended 31 December 2008 and the consolidated financial statements and the Group management report for the year ended 31 December 2008 were audited by Clostermann & Jasper Partnerschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen – the auditor elected by the General Meeting – and issued with an unqualified audit opinion. The consolidated financial statements and Group management report were prepared in line with section 315a of the HGB, based on the IFRS international accounting standards as they are to be applied in the EU. The auditor conducted the audit in line with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany) and additionally observed the International Standards on Auditing (ISA).

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 carefully examined the annual financial statements and management report of Baader Bank 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 audit reports were available to all members of the Supervisory Board and were treated in detail in today's Supervisory Board meeting in the presence of the auditor, who reported on significant events of his audit. During the meeting, the Board of Directors of Baader Bank AG and the Group outlined the financial statements and the risk management system and presented the scope and focus of the audit. The Supervisory Board concurred with the auditors' findings. Following the conclusion of its examination, the Supervisory Board did not raise any objections.

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 have 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 and 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."

The Supervisory Board approved the 2008 annual and consolidated financial statements prepared by the Board of Directors in its meeting today. The 2008 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 0.06 per no par-value share carrying dividend rights from the unappropriated surplus, to transfer EUR 5.5 million to other retained earnings and to carry the remaining amount forward to new account.

The Annual General Meeting on 26 June 2008 re-elected the shareholders' representatives on the Supervisory Board. Theresia Weber and Jan Vrbsky were re-elected, by Group employees, as employee representatives on the Supervisory Board effective immediately following the Annual General Meeting on 26 June 2008. In 2008, the Supervisory Board decided to wind up the MiFIS division and not to extend the Board of Directors' contract for Christopher Schütz, which ended on 31 December 2008.

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, 26 March 2009

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 orientated 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 AktG**

The Board of Directors and Supervisory Board of Baader Bank AG declare in accordance with section 161 of the AktG for 2008 that the Company complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code published on 4 July 2003 by the Federal Ministry of Justice in the official section of the electronic Bundesanzeiger (Federal Gazette) in the versions dated 2 June 2005, 12 June 2006, 14 June 2007 and 6 June 2008 with the following exceptions:

- 1) The following is laid down under item 3.8 (2) of the German Corporate Governance Code: “If the company takes out a D&O (directors and officers’ liability insurance) policy for the Board of Directors and Supervisory Board, a suitable deductible shall be agreed.”

In April 2004, Baader Bank AG concluded a suitable D&O insurance policy (extended in 2007) for the executive bodies and senior executives of the Company. A deductible was not agreed. The Company does not consider that a deductible affects the behaviour and/or working methods of the insured parties.

- 2) Section 4.2.3 (3) of the German Corporate Governance Code, stipulates the following in relation to the variable remuneration of the members of the Board of Directors: “In particular, company shares with a multi-year blocking period, share options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Share 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 upon by the Supervisory Board.”

In the General Meeting on 19 July 2006, 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 share options, as this does not correspond to the incentive goals of a variable compensation system.

- 3) 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 of risk management and compliance, the necessary independence required of the auditor, the determination of auditing focal points and the fee agreement.”

After the Annual 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.

- 4) Section 5.3.3 of the German Corporate Governance Code stipulates the following: “The Supervisory Board shall form a Nomination Committee composed exclusively of representatives of the shareholders and which will nominate suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting.”

In view of the size of the Supervisory Board, a special Nomination Committee is not reasonable with regard to the costs and effort involved.

- 5) Section 5.4.7 (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 Corporate Governance Report, subdivided according to components.”

Baader Bank AG reports the compensation of the members of the Supervisory Board in the Notes to its Annual Financial Statements and in the Corporate Governance Report 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) The following is laid down under item 7.1.2 (2) of the German Corporate Governance Code: “The Supervisory Board or its Audit Committee is to discuss half-year and any quarterly financial reports shall be discussed with the Management Board by the Supervisory Board prior to publication.”

The Supervisory Board is updated on an ongoing basis regarding the Company’s financial position and is informed of events in its regular meetings. Discussing the half-yearly and/or quarterly financial reports in additional meetings prior to publication would lead to significant administrative expenses for the Company and would stand in no relation to the results.

- 7) The following is laid down under item 7.1.2 (4) of the German Corporate Governance Code: “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 Bank AG’s shares are listed in the regulated market in the Prime Standard 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.

The Board of Directors  
The Supervisory Board

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

The Baader Group is a bank group 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 Bank AG and are also monitored by their supervisory committees, in which members of the Board of Directors of Baader Bank 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, 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 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 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 WpHG, 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. No notifications were received by 31 December 2008.

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 is listed in the Management Report.

### **Annual General Meeting**

The Annual General Meeting has been organised and held for many 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 Annual General Meeting was changed over to the record date as early as 2006. Shareholders who do not personally attend the Annual 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 Annual General Meeting.

### **Supervisory Board**

The Supervisory Board was re-elected in the 2008 Annual General Meeting. In the year under review, there were no changes in the Supervisory Board. Dr Norbert Juchem, member of the Supervisory Board, died in January 2009. A candidate to be elected to succeed Dr Juchem for the remaining term of his office will be proposed to the 2009 Annual General Meeting. 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 315 (2) No. 4 of the HGB**

This compensation report explains the principles for setting the compensation of the Board of Directors and the Supervisory Board of Baader Bank 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 Bank AG.

The General Meeting of Baader Bank 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 single-entity 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 AktG.

### **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 2008, 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 (share 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 0.4% and 1.2% 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 Annual 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.

For the 2008 financial year as a whole, total compensation for the members of the Board of Directors was as follows:

					2008	2007
Payment irrespective of achievement		Allocation of provisions for pensions	Performance related payment	Components with long-term incentive effect		
Salary	Other <sup>1)</sup>	Pension commitment <sup>2)</sup>	Bonus	Share options <sup>3)</sup>	Total	Total
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,749,260.00	138,200.00	1,243,114.00	614,400.00	74,799.85	3,819,773.85	4,998,329.46

- 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 IASs/IFRSs for active members of the Board of Directors amount to EUR 8,490,204.00 (previous year: EUR 9,735 thousand).
- 3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 per share).

The performance-related remuneration is paid after completion of the 2008 annual financial statements by the Annual General Meeting of Baader Bank AG.

A total of 64,250 stock options were issued to the Board of Directors in financial year 2008. The following table shows changes to the stock options of members of the Board of Directors for the 2001 to 2007 financial years.

For financial year *)	2007	2006	2005	2004	2003	2002	2001	Total
Options granted	64,250	63,750	75,000	75,000	103,000	170,000	172,000	723,000
Exercise price	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
Options forfeited	12,850	3,750	0	0	0	19,000	58,000	93,600
Options exercised	0	0	0	37,500	103,000	151,000	114,000	405,500
Options outstanding	51,400	60,000	75,000	37,500	0	0	0	223,900
Exercisable options	0	0	75,000	37,500	0	0	0	112,500
Residual term in months	76	65	53	41	28	16	4	

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

Under Section 15a of the WpHG, 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. No purchases or sales were reported in the financial year.

Majority ownership of Baader Bank 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 Bank 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 Mr Uto Baader's shares equate to 66.95%



of the issued capital of Baader Bank AG. Over and beyond this, no member of the Board of Directors owned more than 1% of the share capital of Baader Bank AG as at 31 December 2008. As at 31 December 2008, members of the Board of Directors held a total of 31,007,468 shares in Baader Bank AG.

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 Bank 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 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 Bank AG and are independent of their work for the Supervisory Board.

For the 2008 financial year as a whole, total compensation for the members of the Supervisory Board was as follows:

		2008	2007
Fixed component EUR	Variable component EUR	Total EUR	Total EUR
150,000.00	84,771.98	234,771.98	389,737.72

The variable compensation component is paid after completion of the 2008 annual financial statements by the Annual General Meeting of Baader Bank AG.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 2,550 stock options <sup>1)</sup> in financial year 2008. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2001 to 2007.

For financial year *)	2007	2006	2005	2004	2003	2002	2001	Total
Options granted	2,550	2,760	2,400	2,640	5,000	9,600	4,800	29,750
Exercise price	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
Options forfeited	0	0	0	0	0	0	0	0
Options exercised	0	0	0	1,320	5,000	9,600	4,800	20,720
Options outstanding	2,550	2,760	2,400	1,320	0	0	0	9,030
Exercisable options	0	0	2,400	1,320	0	0	0	3,720
Residual term in months	76	64	53	41	29	16	4	

\*) 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 2007, amounts to EUR 2,968.71 (previous year: EUR 5,600.40). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 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. No purchases or sales were reported in the financial year.

As at 31 December 2008, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2008, members of the Supervisory Board held a total of 10,589 shares in Baader Bank AG.

## Risk management

Generating earnings in banking is generally not possible without entering into risks. The term risk therefore implies a possibility that the bank's future economic situation could develop negatively. The core elements of the success-orientated governance of the Baader Group therefore involve conscious handling, active management and ongoing identification and monitoring of risks. As the parent institution, Baader Bank AG is responsible for establishing a risk control system throughout the Group, which complies with the Minimum Requirements for Risk Management (MaRisk) issued by the BaFin that have been applicable since 20 December 2005. In this context, special care is taken with regard to the Company that the various business activities are suitably backed with equity.

## 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 Bank AG, 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 Annual 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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CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008

Assets	Notes	31 Dec. 2008 EUR	31 Dec. 2007 EUR thousand
1 Cash reserve	(9, 27)	1.220.607,91	3.273
2 Loans and advances to other banks	(7, 10, 28)	166.015.631,53	75.338
3 Loans and advances to customers	(7, 10, 29)	23.661.258,50	2.521
4 Allowance for losses on loans and advances	(11, 30)	-3.094.611,06	-62
5 Assets held for trading	(7, 13, 31, 66)	42.291.693,08	47.627
6 Available-for-sale financial instruments	(7, 14, 32, 66)	12.879.448,56	9.304
7 Equity-accounted investments	(33, 66)	16.633.782,02	38.216
8 Property and equipment	(15, 34)	19.980.082,61	20.846
9 Intangible assets	(16, 35)	20.833.682,57	12.513
10 Goodwill	(17, 36, 66)	24.785.055,44	4.600
11 Income tax assets	(23, 37)	11.805.635,33	12.071
12 Other assets	(6, 7, 38, 66)	6.965.668,07	9.189
13 Deferred tax assets	(6, 23, 39)	21.021.267,22	23.977
<b>Total Assets</b>		<u>364.999.201,78</u>	<u>259.413</u>

Equity & Liabilities	Notes	31 Dec. 2008 EUR	31 Dec. 2007 EUR thousand
1 Deposits from other banks	(19, 40)	31.834.084,09	19.751
2 Amounts due to customers	(19, 41)	98.111.131,58	41.430
3 Liabilities held for trading	(20, 42)	38.889.725,82	0
4 Provisions	(21, 22, 43)	11.435.860,28	17.314
5 Income tax liabilities	(23, 44)	1.286.996,10	2.560
6 Other liabilities	-45,00	18.997.079,63	12.723
7 Deferred tax liabilities	(23, 46)	4.227.637,81	1.733
8 Shareholders' equity	(25, 26, 47, 48, 49)	160.216.686,47	163.902
a) Issued capital	-47,00	45.435.187,00	45.503
b) Share premium	-47,00	60.837.559,54	60.904
c) Retained earnings	(6, 47)	43.495.565,10	22.496
d) Revaluation reserve	(14, 47)	359.436,41	1.227
e) Currency translation reserve	-47,00	52.776,13	-10
f) Consolidated net profit	-47,00	8.601.347,03	32.374
<b>Total before minority interests</b>		158.781.871,21	162.494
g) Minority interest		1.434.815,26	1.408
<b>Total liabilities and shareholders' equity</b>		<u>364.999.201,78</u>	<u>259.413</u>

**CONSOLIDATED INCOME STATEMENT  
FOR THE PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008**

Income Statement			2008	2007
	Notes	EUR	EUR	EUR thousand
1 Interest income	-51,00	3.909.033,63		2.833
2 Interest expense	-51,00	-2.862.509,71		-1.147
3 Net interest income	-51,00		1.046.523,92	1.686
4 Allowance for losses on loans and advances	(11, 52)		-3.068.784,94	0
5 Net interest income/expense after allowance for losses on loan and advances			-2.022.261,02	1.686
6 Fee and commission income	(53)	56.309.150,55		62.848
7 Fee and commission expense	(53)	-17.339.259,66		-16.311
8 Net fee and commission income	-53,00		38.969.890,89	46.537
9 Net trading income	(7, 54)		59.278.873,21	52.019
10 Net expense/income from available-for-sale financial instruments	(7, 55)		-3.352.238,82	3.887
Net expense/income from equity-accounted investments	-56,00		-907.787,17	3.790
12 Administrative expenses	(6, 26, 57)		-87.728.687,50	-75.823
13 Profit from operations			4.237.789,59	32.096
14 Other operating income	(6, 58)		11.014.982,92	3.950
15 Other operating expenses	-58,00		-3.605.186,89	-1.136
16 Profit from ordinary activities			11.647.585,62	34.910
17 Income tax on profit from ordinary activities	(6, 23, 59)		-2.888.181,99	-6.325
Net profit for the period before minority interests			8.759.403,63	28.585
19 Minority interest in net profit			-151.637,62	57
20 Net profit for the period			8.607.766,01	28.642
21 Accumulated income brought forward			-6.418,98	3.732
22 Consolidated net profit			8.601.347,03	32.374

		2008	2007
		EUR	EUR
Basic/diluted Earnings per share	(6, 60)	0,19	0,63



## STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net profit	Total before minority interests	Minority interests	Shareholders' equity
<b>Equity as at 31 Dec. 2006</b>	<b>45,493,404.00</b>	<b>60,977,655.15</b>	<b>8,000,000.00</b>	<b>6,125,477.95</b>	<b>-736.70</b>	<b>30,667,902.22</b>	<b>151,263,702.62</b>	<b>1,362,441.73</b>	<b>152,626,144.35</b>
Adjustments in accordance			-1,074,434.90						-1,074,434.90
<b>Equity as at 1 Jan. 2007</b>	<b>45,493,404.00</b>	<b>60,977,655.15</b>	<b>6,925,565.10</b>	<b>6,125,477.95</b>	<b>-736.70</b>	<b>30,667,902.22</b>	<b>151,263,702.62</b>	<b>1,362,441.73</b>	<b>151,551,709.45</b>
Adjustments in accordance						-387,557.89	-387,557.89		-387,557.89
Consolidated net profit for						29,029,567.11	29,029,567.11		29,029,567.11
Transfer to retained earnings			15,570,000.00			-15,570,000.00	0.00		0.00
Gains/losses								-56,764.54	-56,764.54
Net change in the revaluation reserve				-4,898,197.26			-4,898,197.26		-4,898,197.26
Net change in the currency reserve					-8,933.06		-8,933.06		-8,933.06
<b>Comprehensive net profit for 2007</b>			<b>14,495,565.10</b>	<b>-4,898,197.26</b>	<b>-8,933.06</b>	<b>13,072,009.22</b>	<b>22,660,444.00</b>	<b>-56,764.54</b>	<b>22,603,679.46</b>
Capital increases		301,187.56					301,187.56	370,874.94	672,062.50
Changes in treasury shares	9,334.00	-133,207.51					-123,873.51		-123,873.51
Dividends paid						-11,365,565.80	-11,365,565.80		-11,365,565.80
Changes in consolidated companies/other changes		-241,679.79					-241,679.79	-268,351.28	-510,031.07
<b>Equity as at 31 Dec. 2007</b>	<b>45,502,738.00</b>	<b>60,903,955.41</b>	<b>22,495,565.10</b>	<b>1,227,280.69</b>	<b>-9,669.76</b>	<b>32,374,345.64</b>	<b>162,494,215.08</b>	<b>1,408,200.85</b>	<b>163,902,415.93</b>

<b>Equity as at 31 Dec. 2007</b>	<b>45,502,738.00</b>	<b>60,903,955.41</b>	<b>22,495,565.10</b>	<b>1,227,280.69</b>	<b>-9,669.76</b>	<b>32,374,345.64</b>	<b>162,494,215.08</b>	<b>1,408,200.85</b>	<b>163,902,415.93</b>
Consolidated net profit for						8,607,766.01	8,607,766.01		8,607,766.01
Transfer to retained earnings			21,000,000.00			-21,000,000.00	0.00		0.00
Gains/losses								151,637.62	151,637.62
Net change in the revaluation reserve				-867,844.28			-867,844.28		-867,844.28
Net change in the currency reserve					62,445.89		62,445.89		62,445.89
<b>Comprehensive net profit for 2008</b>			<b>21,000,000.00</b>	<b>-867,844.28</b>	<b>62,445.89</b>	<b>-12,392,233.99</b>	<b>7,802,367.62</b>	<b>151,637.62</b>	<b>7,954,005.24</b>
Changes in treasury shares	-67,551.00	424,205.92					356,654.92		356,654.92
Dividends paid						-11,380,764.62	-11,380,764.62		-11,380,764.62
Changes in consolidated companies/other changes		-490,601.79					-490,601.79	-125,023.21	-615,625.00
<b>Equity as at 31 Dec. 2008</b>	<b>45,435,187.00</b>	<b>60,837,559.54</b>	<b>43,495,565.10</b>	<b>359,436.41</b>	<b>52,776.13</b>	<b>8,601,347.03</b>	<b>158,781,871.21</b>	<b>1,434,815.26</b>	<b>160,216,686.47</b>

As at 31 December 2008, the issued capital of Baader Bank 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 473,495 shares held on 31 December 2008, the issued capital recognised amounted to EUR 45,435,187.00. No use was made during the financial year of the authorisation by the General Meeting on 26 June 2008 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 2008 of the General Meeting resolution on 26 June 2008 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

	<b>2008</b>	<b>2007</b>
	<b>EUR</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>
<b>1. Net profit for the period (including minority interest in net profit)</b>		
2. Depreciation, write-downs and reversals of write-downs on loans and advances, property and equipment, and investment securities	13,279	5,248
3. Change in provisions	-6,536	-2,143
4. Other non-cash income/expense	1,432	-249
5. Gains/losses on disposal of property and equipment and investment securities	57	1,046
6. Other adjustments (net)	-517	-140
<b>7. = Subtotal</b>	<b>16,474</b>	<b>26,453</b>
8. Loans and advances		
Loans and advances to other banks	-77,626	-11,899
Loans and advances to customers	-19,577	10,487
9. Securities (excluding investment securities)	58,144	-14,339
10. Other operating assets	6,307	-2,676
11. Liabilities		
Deposits from other banks	12,083	-6,693
Amounts due to customers	56,681	9,431
12. Other operating liabilities	-259	-13
13. Interest and dividends received	5,324	5,521
14. Interest paid	-2,722	-961
15. Income taxes paid	-1,997	-4,363
<b>16. = Net cash from operating activities</b>	<b>52,832</b>	<b>10,948</b>
17. Proceeds from disposals		
Disposals of investment securities	0	9,518
Disposals of property and equipment	0	15
18. Payments for investing activities		
Payments to acquire investment securities	-1,297	-4,063
Payments to acquire property and equipment	-191	-585
Payments to acquire intangible assets	-2,156	-898
19. Payments to acquire consolidated companies and other business units	-39,810	-700
<b>20. = Net cash from/used in investing activities</b>	<b>-43,454</b>	<b>3,287</b>
21. Proceeds from additions to equity	0	1,025
22. Dividends paid	-11,381	-12,472
23. Other payments	-112	0
<b>24. = Net cash used in financing activities</b>	<b>-11,493</b>	<b>-11,447</b>
25. Net change in cash and cash equivalents (total of 16, 20, 24)	-2,115	2,788
26. Effect of exchange rate changes and changes in Group structure on cash and cash equivalents	63	0
27. Cash and cash equivalents at beginning of period	3,273	485
<b>28. = Cash and cash equivalents at end of period</b>	<b>1,221</b>	<b>3,273</b>
Composition of cash and cash equivalents at 31 December		
Cash reserve	1,221	3,273

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. Payments (inflows and outflows) from loans and advances to other banks and to customers as well as securities held for trading and other assets are all reported here. Inflows and outflows from deposits from other banks and amounts due to customers and other liabilities are also considered operating activities. All interest and dividend payments are also reflected in the net cash from operating activities item.

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 cash flows for investment securities and investments as well as for property and equipment and payments to acquire subsidiaries.

Cash flows from financing activities represent all payments relating to equity and shareholders. Distributed dividends are also shown here.

Cash and cash equivalents are composed exclusively of the cash reserve, which comprises cash in hand and deposits with the Deutsche Bundesbank (cf. Note 27). The item does not include loans and advances to other banks, which are payable on demand.

The informative value of the cash flow statement can be regarded as small for banks. For the Bank, 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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The Company is registered in the commercial register of Munich Local Court under the number HRB 121537.

#### Purpose of the reporting entity

The purpose of the Company is the provision of securities services, in particular

- Acceptance of third-party funds as deposits or other irrevocably repayable funds from the public, where the repayment claim is not securitised in bearer bonds or negotiable bonds regardless of whether interest is reimbursed or not (*deposit business* in accordance with Section 1 (1) clause 2 no. 1 of the KWG),
- Granting money loans and acceptance credits (*lending business* in accordance with Section 1 (1) clause 2 no. 3 of the KWG)
- Acquisition and sale of financial instruments under its own name for the account of third parties (*financial commission business* in accordance with Section 1 (1) clause 2 no. 4 of the KWG).
- Custody and management of securities for others (*deposit business* in accordance with Section 1 (1) clause 2 no. 5 of the KWG)
- Assumption of guarantees and other warranties for others (*guarantee business* in accordance with Section 1 (1) clause 2 no. 8 of the KWG)
- Execution of cashless payments and clearing (*giro business* in accordance with Section 1 (1) clause 2 no. 9 of the KWG)
- Underwriting financial instruments under its own risk for placement, or the assumption of equivalent guarantees (*issue business* in accordance with Section 1 (1) clause 2 no. 10 of the KWG)
- Brokerage of transactions for the acquisition and sale of financial instruments or their documentation (*investment brokerage* in accordance with Section 1 (1a) clause 2 no. 1 of the KWG),
- Provision of personal recommendations to customers or their representatives, where these recommendations refer to transactions with specific financial instruments, where the recommendation is based on an assessment of the personal circumstances of the investor or has been presented as suitable for the investor's purposes and where the recommendation is not exclusively announced via information supply channels or for the public (*investment advice* in accordance with Section 1 (1a) clause 2 no. 1a of the KWG)

- Placement of financial instruments without a fixed underwriting obligation (*placement business* in accordance with Section 1 (1a) clause 2 no. 1c of the KWG)
- Acquisition and sale of financial instruments in the name of third parties on behalf of third parties (*trade brokerage* in accordance with Section 1 (1a) clause 2 no. 2 of the KWG).
- Management of individual assets invested in financial instruments for others with scope for making decisions (*financial portfolio management* in accordance with Section 1 (1a) clause 2 no. 3 of the KWG)
- Acquisition and sale of financial instruments in the Company's own name as service for others (*proprietary trading* in accordance with Section 1 (1a) clause 2 no. 4 of the KWG).

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.

Majority ownership of Baader Bank AG lies with Baader Beteiligungs GmbH, Munich. This is the highest-level parent company within the Baader Group.

## **BASIS OF CONSOLIDATED ACCOUNTING**

The consolidated financial statements of Baader Bank AG as at 31 December 2008 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 HGB 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 German 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 euros, unless stated otherwise.

The balance sheet date is 31 December 2008. The financial year is the calendar year.

## **ACCOUNTING POLICIES**

### **(1) Principles**

The consolidated financial statements for the year ended 31 December 2008 were 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 2008 – 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 7).

In order to meet the extended disclosures required under IFRS 7 for financial instruments, the financial instruments were further classified:

1. Financial instruments measured at amortised cost
2. Financial instruments measured at fair value through profit/loss
3. Financial instruments measured at fair value through equity
4. Financial instruments that do not fall under IFRS 7.

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 2008.

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.



The same accounting policies were used as in the consolidated financial statements for the year ended 31 December 2007. Due to an accounting error in previous years, the accounting policy for coverage values for pension obligations has been amended in the scope of IAS 8. The error was corrected retrospectively in accordance with IAS 8.42. The corresponding figures in the notes for 31 December 2007 were adjusted correspondingly (see note 6).

## **(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 2009 were not observed in these financial statements. This refers in particular to the amended versions of standards IAS 1, IAS 27, IFRS 3 and IFRS 8.

The consolidated financial statements for the year ended 31 December 2008 are based on the IASB framework and on the following relevant IASs/IFRSs:

IAS 1	Presentation of Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosures
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
IFRS 7	Financial Instruments: Disclosures

The standards that were not observed were either irrelevant for the consolidated financial statements or did not have to be applied.

In financial year 2008, with the exception of IFRIC 10 – Interim Financial Reporting and Impairment, 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 took 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
GAS 15a	Group Management Report Disclosures and Narrative Explanations Required by Takeover Law
GAS 17	Reporting on Executive Body Remuneration

### **(3) Scope of consolidation**

In addition to the parent company Baader Bank AG, six subsidiaries (previous year: six) in which Baader Bank AG holds a direct or indirect interest of more than 50% are included in the consolidated financial statements as at 31 December 2008. Of these companies, five are headquartered in Germany 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.

The following companies are fully consolidated:

Company	Head- quarters		equity interest	Share capital	Share- holders' equity	Total assets	Net profit for the period	First-time consolidation
Baader Management AG	Unterschleissheim	EUR thousand	100.0%	50	48	49	-1	31 Dec. 2003
Baader Service Bank GmbH	Unterschleissheim	EUR thousand	100.0%	16,000	18,069	99,969	-2,694	30 Aug. 2004
Baader Heins & Seitz Capital Management AG	Unterschleissheim	EUR thousand	75.0%	50	856	2,105	488	1 Jan. 2005
Conservative Concept Portfolio Management AG	Bad Homburg	EUR thousand	59.82%	140	1,846	2,430	57	1 Oct. 2006
direct AG	Bad Homburg	EUR thousand	100.0% <sup>1)</sup>	266	1,491	1,621	-372	1 Oct. 2006
Conservative Concept AG	Switzerland	EUR thousand	100.0% <sup>1)</sup>	63	1,057	1,668	442	1 Oct. 2006

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

<sup>1)</sup> 75% of shares in direct AG, Bad Homburg, are held directly by Baader Bank AG. The remaining 25% is held by CCPM. The shares in Conservative Concept AG, Zug, Switzerland, are held indirectly via the investment in CCPM AG. The figures of CC AG were translated (EUR/CHF 1.485).

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

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

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

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

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

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

On the date of first-time consolidation (1 January 2008), the assets and liabilities assumed in the acquisition of DBM were as follows:

	<b>Carrying amount EUR thousand</b>	<b>Adjustments EUR thousand</b>	<b>Fair value EUR thousand</b>
<b>Assets</b>			
Cash reserve	0	0	0
Loans and advances to other banks and customers	15,825	0	15,825
Financial assets	14,714	0	14,714
Property and equipment and intangible assets	297	11,589	11,886
Goodwill	0	21,148	21,148
Income tax assets and deferred tax assets	193	0	193
Other assets	329	0	329
<b>Liabilities</b>			
Deposits from other banks and amounts due to customers	16.463	0	16.463
Income tax liabilities and deferred tax liabilities	485	3.372	3.857
Provisions and other liabilities	4.581	0	4.581
Shareholders' equity	9.829	29.365	39.194

As a result of the merger between DBM and Baader Bank AG effective on 1 January 2008, within the Baader Group DBM is no longer operated as an independent business unit. For this reason, a disclosure of the profit/loss for financial year 2008 attributable to DBM in accordance with IFRS 3.67(i) is not possible.

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

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

In August of the previous financial year, a capital increase of EUR 10 million was carried out at the subsidiary Baader Service Bank GmbH. This strengthened the equity base which had fell as a result of the increased necessity for bad debt allowances charged on loans and advances to customers (EUR -2,980 thousand). As a result of the negative earnings contribution and the existing uncertainties at the time in relation to write-downs of loans and advances to customers, goodwill of EUR 962 thousand, resulting from the first-time consolidation, was written-down in full in the interim financial statements on 30 September 2008 and was not reversed on 31 December 2008 in accordance with IFRIC 10.8.

In the purchase agreement from 10 December 2008, Baader Bank AG acquired a further 5% stake in Baader Heins & Seitz Capital Management AG. This increased the ownership interest to a total of 75%. The purchase price for the share increase was EUR 320 thousand. This acquisition, which does not fall under IFRS 3, was presented as a transaction with minority shareholders. The expenses were charged directly to equity.

Overall and in accordance with the *Investmentgesetz* (InvG – German Investment Act), four companies (previous year: three companies) and interests in two special funds (previous year: five) were included in the consolidated financial statements as associates and measured at equity in accordance with IAS 28:

Company	Head- quarters	Equity interest  %	Carrying amount of equity  EUR thousand	Assets	Equity	Liabilities	Net profit for the period	Fair value of shares
				EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
SPAG St. Petersburg Immobilien- und Beteiligungs AG	Darmstadt	39.81 %	141	4,681 <sup>1)</sup>	4,255 <sup>1)</sup>	426 <sup>1)</sup>	1.412 <sup>1)</sup>	1,527
BAM Berlin Asset Management GmbH	Berlin	30.00 %	98	572 <sup>2)</sup>	331 <sup>2)</sup>	241 <sup>2)</sup>	89 <sup>2)</sup>	<sup>6)</sup>
Parsoli Corporation Ltd.	Mumbai, India	21.93 %	1,152	10,575 <sup>3)</sup>	5,788 <sup>3)</sup>	4,787 <sup>3)</sup>	-167 <sup>3)</sup>	2,207
Gulf Baader Capital Markets S.A.O.C.	Muscat, Oman	24.90 %	5,008	23,635 <sup>4)</sup>	17,520 <sup>4)</sup>	6,115 <sup>4)</sup>	-654 <sup>4)</sup>	<sup>6)</sup>
Herald Europe Fund	Frankfurt	45.59 %	9,754	21,396	-	-	<sup>5)</sup>	9,754
Conservative Concept Hedge Fund	Cayman Islands	41.53 %	481	860	-	-	<sup>5)</sup>	481

1) Figures are based on the audited annual financial statements as at 31 December 2007

2) Figures are based on the unaudited annual financial statements as at 31 December 2008

3) Figures are based on the unaudited interim financial statements as at 31 December 2008 (financial year: 1 April 2008 – 31 March 2009); equity, assets, liabilities and net profit/loss for the year were adjusted in line with the auditor's statements from the start of the financial year 31 March 2008 and translated (EUR/INR 67.9615)

4) Figures are based on the unaudited annual financial statements as at 31 December 2008; equity, assets, liabilities and net profit/loss for the year were translated (EUR/OMR 0.53815)

5) The share of the Herald Europe Funds in the net profit for the period amounts to EUR 837 thousand. The share of the CC Hedge Fund in the net profit for the year amounts to EUR -24 thousand

6) No public market price available

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

A one-to-four capital reduction was decided by resolution at the Extraordinary Annual General Meeting of SPAG on 9 July 2008. The amount gained from the capital reduction in the amount of EUR 3,900,000.00 is to be used to pay the shareholders.

Once the capital reduction for the associate SPAG St. Petersburg Immobilien und Beteiligungs AG was filed in September 2008, the previous (single) accounting for the SPAG stock portfolio was divided into two assets:

- Accounting under loans and advances to customers of a claim against SPAG (separate from shares) for the capital-reduction related payment of EUR 1,552,560.00 (EUR 60.00 per share).

- Accounting for SPAG shares (after capital reduction) as a company consolidated at equity, which was measured based on the proportionate equity on the balance sheet date 31 December 2007 less the amount of the separate claim (EUR 65.46 – EUR 60.00 per share).
- The market price for SPAG shares was EUR 59.00 on 31 December 2008, resulting in a fair value of EUR 4,527 thousand for the shares. Here, the separation of the claim was not taken into account.

As a result of the separation of a claim against SPAG, currently qualified as valuable, a remeasurement gain arose during the period under review in the form of a EUR 33 thousand reversal to the carrying amount at equity.

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

The EUR 4,959 thousand convertible bond issued at the end of March 2007 by Parsoli Corporation Ltd., which must be converted into equity in a year, was not yet converted at the balance sheet date. The date on which the conversion will be carried out is unforeseeable at present. Following conversion, the percentage of equity will increase to over 40%. Until then, this convertible bond will be reported as an asset under other assets and measured based on the current market price.

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

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. The Baader Bank 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) Business Combinations after the Balance Sheet Date**

Effective on 1 January 2009, Baader Bank AG held a 100% interest in N.M. Fleischhacker AG (NMF). For Baader Bank AG, this acquisition represents the further development of its leading role as a specialist in securities trading on the Frankfurt Stock Exchange. The range of securities

managed by Fleischhacker stretches from German and foreign shares on both the regulated market as well as over-the counter to bonds through to actively managed funds.

The purchase price consists of the equity calculated and audited as of 31 December 2008 as part of the NMF annual financial statements and a premium of EUR 2,000 thousand. The contractually agreed date for the audit certificate is 17 April 2009. For this reason, the final purchase price cannot be determined reliably at this time. Based on the NMF's provisional and unaudited annual financial statements, a purchase price of EUR 7,818 thousand would be due.

The fair values of the acquired, identifiable assets and liabilities on the date of acquisition are to be calculated for the purposes of distributing the total premium of EUR 2,000 thousand (remeasurement method). Furthermore, intangible assets not reported to date at NMF must be identified and measured if they fulfil the recognition criteria.

Hidden reserves and charges for assets and liabilities are not recognised. The premium paid thus pertains exclusively to the company's intangible assets that have not been accounted for to date. The order books relating to shares, bonds and commodity order books managed by the company were identified as intangible assets eligible for recognition. Based on the currently valid recognition practices for order books and the planning period for the long-term corporate planning of the Baader Group, a useful life of 10 years is recognised for the order books.

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

The total value of the order books recognised for the first time as part of the acquisition and the merger amounted to a fair value of EUR 4,500 thousand as at the date of acquisition on 1 January 2009. EUR 1,318 thousand of this amount is attributable to deferred tax liabilities at a tax rate of 29.28%. This results in negative goodwill of EUR 1,182 thousand which will be recorded under other operating income and recognised in income in 2009. It can be assumed that the integration of NMF into the Baader Group will result in a need for provisions for long-term contractual obligations and compensation which will exceed negative goodwill in terms of amount.

At present, no annual financial statements as at 31 December 2008 in accordance with IFRSs are available. The annual financial statements prepared pursuant to German commercial law are currently being audited. In light of this, disclosing the IFRS carrying amounts and the amounts recognised for each class of NMF's assets and liabilities as part of first-time consolidation is not practicably possible at present.

## **(5) 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 remeasured 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.

## **(6) Changes in accounting**

Following an error in previous years, in financial year 2008 the accounting was adjusted by coverage values for pension obligations, fulfilling the requirements of deductible plan assets. Adjustments were carried out retrospectively in accordance with the provisions of IAS 8.42 by adjusting the values of the previous years.

In past financial years, planned assets offset against pension obligations (DBO) in accordance with experts' actuarial reports were recognised as assets under other assets. However, the provisions for pensions (DBL) resulting from the experts' reports were reported in the correct amount. As a result, a pension expense which was too low was booked in the amount of the planned assets that were not taken into account when preparing the financial statements.

On 31 December 2006/1 January 2007, the adjustment for earlier periods was netted against retained earnings. The expense to be adjusted for financial year 2007 and the corresponding deferred taxes were corrected in the 2007 income statement.

The following table shows the effects of the corrections on the corresponding positions in the financial statements.

	31 Dec. 2007 before adjustments EUR	adjustments		31 Dec. 2007 after adjustments EUR
		31 Dec. 2006/ 1 Jan. 2007 EUR	31 Dec. 2007 EUR	
Other assets	11,251,594.58	-1,747,901.26	-314,147.81	9,189,545.51
Deferred tax assets	23,376,535.52	673,466.36	-73,410.08	23,976,591.80
<b>Assets</b>		<b>-1,074,434.90</b>	<b>-387,557.89</b>	
Retained earnings	23,570,000.00	-1,074,434.90	0.00	22,495,565.10
<b>Equity &amp; Liabilities</b>		<b>-1,074,434.90</b>	<b>0.00</b>	
Administrative expenses	-75,626,945.51	0.00	-196,370.16	-75,823,315.67
Other operating income	4,067,328.67	0.00	-117,777.65	3,949,551.02
Income taxes	-6,251,559.59	0.00	-73,410.08	-6,324,969.67
<b>Income Statement</b>		<b>0.00</b>	<b>-387,557.89</b>	

As a result of the adjustments, earnings per share fell by EUR 0.01 from EUR 0.64 to EUR 0.63.

In the following, all information relating to previous years (Notes 38, 39, 47, 57, 58, 59, 60, 61 and 67) has been modified in accordance with the corrections. The comparative figures as of 31 December 2007 were also adjusted in the consolidated balance sheet, consolidated income statement, cash flow statements and the Group management report. Correspondingly, changes to the Group statement of shareholders' equity were prepared in accordance with 1.96(d). All comparative figures now reflect the status following the retrospective error adjustment.

#### **(7) 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 Bank AG Group.

a) Classification of financial assets and liabilities and their measurement

aa) Financial instruments measured at amortised cost:

- 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 to hold them to final maturity. They are measured at amortised cost. Again, the Baader Group did not use this category in financial year 2008.
- Other financial liabilities:  
This includes deposits from other banks and amounts due to customers. They are measured at amortised cost.

ab) Financial instruments measured at fair value through profit/loss:

- Assets and liabilities held for trading:  
All financial assets that are held for trading purposes are assigned to the “assets held for trading” category. 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.

ac) Financial instruments measured at fair value through equity

- 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 measurement previously recognised in the remeasurement reserve is reversed and shown in the income statement. In the event of lasting impairment, the remeasurement 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.

ad) Financial instruments to which IFRS 7 does not apply:

- Investments in subsidiaries in accordance with IAS 27
- Investments in accordance with IAS 28
- Share-based payment in accordance with IFRS 2

#### b) Embedded derivatives

Financial instruments measured at fair value through profit/loss

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

Financial instruments measured at fair value through profit/loss

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.

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.

#### d) Changes to IAS 39 and IFRS 7

On 13 October 2008, the IASB resolved changes to IAS 39 (Financial Instruments: Recognition and Measurement) and changes to IFRS 7 (Financial Instruments: Disclosures) which now allow companies to reclassify certain financial instruments from the category of financial instruments measured at fair value through profit/loss to other categories where measurement is at amortised cost and impairment tests are carried out. This change has been enforced retroactively to 1 July 2008. In the official journal from 16 October 2008, the European Commission Regulation (EC) 1004/2008 from 15 October 2008 on the amendment to Regulation (EC) 1725/2003 regarding the adoption of specific international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council was published by the European Union as part of this change. Changes have been made to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 (Financial Instruments: Disclosures) based on this regulation.

Baader Bank AG did not apply these changes in the consolidated financial statements as of 31 December 2008.

### **(8) 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 that are denominated in foreign currency are carried at historical cost. The income and expenses resulting from the translation of balance sheet items are recognised in income under the net trading income item.

In the consolidated financial statements, the annual financial statements for the foreign subsidiary CC AG (Switzerland) were translated to euro in accordance with IAS 21 in line with the functional currency concept. The functional currency of this company is the Swiss franc. When translating the equity carrying amount of foreign companies that are accounted for at equity, the concept of functional currency is also used. Assets and liabilities are translated using the middle rate on the balance sheet date, whilst the income statement is translated using the average rate for the financial year and the remaining equity using the original rates. Translation differences are charged directly to equity.

The exchange rates below apply to the most important currencies for the Baader Group (amount in currency equivalent to EUR 1):

	2008	2007
USD	1.3917	1.4721
CHF	1.4850	1.6547
INR	67.9615	57.484
OMR	0.53815	0.56165

### **(9) 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.

### **(10) 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.

### **(11) 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 measurement 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.

### **(12) 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.

### **(13) 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.

### **(14) 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 remeasurement 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 are 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 remeasurement reserve.

### **(15) Property and equipment**

The buildings reported under this item as well as the operating and office equipment are carried at cost, less depreciation. Where necessary, the component approach in accordance with IAS 16.13 is taken into account accordingly. 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:

	<b>Expected useful life in years</b>
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 at a value up to EUR 150 are recognised in administrative expenses in the reporting year. For reasons of simplification, low-value items of property and equipment with a cost of between EUR 150.00 and EUR 1,000.00 are placed, in line with German tax law, in an omnibus item which is depreciated by a fifth every year.

## **(16) Intangible assets**

From a Group point of view, only purchased intangible assets are combined under the Intangible assets item. They primarily comprise purchased software licences, purchased order books and trading strategies acquired. 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. Intangible assets with indefinite useful lives are not recognised.

	<b>Standard useful life in years</b>
Acquired rights of use	5-10
Acquired order books	10*)
Trading strategies	10*)
Software	3-5

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

Amortisation and write-downs are disclosed under administrative expenses.



## **(17) 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. Based on this, the existing goodwill for Baader Service Bank GmbH was written-off in full in financial year 2008. In accordance with IFRIC 10.8, this write-off was retained on the balance sheet on 31 December 2008.

## **(18) 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.

On the balance sheet date 31 December 2008, a contractual agreement also exists which is classified as a finance lease but from a Group point of view is immaterial.

IFRIC 4 contains provisions and examples of how to apply them to determine whether agreements or contracts in a company are to be classified as leases and how to account for them in accordance with IAS 17. As a result of the IFRIC 4 rules, agreements that were not originally classified as leases have been included as lease agreements. For existing agreements to be classified as lease agreements, the two requirements below must be fulfilled in order (IFRIC 4.6):

- performance of the concluded agreement must depend on the use of a specific asset or several assets and
- the agreement must transfer the rights to use of the asset(s) to the purchaser.

Baader Bank AG does not have any additional lease agreements in accordance with IAS 17 based on IFRIC 4.

## **(19) Deposits from other banks and amounts due to customers**

Financial liabilities are carried at amortised cost.

## **(20) 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.

## **(21) Provisions for pensions and other employee benefits**

Many employees of Baader Bank 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 obligations, 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 insurance policies taken out. With few exceptions, these insurance 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 obligations 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 obligations (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 independent actuaries 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 2008	31 December 2007
Discount rate	6.2%	4.5%
Return on plan assets	4.2%/4.5%	4.2%/4.5%
Changes in salaries	2.0%/3.0%	2.0%/3.0%
Pension adjustments	2.0%	2.0%

The expected return on assets is based on capital market developments observed in the past and therefore on the interest rate applied in accordance with HGB.

## **(22) 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.

## **(23) 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. In certain cases, measurement allowances are used to reflect uncertainties surrounding the future use of tax benefits. Income tax assets and liabilities are not netted against one another and are recognised individually. 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.

#### **(24) 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.

#### **(25) 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.

#### **(26) Share-based payment system for members of the Board of Directors and employees**

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

##### **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 stock options of EUR 5.30 issued in the first tranche and not yet exercised expired in financial year 2008.

The exercise price corresponds to the average closing price of Baader Bank 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 Bank AG. The stock options may only be exercised if Baader Bank 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 Bank 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 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 stock options may be exercised over a period of 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 Bank 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 Bank 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 Bank AG's shares on the Munich Stock Exchange on the last five trading days prior to the Company receiving the beneficiary's exercise notice.

## **b) Stock option plan 2006**

The Board of Directors is authorised, with the approval of the Annual 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 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 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 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.

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 Bank 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 options may only be exercised if (a) the closing price of Baader Bank 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 ten trading days prior to the options being exercised, the aggregate percentage performance of Baader Bank 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 last date on which the beneficiary can accept the concrete offer to acquire stock options.

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 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.

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

	2007	2006	2005	2004	2003	2002	2001	Total
Options granted	418,224	374,600	299,480	299,600	323,000	468,600	517,800	2,701,304
Exercise price	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
Options forfeited	55,085	48,859	33,920	23,000	19,000	70,000	164,400	414,264
Options exercised	0	0	0	97,480	193,100	363,600	306,600	960,780
Options outstanding	363,139	325,741	265,560	179,120	110,900	35,000	46,800	1,326,260
Exercisable options	0	0	265,560	179,120	110,900	35,000	46,800	637,380
Residual term (in months)	76	64	53	41	29	16	4	-

Stock options for financial year 2000 at an exercise price of EUR 5.30 expired in financial year 2008.

In financial year 2008, the number of stock options changed as follows:

	2008	
	Number of stock options	Average exercise price
<b>As at 1 January</b>	<b>1,106,152</b>	<b>4.14</b>
Commitment (granted options)	418,224	3.75
Options forfeited	77,978	4.09
Options exercised	22,120	<b>2.60</b>
Lapsed options	98,018	5.30
<b>As at 31 December</b>	<b>1,326,260</b>	<b>4.21</b>
<b>Exercisable options as of year-end</b>	<b>637,380</b>	<b>3.90</b>

Exercise of the options resulted in an expense of EUR 13,344.74, which was charged directly to equity. The stock options were exercised in five periods of one month each. The average share price in the five periods was as follows:

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

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

	2007	2006	2005	Total
<b>Options granted</b>	381,620	374,600	282,420	1,038,640
<b>Option price</b>	1.1642	1.4001	0.9975	-
<b>Total staff costs</b>	444,282.00	524,477.46	281,713.95	1,250,473.41
<b>Staff costs in financial year 2008</b>	148,094.00	262,238.72	58,690.41	469,023.14

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

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.

The options are call options as employees are entitled to subscribe for shares of Baader Bank AG. The options are considered short positions from the Company's perspective. Baader Bank 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 of an exotic option with a seven-year term. To present the two-year lock-up period and the exercise window following publication of the quarterly reports, these exotic options are portrayed as Bermudan-style options with the individual exercise windows. The measurement of the employee stock options is derived from the theoretical price for exotic 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 2007 was EUR 3.75.
2. Expected dividend distributions by Baader Bank AG were assumed.
3. An implied volatility was assumed for options on the DAX with a spread of 21.87%. If one assumes a spread between the implied volatility ATM (at the money) and the implied volatility ITM (in the money) of the DAX, a volatility of 45.14% can be assumed. The spread of the volatility surface of the DAX was implemented such that the assumed implied volatility of the hypothetical options is reached on Baader shares.
4. Interest rate of the euro swap curve of 4.4870% (par curve = zero bond)
5. EUR 4.05 was used as a basis on the measurement date (16 May 2008) as a measurement price for the Baader shares.
6. Measurement was carried out on the date that the options were granted (16 May 2008).
7. The Black & Scholes formula was applied as a measurement model for European options and the best of approximated method selected as the measurement model for Bermudan options with dividend distributions.
8. A total of 381,620 shares were assumed on the measurement date (of which 418,224 were issued and 36,604 were returned options).
9. Measurement of the exotic options resulted in a price of EUR 1.1642 per option.
10. Entering 381,620 stock options results in costs of EUR 444,282.00 for Baader Bank for employee stock options.

## **SIGNIFICANT DIFFERENCES IN ACCOUNTING METHODS BETWEEN IAS/IFRS AND HGB**

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

## **Shareholders' 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 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).

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### (27) Cash reserve

The cash reserve is composed of the following items:

	31 December 2008	31 December 2007
Cash in hand	319.61	519.49
Deposits with Deutsche Bundesbank	1,220,288.30	3,272,253.36
<b>Total</b>	<b>1,220,607.91</b>	<b>3,272,772.85</b>

### (28) Loans and advances to other banks

	31 December 2008 Germany	31 December 2008 Other countries	31 December 2007 Germany	31 December 2007 Other countries
Payable on demand	131,853,424.91	30,786,985.76	35,486,001.38	20,832,142.33
other loans and advances	2,294,361.91	1,080,858.95	18,392,038.69	627,561.71
<b>Loans and advances to other banks</b>	<b>134,147,786.82</b>	<b>31,867,844.71</b>	<b>53,878,040.07</b>	<b>21,459,704.04</b>
Allowance for losses on loans and advances	-40,690.79	0.00	0.00	0.00
<b>Total</b>	<b>134,107,096.03</b>	<b>31,867,844.71</b>	<b>53,878,040.07</b>	<b>21,459,704.04</b>

The loans and advances to other banks are due in less than one year. Loans and advances to other banks include deferred interest of EUR 56,756.04. The remaining maturities of the loans and advances to other banks are presented in the maturity structure (see note 67).

The increase in loans and advances to other banks is attributable, among other things, to the growth in credit balances for executing and settling customer orders at Baader Service Bank GmbH. In addition, Baader Bank AG reported a high level of loans and advances to other banks on the balance sheet date, attributable to securities transactions.

## (29) Loans and advances to other customers

	31 December 2008	31 December 2007
<b>German customers</b>	<b>5,119,151.70</b>	<b>1,508,166.73</b>
- Companies	2,339,950.18	336,096.91
- Private individuals	2,709,087.35	1,157,662.59
- Other	70,114.17	14,407.23
<b>International customers</b>	<b>18,542,106.80</b>	<b>1,013,455.27</b>
- Companies	7,340,480.98	478,392.72
- Private individuals	11,182,407.32	528,735.01
- Other	19,218.51	6,327.54
<b>Loans and advances to customers</b>	<b>23,661,258.50</b>	<b>2,521,622.00</b>
Allowance for losses on loans and advances	-3,053,920.27	-61,982.99
<b>Total</b>	<b>20,607,338.23</b>	<b>2,459,639.01</b>

As a result of developments in the Baader Service Bank GmbH business with the financial service providers IFI AG and AIF AG, loans and advances to customers have increased significantly year-on-year.

Loans and advances to customers are payable on a daily basis. The figure includes deferred interest of EUR 70,114.17. The remaining maturities of the loans and advances to customers are presented in the maturity structure (see note 67).

The following loans and advances have been extended to Baader Bank AG associates:

	Associates	
	31 December 2008	31 December 2007
Loans and advances to customers	1,576,360.00	20,471.49
<b>Total</b>	<b>1,576,360.00</b>	<b>20,471.49</b>

Loans and advances to customers in 2008 primarily include a receivable from SPAG St. Petersburg Immobilien und Beteiligungen AG (SPAG) of EUR 1,552,560.00. The receivable is an equity repayment claim against the company.

Loans and advances to customers contain loans and advances of EUR 7,759 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.

### (30) Allowance for losses on loans and advances

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

	Loans and advances to other banks		Loans and advances to customers		Total	
	2008	2007	2008	2007	2008	2007
<b>As at 1 January</b>	<b>0.00</b>	<b>-22,000.83</b>	<b>-61,982.99</b>	<b>-87,656.21</b>	<b>-61,982.99</b>	<b>-109,657.04</b>
Additions	-40,690.79	0.00	-3,012,408.77	0.00	-3,053,099.56	0.00
Disposals						
- Utilisation	0.00	22,000.83	20,471.49	25,673.22	20,471.49	47,674.05
- Reversals	0.00	0.00	0.00	0.00	0.00	0.00
Changes in consolidated companies	0.00	0.00	0.00	0.00	0.00	0.00
Write-downs	0.00	0.00	0.00	0.00	0.00	0.00
<b>As at 31 December</b>	<b>-40,690.79</b>	<b>0.00</b>	<b>-3,053,920.27</b>	<b>-61,982.99</b>	<b>-3,094,611.06</b>	<b>-61,982.99</b>

This allowance is solely for credit risks.

The addition to allowances for losses on loans and advances in financial year 2008 is primarily a result of write-downs of loans and advances to customers of the subsidiary Baader Service Bank GmbH.

### (31) Assets held for trading

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

	31 December 2008	31 December 2007
<b>Bonds and other fixed-interest securities</b>	12,564,673.23	7,468,167.93
thereof:		
negotiable securities	12,564,673.23	7,468,167.93
listed securities	12,564,673.23	7,468,167.93
<b>Equities and other non-fixed-interest securities</b>	29,718,814.65	40,148,486.98
thereof:		
negotiable securities	29,701,546.69	40,138,486.98
listed securities	29,581,546.69	40,138,486.98
<b>Positive fair values of derivatives</b>	8,205.20	10,130.50
<b>Total</b>	<b>42,291,693.08</b>	<b>47,626,785.41</b>

Assets held for trading include shares of a convertible bond in the amount of EUR 620 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.

### (32) 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:

	Equity investments	Equities and other non-fixed-interest securities	Bonds and debt securities
<b>Cost</b>			
- As at 1 January 2008	3,109,867.80	32,725,028.86	412,153.31
- Additions	146,940.00	0.00	392,956.31
- Reclassifications	0.00	8,016,277.84	0.00
- Disposals	-0.51	-2,266,893.32	-412,153.31
- As at 31 December 2008	3,256,807.29	38,474,413.38	392,956.31
<b>Remeasurement reserve</b>			
- As at 1 January 2008	275,704.94	795,574.17	0.00
- Additions	-16,920.00	157,402.35	48,229.05
- Reclassifications	0.00	8,398.95	0.00
- Disposals	-248,657.20	-753,405.17	0.00
- As at 31 December 2008	10,127.74	207,970.30	48,229.05
<b>Write-downs</b>			
- As at 01.01.08	182,734.04	27,797,515.53	34,476.15
- Current write-downs	1,944,225.90	1,853,472.37	0.00
- Reclassifications	0.00	0.00	0.00
- Disposals	0.00	-2,266,892.32	-34,476.15
- As at 31 December 2008	2,126,959.94	27,384,095.58	0.00
<b>Fair value</b>			
- As at 31 December 2007	<b>3,202,838.70</b>	<b>5,723,087.51</b>	<b>377,677.16</b>
- As at 31 December 2008	<b>1,139,975.09</b>	<b>11,298,288.10</b>	<b>441,185.36</b>
Thereof			
Negotiable securities	1,137,293.47	2,180,782.97	441,185.36
Listed securities	1,089,188.58	723,062.96	441,185.36

The available-for-sale financial instruments include deferred interest of EUR 9,262.68.



### (33) Equity-accounted investments

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

	<b>Equity-accounted investments</b>
Cost	
- As at 1 January 2008	37,842,592.87
- Adjustment to the previous years	915,888.62
- Additions	1,455,701.43
- Reclassifications	-15,092,779.05
- Disposals	-7,356,028.00
- As at 31 December 2008	17,765,375.87
Accumulated changes from measurement at equity	107,924.89
Write-downs	
- As at 1 January 2008	542,831.98
- Adjustment to the previous years	0.00
- Current write-downs	729,374.42
- Disposals	0.00
- Reversals of write-downs	32,687.66
- As at 31 December 2008	1,239,518.74
Carrying amounts	
- <b>As at 31 December 2007</b>	<b>38,215,649.51</b>
- <b>As at 31 December 2008</b>	<b>16,633,782.02</b>
Thereof	
Negotiable securities	16,054,977.14
Listed securities	1,292,996.47

The proportionate interests in the net profit of the previous year increase the cost item by EUR 915,888.62.

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

SPAG was included in the consolidated financial statements based on the latest available annual financial statements as at 31 December 2007. As a result of the provisionally resolved dissolution of the company, no significant business transactions occurred in financial year 2008.

### (34) 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 2008	5,421,316.79	23,755,869.31
- Additions	188,585.56	2,735.17
- Additions from acquisition of DBM	270,032.00	0.00
- Disposals	234,656.08	0.00
- As at 31 December 2008	5,645,278.27	23,758,604.48
<b>Reversals of write-downs in year under review</b>	0.00	0.00
Write-downs		
- As at 1 January 2008	3,897,033.68	4,434,103.25
- Current write-downs	451,835.78	855,756.17
- Disposals	214,928.74	0.00
- As at 31 December 2008	4,133,940.72	5,289,859.42
Carrying amounts		
- <b>As at 31 December 2007</b>	<b>1,524,283.11</b>	<b>19,321,766.06</b>
- <b>As at 31 December 2008</b>	<b>1,511,337.55</b>	<b>18,468,745.06</b>

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

The Baader Bank AG land in Unterschleissheim posted under property and equipment is subject to a land charge of EUR 15,000 thousand on behalf of the Kreissparkasse München-Starnberg.

### (35) Intangible assets

The following overview presents the changes in intangible assets:

	Software	Order books	Trading strategies
Cost			
- As at 1 January 2008	19,486,803.26	15,946,666.00	2,286,287.79
- Additions	2,179,218.89	0.00	0.00
- Additions from acquisition of DBM	26,564.00	11,589,314.70	0.00
- Disposals	8,674,773.85	0.00	0.00
- As at 31 December 2008	13,017,812.30	27,535,980.70	2,286,287.79
Write-downs			
- As at 1 January 2008	15,417,785.63	9,487,917.00	300,827.33
- Current write-downs	1,558,644.93	3,615,305.70	240,661.88
- Disposals	8,614,744.25	0.00	0.00
- As at 31 December 2008	8,361,686.31	13,103,222.70	541,489.21
Carrying amounts			
- <b>As at 31 December 2007</b>	<b>4,069,017.63</b>	<b>6,458,749.00</b>	<b>1,985,460.46</b>
- <b>As at 31 December 2008</b>	<b>4,656,125.99</b>	<b>14,432,758.00</b>	<b>1,744,798.58</b>

As part of the acquisition of the interest in Conservative Concept Portfolio Management AG, in 2006, two trading strategies were identified as intangible assets which, as internally generated assets, had to be carried separately from goodwill in the course of the acquisition.

Additions to the order books in the financial year relate exclusively to the order books identified as part of the first-time consolidation of DBM.

### (36) Goodwill

	<b>Goodwill</b>
Cost	
- As at 1 January 2008	4,600,345.06
- Additions	21,147,674.78
- Disposals	0.00
- Reclassifications	0.00
- As at 31 December 2008	25,748,019.84
<b>Reversals of write-downs in year under review</b>	<b>0.00</b>
Write-downs	
- As at 1 January 2008	0.00
- Additions	962,964.40
- Disposals	0.00
- As at 31 December 2008	962,964.40
Carrying amounts	
- <b>As at 31 December 2007</b>	<b>4,600,345.06</b>
- <b>As at 31 December 2008</b>	<b>24,785,055.44</b>

Additions to goodwill are solely attributable to the acquisition of shares in Deutsche Börsenmakler GmbH. See also the additional explanations under note 3.

As at the 2008 balance sheet date, the Company reported the following goodwill in the IFRS consolidated financial statements:

<b>Subsidiaries</b>	<b>Goodwill EUR thousand</b>	<b>Initial recognition Financial year</b>
Baader Heins & Seitz Capital Management AG	1,618	2005
Conservative Concept Portfolio Management AG	2,019	2006
DBM Deutsche Börsenmakler GmbH (merged)	21,148	2008
<b>Total</b>	<b>24,785</b>	

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 risk-adequate and maturity-matching capitalisation interest rates between 8.59% and 13.58% (previous year: between 11.94% and 12.53%).

Using the corporate planning available for the 2008 to 2010 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 goodwill value of DBM Deutsche Börsenmakler GmbH following the merger is derived from the earnings capacity of the acquired business segments. In this process, the earnings were projected and distributed throughout the expected residual term of the recognised order books based on the actual gross income/contribution margin accounting in financial year 2008 for the individual segments (groups of order books). A future growth in earnings was not assumed. The future cash flows determined in this way were discounted by a calculatory interest rate of 9%. The sum of the discounted order book earnings exceeding the residual carrying amounts (recoverable amount) less the equity generated by DBM is offset against goodwill.

The goodwill of the cash generating unit Baader Service Bank GmbH of EUR 963 thousand was already written-down in full in the interim financial statements as at 30 September 2008. The write-down was recognised as an expense under other operating expenses. The reason for this was the earnings situation at the time and the existing uncertainties in association with the write-down of loans and advances to customers.

The impairment test conducted as part of preparing the annual financial statements did not reveal a need for any further impairment since the recoverable amount in each case substantially exceeded the reported goodwill.

### **(37) 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 11,805,635.33. 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 resulted in the capitalisation of the present value of the corporate income tax credit of EUR 11,693 thousand.

### **(38) Other assets**

The other assets are composed of the following items:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Other assets	6,301,671.32	8,897,534.21
Prepaid expenses	663,996.75	292,011.30
<b>Total</b>	<b>6,965,668.07</b>	<b>9,189,545.51</b>

Other assets contain an advance payment for a convertible bond issued by Parsoli Corporation Ltd, Mumbai, India, in the amount of EUR 3,321 thousand. The issue has not yet been divided into individual securities and entered in the Bank's security account.

**(39) 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 IASs/IFRSs 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.

Deferred tax assets were recognised in the following items:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Loss carryforwards	19,823,787.48	23,078,541.97
Provisions for pensions/asset values	1,192,596.22	895,985.82
Securities	4,883.52	2,064.01
<b>Total</b>	<b>21,021,267.22</b>	<b>23,976,591.80</b>

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

Deferred tax assets from loss carryforwards arose as follows:

	<b>Baader Bank AG</b>	<b>Baader Service Bank GmbH</b>	<b>Direct AG</b>	<b>CCPM AG</b>	<b>Total</b>
Loss carryforward as at 31 December 2007 (EUR thousand)	83,075	1,587	0	0	84,662
- Use of/increase in loss carryforward in 2008	-15,980	4,034	544	16	-17,007
= Loss carryforward as at 31 December 2008 (EUR thousand)	67,096	5,621	544	16	73,277
x Tax rate in %	29.28%	27.03%	31.92%	28.08%	-
= Tax claims as at 31 December 2008 (EUR thousand)	19,646	1,519	174	4	21,343
- Write-downs (EUR thousand)	0	-1,519	0	0	-1,519
<b>= Deferred tax assets as at 31 December 2008 (EUR thousand)</b>	<b>19,646</b>	<b>0</b>	<b>174</b>	<b>4</b>	<b>19,824</b>
- Deferred tax assets as at 31 December 2007 (EUR thousand)	-22,778	-301	0	0	-23,079
<b>Reversal of/addition to deferred tax assets/tax expense in 2008 (EUR thousand)</b>	<b>-3,132</b>	<b>-301</b>	<b>174</b>	<b>4</b>	<b>-3,255</b>

In accordance with IAS 12.48, current and deferred tax assets and liabilities are usually to be measured using the tax rates and tax laws that have been enacted at the preparation date of the financial statements. In jurisdictions where announcements of tax rates and tax laws by the government have the substantive effect of actual enactment, however, current and deferred tax assets and liabilities are measured using the announced tax rates and tax laws with effect from the date of their announcement.

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

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

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

The deferred taxes from loss carryforwards attributable to direct AG amounting to EUR 174 thousand for the current financial year were included for the first time. Corporate planning assumes losses in the first financial year of operation which will be offset by sufficiently taxable income in the following years. In addition, the CCPM AG loss carryforward of EUR 4 thousand generated in financial year 2008 was recognised as an asset and is to be utilised fully in the following year with corresponding tax gains.

The changes in the remeasurement of the tax asset are reflected in the income statement as tax income amounting to EUR 1,145 thousand. This is offset by tax expense arising from the utilisation of the remaining tax loss carryforward of EUR 4,400 thousand as a result of the profit of financial year 2008, causing deferred tax assets from loss carryforwards to decrease from the previous year by EUR 3,255 thousand net.

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 2008.

The change in deferred tax assets from measurement differences in provisions for pensions and asset values as well as securities is recognised in income as a deferred tax income under the income taxes item.

#### **(40) Deposits from other banks**

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

	<b>31 December 2008</b>	<b>31 December 2007</b>
Payable on demand	19,464,454.04	7,003,673.83
With agreed maturity or notice	12,369,630.05	12,747,470.28
<b>Total</b>	<b>31,834,084.09</b>	<b>19,751,144.10</b>

The with agreed maturity or notice item comprises a loan for refinancing the business premises totalling EUR 12,369,630.05. The remaining maturities of the deposits from other banks are presented in the maturity structure (see note 67).

#### (41) Amounts due to customers

The amounts due to customers item is composed of the following items:

	31 December 2008	31 December 2007
<b>German customers</b>	<b>36,345,992.01</b>	<b>15,200,400.69</b>
- Companies	29,785,703.61	8,045,408.18
- Private individuals	6,469,831.97	7,089,120.45
- Other	90,456.43	65,872.06
<b>International customers</b>	<b>61,765,139.57</b>	<b>26,229,335.82</b>
- Companies	56,857,217.67	17,974,558.87
- Private individuals	4,907,921.90	8,254,776.95
<b>Total</b>	<b>98,111,131.58</b>	<b>41,429,736.51</b>

The due to customers item is principally attributable to deposits at subsidiary Baader Service Bank GmbH. However, this also contains a new *schuldschein* note loan for EUR 21,000 thousand taken out by Baader Bank AG in 2008.

The due to customers item includes deferred interest of EUR 210,039.76. The remaining maturities of the deposits from customers are presented in the maturity structure (see note 67).

#### (42) Liabilities held for trading

Liabilities held for trading include delivery commitments arising from short sales of securities as well as derivatives with negative fair values.

	31 December 2008	31 December 2007
Delivery commitments arising from short sales of securities	38,336,927.34	0.00
Negative fair values of derivatives	552,798.48	0.00
<b>Total</b>	<b>38,889,725.82</b>	<b>0.00</b>



### (43) Provisions

Provisions are composed of the following items:

	31 December 2008	31 December 2007
Provisions for pensions	9,289,609.00	7,702,648.00
Other provisions	2,146,251.28	9,610,846.29
<b>Total</b>	<b>11,435,860.28</b>	<b>17,313,494.29</b>

The provisions for pensions are solely provisions for obligations to provide occupational retirement pensions based on direct pension obligations. The type and scale of the retirement pensions for employees entitled to benefits are determined by the terms of the individually agreed pension obligations. Pensions are paid to employees reaching retirement age or earlier in the case of invalidity or death (see note 21).

The pension obligations are calculated yearly by independent actuaries using the projected unit credit method. The projected unit credit of the pension obligations as at 31 December 2008 amounts to EUR 9,524 thousand (previous year: EUR 9,824 thousand). The difference between this figure and the provisions for pensions is the result of actuarial gains and losses of EUR -1,198 thousand (previous year: EUR 1,020 thousand) not recognised in the balance sheet to date, past service cost of EUR 0 thousand (previous year: EUR 160 thousand) and from the fair value of plan assets of EUR 1,432 thousand (previous year: EUR 942 thousand).

The pension obligations changed as follows:

	2008	2007
<b>Pension obligations (DBO) as at 1 January</b>	<b>9,824,478.00</b>	<b>8,625,434.00</b>
Current service cost	873,607.00	821,241.00
Interest cost	471,492.00	388,144.00
Plan amendments	74,020.00	42,692.00
Settlements	-239,326.00	0.00
Actuarial gains/losses	-2,118,660.00	-53,033.00
Additions following acquisition of DBM	638,149.00	0.00
<b>Pension obligations (DBO) as at 31 December</b>	<b>9,523,760.00</b>	<b>9,824,478.00</b>

All pension obligations are partly financed through plan assets. Plan assets, exclusively available in the form of insurance policies, changed as follows:

	2008	2007
<b>Plan assets as at 1 January</b>	<b>942.027,00</b>	<b>806.033,00</b>
Employer contributions	107.093,00	106.513,00
Expected return on plan assets	57.462,00	40.831,00
Actuarial gains/losses	40.373,00	-11.350,00
Additions following acquisition of DBM	285.194,00	0,00
<b>Fair value as at 31 December</b>	<b>1.432.149,00</b>	<b>942.027,00</b>

The actual return on plan assets amounted to EUR 97,835.00 (previous year: EUR 33,059.00).

In addition to the insurance policies, assets are also invested internally in the form of securities which serve solely to cover the pension obligations. However, these do not meet the requirements for plan assets as set out in IAS 19 and are therefore not taken into account under provisions as plan assets.

As part of accounting for provisions for pensions, the following amounts were taken into account in the income statement:

	2008	2007
Current service cost	873.607,00	856.385,00
Interest cost	471.492,00	442.447,00
Expected return on plan assets	-57.462,00	-44.409,00
Actuarial gains/losses	240.928,00	7.314,00
Past service cost	0,00	160.226,00
Settlements	-122.911,00	0,00
<b>Total</b>	<b>1.405.654,00</b>	<b>1.451.444,00</b>

Pension expense is contained in administrative expenses in full.

In a five-year comparison, pension obligations changed as follows:

	2008	2007	2006	2005	2004
Pension obligation (DBO)	9,523,760.00	9,824,478.00	<b>8,625,434.00</b>	<b>7,687,243.00</b>	<b>4,576,212.00</b>
Plan assets	-1,432,149.00	-942,027.00	<b>-806,033.00</b>	<b>-697,649.00</b>	<b>-185,324.00</b>
<b>Plan deficit</b>	<b>8,091,611.00</b>	<b>8,882,451.00</b>	<b>7,819,401.00</b>	<b>6,989,774.00</b>	<b>4,390,888.00</b>

The best estimate of the expected employer's contributions paid into the plan in 2009 is EUR 7 thousand.

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

	As at 1 Jan.2008 EUR thousand	Utilisation EUR thousand	Reversals EUR thousand	Addition EUR thousand	As at 31 Dec. 2008 EUR thousand
Staff	0	0	0	985	985
Cost	8.903	41	8.716	291	437
Miscellaneous	708	468	36	520	724
<b>Total</b>	<b>9.611</b>	<b>509</b>	<b>8.752</b>	<b>1.796</b>	<b>2.146</b>

Staff provisions are chiefly attributable to compensation.

The provision formed in financial years 2006 and 2007 under other provisions for special contributions expected to the EdW in conjunction with the Phönix Kapitaldienst GmbH loss as determined by BaFin was reversed in financial year 2008 in the amount of EUR 8,650 thousand. Upon receiving the full banking licence, Baader Bank AG became a member of EdB and thus left EdW. Otherwise, other provisions contain cost allocation of supervisory authorities.

#### **(44) Income tax liabilities**

The income tax liabilities of EUR 1,286,996.10 are the current tax liabilities of the Group companies for which no legally valid tax assessment notice has yet been issued.

#### **(45) Other liabilities**

Other liabilities of EUR 18,997,079.63 (previous year: EUR 12,723 thousand) primarily include outstanding invoices and accrued liabilities (EUR 15,931 thousand) and salary deductions (EUR 1,671 thousand) still to be paid.

#### **(46) 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 2008	31 December 2007
Securities	665,885.22	973,896.12
Intangible assets	3,561,752.59	758,842.99
<b>Total</b>	<b>4,227,637.81</b>	<b>1,732,739.11</b>

The changes in deferred tax liabilities from securities measurement differences of EUR 60,448.17 are charged directly to equity in the remeasurement reserve. All other changes are recognised in income as income tax expense/tax income in net profit for the period.

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

#### (47) Shareholders' equity

	31 December 2008 EUR	31 December 2007 EUR
a) Issued capital	45,435,187.00	45,502,738.00
b) Share premium	60,837,559.54	60,903,955.41
c) Retained earnings	43,495,565.10	22,495,565.10
d) Revaluation reserve	359,436.41	1,227,280.69
e) Currency translation reserve	52,776.13	-9,669.76
f) Consolidated net profit	8,601,347.03	32,374,345.64
<b>Total before minority interests</b>	<b>158,781,871.21</b>	<b>162,494,215.08</b>
Minority interests	1,434,815.26	1,408,200.85
<b>Shareholders' equity</b>	<b>160,216,686.47</b>	<b>163,902,415.93</b>

#### a) Issued capital

The issued capital (share capital) on 31 December 2008 comprised 45,908,682 no-par value bearer shares totalling EUR 45,908,682.00.

	Shares
<b>Number of shares outstanding at 1 January 2007</b>	<b>45,502,738</b>
Plus: Treasury shares held at 31 December of the previous year	405,944
<b>Number of shares issued at 31 December 2007</b>	<b>45,908,682</b>
Less: treasury shares held at the balance sheet date	473,495
<b>Number of shares outstanding at 31 December 2008</b>	<b>45,435,187</b>

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 Bank AG. All issued shares are fully paid up.

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

	31 December 2008		31 December 2007	
	EUR thousand	Shares	EUR thousand	Shares
Issued shares	45,909	45,908,682	45,909	45,908,682
./. Treasury shares held	473	473,495	406	405,944
= Outstanding shares (issued capital)	45,436	45,435,187	45,503	45,502,738
+ Shares of authorised capital not yet issued	22,954	22,954,341	22,954	22,954,341
<b>Total</b>	<b>68,390</b>	<b>68,389,528</b>	<b>68,457</b>	<b>68,457,079</b>

89,671 treasury shares were acquired in financial year 2008. Cost amounted to EUR 169,929.02, representing an average share price of EUR 1.90.

The Annual General Meeting on 26 June 2008 revoked the resolutions to acquire treasury shares in accordance with Section 71 (1) no. 7 and no. 8 of the AktG passed on 26 June 2007 and issued authorisation in accordance with Section 71 (1) no. 7 and no. 8 of the AktG until 25 November 2009 as follows:

- 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%. The holdings of own shares acquired for this purpose may not exceed 5% of the Company's share capital.
- In accordance with Section 7 (1) no. 8 of the AktG, the Company is authorised to acquire treasury shares, particularly in order to be able to offer them to third parties as part of the acquisition of companies, parts of companies or equity interests or assets – including by means of all share deals – and in the event of business combinations.
- To offer shares for subscription to the beneficiaries, or withdraw said shares, under the Stock Option Plans 1999, 2004 and 2006 of Baader Bank AG in accordance with the authorisations granted by the Annual General Meetings on 18 June 1999, 14 July 2004 and 19 July 2006.

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 valid until 25 November 2009. The shares will be acquired via the stock exchange. The price paid by Baader Bank AG per share may not exceed the average closing price for the no-par value shares of Baader Bank AG in floor

trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares 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 Bank AG, that were acquired as a result of this authorisation, to third parties when companies, parts of companies or equity interests or assets are acquired – including by means of all-share deals – and in the event of business combinations. 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 1999, 2004 and 2006 Stock Option Plans resolved by the Annual General Meeting. 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 Bank AG that are purchased as a result of this authorisation without a further resolution by the Annual General Meeting being required for such withdrawal or its implementation. The authorisation to withdraw shares may be exercised in full or in part.

#### **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 43,496 thousand (previous year: EUR 22,496 thousand). The addition is based on the Annual General Meeting resolution of 26 June 2008.

#### **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-orientated 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.

	<b>2008</b>	<b>2007</b>
	<b>EUR thousand</b>	<b>EUR thousand</b>
Measurement of available-for-sale financial instruments	266	1,071
Deferred taxes from measurement of available-for-sale financial instruments	-75	-12
Capital consolidation of gradual acquisition	168	168
<b>Total</b>	<b>359</b>	<b>1,227</b>

The decrease in the revaluation reserve with regard to available-for-sale financial instruments is primarily due to price declines and the resulting write-downs in financial instruments.

#### 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 2008. As before, the basis for the measurement of the distribution is the net profit/loss after taxes in the HGB single-entity financial statements of Baader Bank AG. A dividend of EUR 0.06 per share is to be proposed to the Annual General Meeting on 3 July 2009. The distribution total is EUR 2,726 thousand for the 45,435,187 shares that are currently outstanding. In the previous year, a dividend of EUR 0.25 per share was distributed. An amount of EUR 5,500 thousand is due to be appropriated to retained earnings. The remaining unappropriated surplus will be carried forward to new account.

#### (48) 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 2008	Additions	Expiry/ utilisation/ adjustment	Contingent capital 31 December 2008
Issuance of shares	3,400	0	0	3,400
Convertible bonds/warrants from bonds with warrants	10,000	0	0	10,000
<b>Total</b>	<b>13,400</b>	<b>0</b>	<b>0</b>	<b>13,400</b>

The Annual General Meeting on 19 July 2006 resolved a contingent capital increase of up to a nominal amount of 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 Bank AG 1999 Stock Option Plan on the basis of the authorisation issued on 18 June 1999 exercise their options (Contingent Capital 1999).

The Annual 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 Bank AG 2004 Stock Option Plan on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).

Furthermore, the share capital is contingently increased by resolution of the Annual General Meeting from 26 June 2007 by up to a nominal amount of EUR 1,600,000.00. This contingent capital increase will only be implemented by issuing up to 1,600,000 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 Bank AG 2006 Stock Option Plan on the basis of the authorisation issued on 19 July 2006 exercise their options (Contingent Capital 2007).

The Company's share capital was contingently increased by up to EUR 10,000,000.00 by means of the Annual General Meeting resolution of 26 June 2007 through the issue of up to 10,000,000 new bearer shares (Contingent Capital 2005). The contingent capital increase serves to grant rights to the holders or creditors of convertible bonds and/or of warrants from bonds with warrants issued up to 25 June 2012 on the basis of the Annual General Meetings' resolution on 29 June 2005 and on 26 June 2007 by Baader Bank AG or by a company in which Baader Bank 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.

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

#### **(49) Authorised capital**

<b>Date of resolution</b>	<b>Original amount</b>	<b>Utilised for capital increases in previous years</b>	<b>Utilised in 2007 for capital increases</b>	<b>Restriction expired</b>	<b>Remaining amount</b>	<b>Restriction</b>
<b>26 June 2007</b>	22,954	0	0	0	22,954	25 June 2012
<b>Total</b>	<b>22,954</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,954</b>	

The resolutions from 10 July 2002 on Authorised Capital I and Authorised Capital II were revoked by the Annual General Meeting of 26 June 2007. The new Authorised Capital 2007 was created. In line with this, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 22,954,341.00 by issuing new bearer shares



against cash and/or non-cash contributions on one or more occasions up to 25 June 2012. The shareholders should be granted subscription rights. However, with the approval of the Supervisory Board, the Board of Directors may a) disapply shareholders' subscription rights from fractions; b) disapply shareholders' subscription rights in order to issue the new shares against cash contributions at an issue price that is not materially lower than the quoted market price of existing listed shares at the time the issue price is finalised (Section 183 (3) Clause 4 of the AktG) where disapplication of the subscription rights may only relate to those shares with a theoretical value that does not exceed 10% of the share capital; c) disapply shareholders' subscription rights in order to issue shares against non-cash contributions to acquire companies, equity interests or parts of companies or assets – including by means of all share deals – and in the event of business combinations (Authorised Capital 2007).

#### **(50) Foreign currency items**

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

	<b>2008</b>	<b>2007</b>
	<b>EUR thousand</b>	<b>EUR thousand</b>
Loans and advances to other banks	13,545	10,803
Loans and advances to customers	3,000	568
Assets held for trading	0	0
Available-for-sale financial instruments/companies consolidated at equity	7,163	6,995
Other balance sheet items	3,373	4,990
<b>Foreign currency assets</b>	<b>27,081</b>	<b>23,356</b>
Deposits from other banks	160	0
Amounts due to customers	15,238	6,389
Liabilities held for trading	0	0
Other balance sheet items	769	401
<b>Foreign currency liabilities</b>	<b>16,167</b>	<b>6,790</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENTS

### (51) Net interest expense

The net interest expense is composed of the following items:

	31 December 2008	31 December 2007
Interest income from	<b>3,909,033.63</b>	<b>2,833,090.85</b>
- lending and money market transactions	3,881,822.60	2,813,449.48
- fixed-interest securities	27,211.03	19,641.37
Interest expense	<b>-2,862,509.71</b>	<b>-1,147,102.10</b>
<b>Total</b>	<b>1,046,523.92</b>	<b>1,685,988.75</b>

Interest expenses are composed primarily of interest expenses for interest expenses on client funds amounting to EUR 1,222,677.25, interest expense for current liabilities amounting to EUR 1,015,276.05 and interest expenses on loans amounting to EUR 527,590.76.

### (52) Allowance for losses on loans and advances

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

	31 December 2008	31 December 2007
Additions to allowance	3,053,099.56	0.00
Reversals	0.00	200.00
Write-downs	15,685.38	-0.48
<b>Total</b>	<b>3,068,784.94</b>	<b>199.52</b>

**(53) Net fee and commission income**

	<b>31 December 2008</b>	<b>31 December 2007</b>
Fee and commission income	<b>56,309,150.55</b>	<b>62,848,030.33</b>
- Brokerage fee income/transaction fees	40,011,952.18	45,723,084.52
- Order routing	5,792,109.88	6,746,999.38
- Capital market services	432,668.22	3,024,095.63
- Brokerage of <i>schuldschein</i> note loans	3,509,716.50	1,947,342.74
- Brokerage commissions	560,766.48	1,699,887.37
- Management and performance fees	5,801,645.38	3,591,834.56
- Other fee and commission income	200,291.91	114,786.13
Fee and commission expense	<b>-17,339,259.66</b>	<b>-16,310,905.56</b>
- Brokerage fee expenses	-2,055,640.10	-1,983,016.36
- Order routing	-1,467,412.40	-1,934,566.50
- Capital market services	-348.43	-8,352.73
- Brokerage of <i>schuldschein</i> note loans	-199,414.40	-75,630.31
- Brokerage commissions	-1,379,516.84	-498,785.31
- Management and performance fees	-1,460,552.31	-1,676,440.39
- Settlement fees	-8,712,476.17	-9,216,635.83
- Other fee and commission expense	-2,063,899.01	-917,478.13
<b>Total</b>	<b>38,969,890.89</b>	<b>46,537,124.77</b>

**(24) Net trading income**

Net trading income reflects net income from trading with securities and derivative financial instruments. All of the financial instruments in the trading portfolio are measured at fair value. To measure listed products, we use market processes; 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.

	<b>31 December 2008</b>	<b>31 December 2007</b>
Securities trading	<b>59,497,693.31</b>	<b>52,108,836.09</b>
- Interest and dividends	834,061.08	1,131,716.44
- Securities	34,360,108.11	31,677,179.72
- Options and futures	3,533,993.36	-38,216.10
- Price differences	20,769,530.76	19,338,156.03
Foreign currencies	<b>-218,820.10</b>	<b>-89,685.67</b>
- Exchange differences resulting from foreign currency transactions	<b>292,645.68</b>	<b>-16,162.29</b>
- Other	<b>-511,465.78</b>	<b>-73,523.38</b>
<b>Total</b>	<b>59,278,873.21</b>	<b>52,019,150.42</b>

### (55) Net expense/income from available-for-sale financial instruments

Capital and measurement gains/losses as well as current interest and dividend income from the sale of available securities and investments are reported under net expense/income from available-for-sale financial instruments.

	31 December 2008	31 December 2007
Interest and dividend income	<b>439,459.32</b>	<b>1,427,106.84</b>
- Fixed-interest securities	38,966.55	112,446.81
- Equities/other non-fixed-interest securities	400,161.39	125,631.47
- Equity investments	331.38	1,189,028.56
Gain/loss on the disposal of available-for-sale financial instruments	<b>11,955.50</b>	<b>2,494,747.68</b>
- Equities/other non-fixed-interest securities	11,955.50	2,494,747.68
Write-downs	<b>-3,803,653.64</b>	<b>-34,476.15</b>
- Write-downs	<b>-3,803,653.64</b>	<b>-34,476.15</b>
<b>Total</b>	<b>-3,352,238.82</b>	<b>3,887,378.37</b>

In particular, write-downs contain write-downs on the Baader Bank AG equity investments in KST Beteiligungs AG (EUR 1,793 thousand) and in U.C.A. AG (EUR 1,845 thousand), which have been recognised as an expense as a result of lasting impairment.

### (56) Net expense/income from equity-accounted investments

	31 December 2008	31 December 2007
Share of net income	-178,412.75	3,789,928.36
Goodwill Amortisation	<b>-729,374.42</b>	<b>0.00</b>
<b>Total</b>	<b>-907,787.17</b>	<b>3,789,928.36</b>

The share of net income item comprises received dividends and the proportionate interest of the Parsoli Corporation (EUR -421 thousand), Gulf Baader Capital Markets (EUR -223 thousand) and Berlin Asset Management (EUR 27 thousand), the write-up to the value of the proportion of equity held by SPAG including the proportionate equity as at 31 December 2007 (EUR 33 thousand) and the proportionate profit from the special fund (EUR 406 thousand).

In addition, the goodwill contained in the Parsoli Corporation Ltd. carrying amount at equity was fully written off (EUR -729 thousand).

In segment reporting, net income from companies carried at equity is disclosed in the Consolidation column.

### (57) Administrative expenses

	31 December 2008	31 December 2007
Staff costs	<b>-49,378,296.41</b>	<b>-44,853,062.64</b>
- Salaries and wages	-43,561,898.54	-40,263,940.75
- Social security contributions	-3,285,326.17	-2,805,228.20
- Expenses for pensions and other benefits	-2,531,071.70	-1,783,893.69
Other administrative expenses	<b>-31,628,186.63</b>	<b>-23,938,517.31</b>
Amortisation and write-downs of intangible assets and depreciation and write downs of property and equipment	<b>-6,722,204.46</b>	<b>-7,031,735.72</b>
- Operating and office equipment	-451,835.78	-379,004.14
- Property	-855,756.17	-855,647.81
- Intangible assets	-5,414,612.51	-5,797,083.77
<b>Total</b>	<b>-87,728,687.50</b>	<b>-75,823,315.67</b>

The salaries and wages item contains variable salary components in the amount of EUR 20,850 thousand (previous year: EUR 20,679 thousand). Expenses in conjunction with the allocation to reserves of the pension reserves (EUR 1,406 thousand), as well as the expenses from defined contribution plan obligations (EUR 93 thousand), are contained in the expenses for pensions and other benefits.

The administrative expenses item contains expenses for minimum lease payments from operating leases amounting to EUR 3,314 thousand.

### (58) Other income/expenses

	31 December 2008	31 December 2007
Other operating income	11,014,982.92	3,949,551.02
Other operating expenses	-3,605,186.89	-1,135,791.19
<b>Total</b>	<b>7,409,796.03</b>	<b>2,813,759.83</b>

The other operating income encompasses items which cannot be allocated to other items in the consolidated income statement. This mainly involves income from the reversal of provisions (EUR 8,752 thousand), from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options (EUR 496 thousand), prior-period income (EUR 862 thousand), rental income (EUR 59 thousand) and income from sponsoring (EUR 218 thousand). Income from the reversal of provisions is determined in the majority of cases by the reversal of the EUR 8,650 thousand provision for possible use by the EdW. A more detailed, revised description of the facts as at 31 December 2008 can be found under note 43.

The other operating expenses item encompasses items which cannot be allocated to other items in the consolidated income statement. These are chiefly attributable to a write-down on the Parsoli Corporation Ltd. convertible bond (EUR 1,638 thousand) and impairment of goodwill resulting from the first-time consolidation of Baader Service Bank GmbH (EUR 963 thousand).

### (59) Income taxes on profit from ordinary activities

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

	31 December 2008	31 December 2007
Current income taxes	-2,254,922.63	-5,209,224.16
Refund of corporate income tax credit	1,240,647.20	313,197.07
Deferred taxes	-1,873,906.56	-1,428,942.58
<b>Total</b>	<b>-2,888,181.99</b>	<b>-6,324,969.67</b>

The deferred taxes of the deferred tax assets include tax expenses from the dissolution of benefits recognised as assets arising from tax loss carryforwards of EUR 4,400 thousand which were not used in the financial year (see note 39).

	31 December 2008	31 December 2007
Deferred tax assets	-2,964,804.28	-2,236,162.61
Deferred tax liabilities	1,090,897.72	807,220.03
<b>Total</b>	<b>-1,873,906.56</b>	<b>-1,428,942.58</b>

In financial year 2008 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. As a result of the reduction of corporation tax and the ruling that trade tax is no longer deductible as an operating expense in line with the Business Tax Reform Act 2008, the income tax rate for Baader Bank AG was significantly lower in 2008 than in 2007.

	<b>31 December 2008</b> EUR thousand	<b>31 December 2007</b> EUR thousand
<b>Net profit before income taxes in accordance with IASs/IFRSs</b>	<b>11,647</b>	<b>34,910</b>
Group income tax rate (%)	29.28%	38.11%
<b>Expected income tax expense in financial year</b>	<b>3,410</b>	<b>13,304</b>
Effects of non-deductible operating expenses and tax-free income	3,586	-2,114
Effects of deferred taxes on loss carryforwards	-2,831	-4,712
Effects of non-recognised deferred taxes	1,139	0
Recognition of corporate income tax credit as asset	-1,241	-313
Effects of taxes from previous years recorded in the financial year	-894	175
Effects of differing tax rates on deferred taxes recognised in income	-281	-11
Other effects	0	-4
<b>Income tax expense</b>	<b>2,888</b>	<b>6,325</b>

## (60) 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.

	<b>2008</b>	<b>2007</b>
Net profit for the period	8,607,766.01	28,642,009.22
Weighted average number of outstanding shares	45,510,306	45,440,199
<b>Earnings per share</b>	<b>0.19</b>	<b>0.63</b>

The diluted earnings per share also amount to EUR 0.19 and are affected by the exercisable stock options that are “in the money” (see note 26), which are accounted for in the calculation of the weighted average number of outstanding shares for the diluted earnings per share.

There is authorised capital totalling EUR 22,954,341.00 for which the subscription rights of the shareholders can be disapplied in accordance with Section 203 (2) of the AktG (see note 49). 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 48) 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 exercised.

The net profit is not subject to any dilution.

## **(61) Segment reporting**

Segment reporting in the consolidated financial statements of Baader Bank AG as at 31 December 2008 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 2008, the Group managed, as a provider of specialist activities, 13,667 order books related to equities, 16,567 order books to bonds and profit participation certificates, and 269,680 order books to warrants, certificates and ETFs and 8,287 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 stock 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 *schuldschein* 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 under its own name and on its own account, in part involving an underwriting syndicate. In addition, Baader Bank 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.

**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 GmbH 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



specialises in employing futures and options in the form of single hedge funds, managed accounts and certificates.

Segment reporting based on geographical segments has not been shown here due to the fact that profits and assets from foreign subsidiaries account for less than 10% of overall profits and assets respectively.

#### Breakdown by business segment

Financial year 2008 EUR thousand	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Management	Other/ Consolidation	Group
Net interest income	-682	1,668	7	54	0	1,047
Allowance for losses on loans and advances	0	-3,026	-32	-11	0	-3,069
Net interest income/expense after allowance for losses on loan and advances	-682	-1,358	-25	43	0	-2,022
Net fee and commission income	28,560	5,619	432	4,421	-62	38,970
Net trading income	40,248	19,481	-40	0	-410	59,279
Net expense/income from available-for-sale financial instruments	-35	0	-4,089	3	769	-3,352
Net expense from equity- accounted investments	0	0	0	0	-908	-908
Net income/expense from financial operations	40,213	19,481	-4,129	3	-549	55,019
Directly attributable administrative expenses	-34,187	-14,236	-1,167	-3,481	-630	-52,441
Other operating income	9,166	63	19	-66	-1,772	7,410
<b>Profit/loss after directly attributable income/expenses</b>	<b>43,070</b>	<b>9,569</b>	<b>-4,870</b>	<b>920</b>	<b>-1,753</b>	<b>46,936</b>
Indirectly attributable administrative expenses	-20,261	-10,370	-1,406	-3,251	0	-35,288
<b>Profit/loss from ordinary activities</b>	<b>22,809</b>	<b>-801</b>	<b>-6,276</b>	<b>-2,331</b>	<b>-1,753</b>	<b>11,648</b>
Segment assets in EUR thousand	182,772	103,651	18,877	26,872		<b>332,172</b>
Segment liabilities in EUR thousand	76,420	116,755	3,465	2,628		<b>199,268</b>
Risk-weighted assets in EUR thousand	397,691	66,461	7,502	10,977		<b>482,631</b>
Allocated capital in EUR thousand	89,472	48,782	7,345	14,618		<b>160,217</b>
Profitability of the allocated capital in regard to profit before taxes	25.5%	-1.6%	-85.5%	-15.9%		<b>7.3%</b>
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	27,153	6,992	1,234	26		<b>35,405</b>
Impairment expenses in EUR thousand	1,638	3,026	3,769	78	1,692	<b>10,203</b>
Write-downs of segment assets in EUR thousand	4,838	1,375	191	318		<b>6,722</b>
Average number of employees during the period	113	56	9	24	122	<b>324</b>

Breakdown by business segment (previous year)

Financial year 2007 EUR thousand	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Management	Other/ Consolidation	Group
Net interest income	420	1,152	60	54	0	1,686
Allowance for losses on loans and advances	0	0	0	0	0	0
Net interest income/expense after allowance for losses on loan and advances	420	1,152	60	54	0	1,686
Net fee and commission income	33,115	6,871	3,029	3,583	-61	46,537
Net trading income	43,943	8,500	63	0	-488	52,018
Net expense/income from available-for-sale financial instruments	4,962	0	1,620	0	-2,694	3,888
Net expense from equity- accounted investments	0	0	0	0	3,790	3,790
Net income/expense from financial operations	48,905	8,500	1,683	0	608	59,696
Directly attributable administrative expenses	-32,178	-10,533	-1,395	-2,954	395	-46,665
Other operating income	3,470	112	35	-231	-574	2,812
<b>Profit/loss after directly attributable income/expenses</b>	<b>53,732</b>	<b>6,102</b>	<b>3,412</b>	<b>452</b>	<b>368</b>	<b>64,066</b>
Indirectly attributable administrative expenses	-17,549	-8,118	-1,828	-1,661	0	-29,156
<b>Profit/loss from ordinary activities</b>	<b>36,183</b>	<b>-2,016</b>	<b>1,584</b>	<b>-1,209</b>	<b>368</b>	<b>34,910</b>
Segment assets in EUR thousand	123,168	54,351	19,627	26,219		<b>223,365</b>
Segment liabilities in EUR thousand	30,635	55,746	3,361	1,475		<b>91,217</b>
Risk-weighted assets in EUR thousand	157,955	70,590	16,180	6,005		<b>250,730</b>
Allocated capital in EUR thousand	92,414	51,366	10,696	9,426		<b>163,902</b>
Profitability of the allocated capital in regard to profit before taxes	39.2%	-3.9%	14.8%	-12.8%		<b>21.3%</b>
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	788	543	73	53		<b>1,457</b>
Impairment expenses in EUR thousand	34	0	0	0	0	<b>34</b>
Write-downs of segment assets in EUR thousand	5,358	1,209	189	278		<b>7,033</b>
Average number of employees during the period	93	55	9	21	109	<b>287</b>

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

## FINANCIAL INSTRUMENTS: DISCLOSURES

### (62) 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 as well as the key figures for own funds in line with regulatory banking provisions.

### (63) Derivative transactions

Derivative transactions were conducted for both trading and hedging purposes. These are exchange-traded stock options and futures as well as an index swap.

	Fair value 31 December 2008		Fair value 31 December 2007	
	Positive	Negative	Positive	Negative
Derivatives used for trading purposes	8,205.20	552,798.48	10,130.50	0.00
Derivatives used as hedging instruments for cash flow hedge accounting	0.00	51,737.21	0.00	24,045.55
<b>Total</b>	<b>8,205.20</b>	<b>604,535.69</b>	<b>10,130.50</b>	<b>24,045.55</b>

In the context of agreements in connection with the CCPM DTS certificate managed by CCPM, the subsidiary Baader Service Bank GmbH has been trading in options and futures on Eurex Deutschland (hedged items) under its own name and on its own account since 2005. The subsidiary hedged the risks from these transactions with an index swap agreement (derivative designates for hedging purposes).

The option premiums paid as part of hedged items are reported as trading assets and 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. Claims or obligations arising from an index swap are 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. The fair value of the index swap on the balance sheet date amounted to EUR 51,737.21.

The compensatory payments resulting from the index swap is due in financial year 2010. To date, no amounts have been charged directly to equity as part of accounting for hedging relationships. Ineffectiveness has not been recognised in the net result for the period.

#### **(64) Collateral**

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

	<b>31 December 2008</b>	<b>31 December 2007</b>
Loans and advances to other banks	24,820,653.50	8,348,037.06
Assets held for trading/available-for-sale financial instruments/companies consolidated at equity	11,571,676.80	11,398,123.12
Other assets	2,012.48	567.48
<b>Total</b>	<b>36,394,342.78</b>	<b>19,746,727.66</b>

The collateral was primarily provided for conducting securities trading, securities lending transactions and to cover pension obligations.

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 12 months. The Lombard loans are backed by valuable collateral, as a rule through the pledging of securities and bank guarantees. At 31 December 2008, the fair value of the securities pledged to Baader Service Bank GmbH was EUR 11,415,265.00, the value of bank guarantees amounted to EUR 30,829,233.00.

#### **(65) 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 2008.

## (66) Disclosures on financial assets and liabilities

The carrying amounts of each category of financial instrument in accordance with IAS 39 as well as the impairment expense recognised in income for each financial instrument in accordance with IFRS 7 are as follows:

Class in accordance with IFRS 7 Category in accordance with IAS 39	Recognised in income at fair value		Taken directly to equity at fair value		At amortised cost		Financial instruments that do not fall under IFRS 7.	
	Held for trading purposes		Available for sale		Loans and receivables			
	Carrying amounts	Impairment expenses	Carrying amounts	Impairment expenses	Carrying amounts	Impairment expenses	Carrying amounts	Impairment expenses
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Financial assets</b>								
Loans and advances to other banks					165,975	46		
Loans and advances to customers					20,607	3,023		
Assets held for trading	42,292	0						
Available-for-sale financial instruments			12,879	3,804				
Equity-accounted investments							16,634	729
Other assets					5,404	1,638		
Subsidiaries							0	963
<b>Total</b>	<b>42,292</b>	<b>0</b>	<b>12,879</b>	<b>3,804</b>	<b>191,986</b>	<b>4,707</b>	<b>16,634</b>	<b>1,692</b>

Class in accordance with IFRS Category in accordance with IAS 39	Recognised in income at fair value		At amortised cost	
	Held for trading purposes		Other financial liabilities	
	Carrying amounts	Impairment expenses	Carrying amounts	Impairment expenses
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<b>Financial liabilities</b>				
Deposits from other banks			31,834	0
Amounts due to customers			98,111	0
Liabilities held for trading	38,890	0		
Other liabilities			18,753	0
<b>Total</b>	<b>38,890</b>	<b>0</b>	<b>148,698</b>	<b>0</b>

## OTHER DISCLOSURES

### (67) Maturity structure

The consolidated balance sheet, broken down by maturity, presented the following picture at the 2008 balance sheet date:

	Less than 3 months EUR thousand	Between 3 months and 1 year EUR thousand	Between 1 and 5 years EUR thousand	More than 5 years EUR thousand	No expiration EUR thousand	Total EUR thousand
<b>Assets</b>						
Cash reserve	1,221	0	0	0	0	1,221
Loans and advances to other banks	166,013	3	0	0	0	166,016
Loans and advances to customers	13,301	10,040	308	12	0	23,661
Allowance for losses on loans and advances	-3,095	0	0	0	0	-3,095
Assets held for trading	34,515	7,091	686	0	0	42,292
Available-for-sale financial instruments	0	11,298	1,581	0	0	12,879
Equity-accounted investments	0	0	0	0	16,634	16,634
Property and equipment	0	0	0	0	19,980	19,980
Intangible assets	0	0	0	0	20,834	20,834
Goodwill	0	0	0	0	24,785	24,785
Income tax assets	0	1,412	6,496	3,898	0	11,806
Other assets	2,885	3	611	0	3,466	6,965
Deferred tax assets	0	0	21,021	0	0	21,021
<b>Total Assets</b>	<b>214,840</b>	<b>29,847</b>	<b>30,703</b>	<b>3,910</b>	<b>85,699</b>	<b>364,999</b>
<b>Equity &amp; Liabilities</b>						
Deposits from other banks	19,921	0	11,913	0	0	31,834
Amounts due to customers	76,991	0	0	21,120	0	98,111
Liabilities held for trading	38,890	0	0	0	0	38,890
Provisions	2,146	0	8,259	1,031	0	11,436
Income tax liabilities	0	1,287	0	0	0	1,287
Other liabilities	13,252	5,745	0	0	0	18,997
Deferred tax liabilities	4,227	0	0	0	0	4,227
Shareholders' equity	0	0	0	0	160,217	160,217
<b>Total liabilities and shareholders' equity</b>	<b>155,427</b>	<b>7,032</b>	<b>20,172</b>	<b>22,151</b>	<b>160,217</b>	<b>364,999</b>

The consolidated balance sheet, broken down by maturity, presented the following picture at 31 December 2007:

	Less than 3 months EUR thousand	Between 3 months and 1 year EUR thousand	Between 1 and 5 years EUR thousand	More than 5 years EUR thousand	No expiration EUR thousand	Total EUR thousand
<b>Assets</b>						
Cash reserve	3,273	0	0	0	0	3,273
Loans and advances to other banks	73,316	2,022	0	0	0	75,338
Loans and advances to customers	1,400	760	361	0	0	2,521
Allowance for losses on loans and advances	-62	0	0	0	0	-62
Assets held for trading	44,407	2,062	1,158	0	0	47,627
Available-for-sale financial instruments	378	5,723	3,203	0	0	9,304
Equity-accounted investments	22,214	0	8,104	0	7,898	38,216
Property and equipment	0	0	0	0	20,846	20,846
Intangible assets	0	0	0	0	12,513	12,513
Goodwill	0	0	0	0	4,600	4,600
Income tax assets	0	1,341	5,961	4,769	0	12,071
Other assets	3,474	303	51	278	5,083	9,189
Deferred tax assets	0	0	23,977	0	0	23,977
<b>Total Assets</b>	<b>148,400</b>	<b>12,211</b>	<b>42,815</b>	<b>5,047</b>	<b>50,940</b>	<b>259,413</b>
<b>Equity &amp; Liabilities</b>						
Deposits from other banks	7,270	0	12,481	0	0	19,751
Amounts due to customers	41,430	0	0	0	0	41,430
Liabilities held for trading	0	0	0	0	0	0
Provisions	0	9,611	6,445	1,258	0	17,314
Income tax liabilities	0	2,560	0	0	0	2,560
Other liabilities	6,269	6,454	0	0	0	12,723
Deferred tax liabilities	1,733	0	0	0	0	1,733
Shareholders' equity	0	0	0	0	163,902	163,902
<b>Total liabilities and shareholders' equity</b>	<b>56,702</b>	<b>18,625</b>	<b>18,926</b>	<b>1,258</b>	<b>163,902</b>	<b>259,413</b>

### **(68) Borrowing costs**

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

### **(69) 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.

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Contingent liabilities</b>		
- Liabilities from guarantees and warranty agreements	170,000.00	170,000.00
- Liabilities from the provision of collateral for third parties	0.00	0.00
<b>Irrevocable loan commitments</b>		
- Current account credits granted to customers	24,583,425.00	15,196,204.98

### **(70) 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 are, insofar as they involve the past financial year, taken into account in the consolidated income statement under net fee and commission income in line with their term.

	<b>31 December 2008</b>	<b>31 December 2007</b>
Lent securities	0.00	0.00
Borrowed securities	366,612.29	0.00

### **(71) Trust activities**

There were no trust activities as at the balance sheet date.

### **(72) Other financial obligations**

There are financial obligations, deriving from rental contracts for office space and car parking spaces, totalling EUR 710 thousand, with remaining terms of between 1 to 18 months.



In addition, there are obligations arising from vehicle leases and leases for operating and office equipment in the amount of EUR 5,104 thousand, with remaining terms of between 3 to 47 months. EUR 3,797 thousand of this is attributable to the “less than one year” term band and EUR 1,307 to a term of between 1 and 5 years.

### **(73) Disclosures on capital management and ratios as stipulated by supervisory authorities**

As part of implementing Pillar 1 in accordance with Basel II, the Baader Bank Group equity, as required by the supervisory authorities, is determined in accordance with Sections 10 and 10a of the KWG. In line with this, the Baader Bank Group must retain equity at an appropriate level in the interest of fulfilling its obligations to its creditors. In accordance with Section 10a (3) clause 4, Baader Bank AG represents the parent company of the Group.

Furthermore, in line with the SolvV, Banks are obligated to quantify their counterparty risks, market risks and operational risks and to retain the appropriate equity for such risks.

In financial year 2008, capital management acted in accordance with the regulations set out in the SolvV for the first time. In the previous year, the equity solvency principle (Principle I) was still the authoritative factor.

In accordance with the SolvV, the Baader Bank Group equity, as required by supervisory authorities, broke down as follows on the balance sheet date 31 December 2008:

	<b>31 December 2008</b> EUR thousand	<b>31 December 2007</b> EUR thousand
<b>Tier 1 capital</b>	<b>108,000</b>	<b>99,000</b>
<b>Tier 2 capital</b>	<b>0</b>	<b>0</b>
Deduction pursuant to Section 10 (6) of the KWG	-1,199	-2,924
<b>Equity</b>	<b>106,801</b>	<b>96,076</b>

The following capital requirements and ratios were recorded on the reporting date:

	<b>31 December 2008</b> EUR thousand	<b>31 December 2007</b> EUR thousand
<b>Capital requirements</b>		
Counterparty risks	8,000	8,000
Market risks	27,000	14,000
Operational risks	12,000	10,000
<b>Total</b>	<b>47,000</b>	<b>32,000</b>
Tier 1 ratio	18.38%	24.75%
Total ratio	18.18%	24.02%

The comparative values as at 31 December 2007 were also determined following the principles of the SolvV, which was applied for the first time in 2008.

In terms of Group planning, the Tier 1 and equity ratios were reached. Throughout financial year 2008, the overall ratio remained above the minimum requirement of 8% in accordance with the SolvV, therefore observing the provisions set out by the supervisory authorities.

Equity management and risk management implement review procedures set out by the supervisory authorities in line with Pillar 2 in accordance with Basel II. The Baader Group equity management incorporates equity allocation, monitoring of the development of risk positions and adherence to the stipulated limits. Regularly identifying risks ensures that the all material risks are covered by the Group's risk coverage potential at all times, thus ensuring the risk-bearing capacity required. For this reason, special attention is paid to the risk bearing capacity as part of establishing the business and risk strategy whilst at the same time bearing in mind the adherence to stipulations set out by supervisory authorities regarding capital resources.

#### **(74) Auditor's fee**

The auditor's 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 IASs/IFRSs.

	<b>2008<sup>*)</sup></b> <b>EUR</b>	<b>2007</b> <b>EUR</b>
Audit of the annual accounts	411,100.00	359,442.62
Other confirmation and measurement services	277,720.33	253,060.44
Tax consultancy services	74,814.59	48,235.34
Other services performed	111,303.93	49,255.00
<b>Total</b>	<b>874,938.85</b>	<b>709,993.40</b>

\*) In contrast with the previous year, this is reported gross due to the fact that some Group companies are not entitled to input tax relief.

#### **(75) Employees**

An average of 324 staff (287 staff in the previous year) were employed by Baader Bank AG Group in the year under review. At the balance sheet date there were 333 employees. 194 were employees in trade-related areas and 139 were employees in the administration departments. The Group's workforce comprises 101 female employees and 232 male employees who come from 12 countries.

#### **(76) Related party disclosures**

The Annual General Meeting of Baader Bank 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 single-entity 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 AktG.

Along with the fixed compensation, the compensation of the members of the Board of Directors also comprises 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 2008), EUR 3,903 thousand is reported as the total compensation for members of the Board of Directors in financial year 2008. This payment, independent of performance, includes EUR 138 thousand which are to be treated as cash value benefits for tax purposes. In specific cases, the total remuneration also contains the remuneration of EUR 31 thousand granted for the financial year for assuming executive body functions at consolidated companies (previous year: EUR 40 thousand).

In accordance with the accrual principle:

	<b>2008 EUR</b>	<b>2007 EUR</b>
Board of Directors		
- fixed compensation (performance related)	1,887,460.00	1,676,774.04
- variable compensation (irrespective of achievement)	2,015,040.67	671,787.93
<b>Total</b>	<b>3,902,500.67</b>	<b>2,348,561.97</b>

Based on accrual accounting under commercial and accounting law, and subject to the Baader Bank AG annual financial statements being available in the present form for financial year 2008, the variable remuneration for financial year 2008 (to be disbursed in 2009) amounts to EUR 614 thousand.

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 Bank AG stock option plan (see note 26). A total of 64,250 stock options were issued to the Board of Directors in financial year 2008. The following table shows changes to the stock options of members of the Board of Directors for the 2001 to 2007 financial years.

	2007	2006	2005	2004	2003	2002	2001	Total
<b>Options granted</b>	64,250	63,750	75,000	75,000	103,000	170,000	172,000	<b>723,000</b>
<b>Exercise price</b>	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
<b>Options forfeited</b>	12,850	3,750	0	0	0	19,000	58,000	<b>93,600</b>
<b>Options exercised</b>	0	0	0	37,500	103,000	151,000	114,000	<b>405,500</b>
<b>Options outstanding</b>	51,400	60,000	75,000	37,500	0	0	0	<b>223,900</b>
<b>Exercisable options</b>	0	0	75,000	37,500	0	0	0	<b>112,500</b>
<b>Residual term (in months)</b>	76	64	53	41	29	16	4	-

The monetary value of the stock options granted to members of the Board of Directors for 2007 amounts to EUR 74,799.85 (previous year: EUR 89,256.38). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 per share).

The Bank has provided for pensions for two members of the Board of Directors. The existing pension obligations (DBO) as at 31 December 2008 in accordance with IASs for active Board of Directors members amount to EUR 8,490,204.00 (previous year: EUR 9,735 thousand).

The transparency regulations of the German Corporate Governance Code, based on the legal regulations of Section 15a of the WpHG require details on Baader Bank AG 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. No purchases or sales were reported in the financial year.

Majority ownership of Baader Bank 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 Bank 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 Mr Uto Baader's shares equate to 66.95% of the issued capital of Baader Bank AG. Over and beyond this, no member of the Board of Directors owned more than 1% of the share capital of Baader Bank AG as at 31 December 2008. As at 31 December 2008, members of the Board of Directors held a total of 31,007,468 shares in Baader Bank AG.

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 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 Board of Directors for their tasks.

Compensation of the members of the Supervisory Board is governed by Section 13 of the Articles of Association of Baader Bank 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 Annual General Meeting that resolves on utilisation of the unappropriated surplus for the relevant financial year.

For financial year 2008, the Supervisory Board received the following compensation according to the accrual principle:

	<b>2008 EUR</b>	<b>2007 EUR</b>
Supervisory Board (without indemnification or disbursements)		
- fixed compensation (no sales tax)	150,000.00	150,000.00
- variable compensation (no sales tax)	237,764.47	172,237.72
<b>Total</b>	<b>387,764.47</b>	<b>322,237.72</b>

Subject to the Annual General Meeting of Baader Bank AG approving the annual financial statements for 2008 in the present form, this will result in a variable compensation for financial year 2008 totalling EUR 84,771.98.

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 Annual General Meetings, these benefits are the result of their position as employees of Baader Bank AG and are independent of their work for the Supervisory Board.

As employees of the Company, the employee representatives on the Supervisory Board received 2,550 stock options overall in financial year 2008. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2001 to 2007.

	2007	2006	2005	2004	2003	2002	2001	Total
<b>Options granted</b>	2,550	2,760	2,400	2,640	5,000	9,600	4,800	<b>29,750</b>
<b>Exercise price</b>	3.75	5.32	6.02	2.34	2.96	1.12	2.14	-
<b>Options forfeited</b>	0	0	0	0	0	0	0	<b>0</b>
<b>Options exercised</b>	0	0	0	1,320	5,000	9,600	4,800	<b>20,720</b>
<b>Options outstanding</b>	2,550	2,760	2,400	1,320	0	0	0	<b>9,030</b>
<b>Exercisable options</b>	0	0	2,400	1,320	0	0	0	<b>3,720</b>
<b>Residual term (in months)</b>	76	64	53	41	29	16	4	-

Figures for the previous year have been adjusted as a result of employee staff changes in the Supervisory Board. The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2007, amounts to EUR 2,968.71 (previous year: EUR 3,864.28). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.1642 per share (previous year: EUR 1.4001 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 Baader Bank AG stock and stock option transactions conducted 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. No purchases or sales were reported in the financial year.

As at 31 December 2008, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2008, members of the Supervisory Board held a total of 10,589 shares in Baader Bank AG.

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 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 to executive bodies was as follows:

	2008 EUR	2007 EUR
<b>Board of Directors</b>	300,000.00	332,197.17
<b>Supervisory Board</b>	0.00	103,778.89

The credit commitments granted to members of the Board of Directors were not utilised as at the reporting date.

Credit commitments granted to members of the Board of Directors in financial year 2008 were provided with maturity periods as at 31 December 2008 of 6 months and an interest rate of 5%. No credit commitments were granted to members of the Supervisory Board in financial year 2008.

One member of the Baader Bank AG Board of Directors was granted a guarantee of EUR 170 thousand.

### **(77) Letter of comfort**

Baader Bank AG assumes liability for its subsidiary Baader Service Bank GmbH (BSB) for its 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.

### **(78) Corporate Governance Code**

The company's Declaration of Compliance was issued by the Board of Directors and the Supervisory Board in November/December 2008 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 15 December 2008 and publication in the electronic *Bundesanzeiger* (German Federal Gazette) on 15 December 2008.

### **(79) Executive bodies of Baader Bank AG**

#### **Board of Directors**

#### **Uto Baader, Munich**

Chairman of the Board of Directors of Baader Bank 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 (until 31 January 2008)  
Member of the Supervisory Board of Bayerische Börse AG, Munich  
Chairman of the Stock Exchange Council of the Munich Stock Exchange, Munich  
Chairman of the Administrative Board of Parsoli Corporation Ltd., Mumbai, India  
Chairman of the Administrative Board of Parsoli Insurance Brokers Ltd., Mumbai, India  
Chairman of the Administrative Board of Parsoli Commodities Ltd., Mumbai, India  
Chairman of the Administrative Board of Parsoli Travel House Ltd., Mumbai, India  
Member of the Administrative Board of Parsoli Motor Works PVT Ltd., Ahmedabad, India

Member of the Administrative Board of Parsoli Infrastructure PVT Ltd., Ahmedabad, India  
Chairman of the Supervisory Board of STEICO AG, Munich  
Deputy Chairman of the Administrative Board of Gulf Baader Capital Markets S.A.O.C.,  
Muscat, Oman

**Dieter Brichmann, Penzberg**

Member of the Board of Directors of Baader Bank 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  
Chairman of the Supervisory Board of Conservative Concept Portfolio Management AG, Bad  
Homburg  
Member of the Supervisory Board of direct AG, Unterschleissheim (since 15 September 2008)

**Stefan Hock, Munich**

Member of the Board of Directors of Baader Bank AG, Unterschleissheim  
Member of the Supervisory Board of Baader Management AG, Unterschleissheim  
Vice Chairman of the Supervisory Board of e-m-s new media AG, Dortmund (until 8 December  
2008)

**Dieter Silmen, Baldham**

Member of the Board of Directors of Baader Bank AG, Unterschleissheim  
Member of the Stock Exchange Council of the Baden-Württemberg Stock Exchange, Stuttgart  
Member of Stock Exchange Council of the Berlin Stock Exchange, Berlin  
Member of the Exchange Broker Committee of the Munich Stock Exchange, Munich

**Christopher Schütz, Starnberg**

Member of the Board of Directors of Baader Bank AG, Unterschleissheim (until 13 October 2008)  
Member of the Administrative Board of Gulf Baader Capital Markets S.A.O.C., Muscat, Oman  
(until 29 December 2008)



## **Supervisory Board**

### **Dr Horst Schiessl, Munich**

Age: 67

Occupation: Lawyer

Member of the Supervisory Board since: 26 February 1999

Chairman of the Supervisory Board of Baader Bank AG, Unterschleissheim

Chairman of the Supervisory Board of Softing AG, Haar, Munich

Vice Chairman of the Supervisory Board of SPAG St. Petersburg Immobilien und Beteiligungs AG, Darmstadt

Member of the Supervisory Board of Dussmann AG & Co. KGaA, Berlin

Chairman of the Advisory Committee of Trion Pharma GmbH, Munich

### **Dr Christoph Niemann, Meerbusch**

Age: 72

Occupation: Banker

Member of the Supervisory Board since: 10 July 2002

Deputy Chairman of the Supervisory Board of Baader Bank AG, Unterschleissheim

Member of the Administrative Board of HSBC Trinkaus & Burkhard AG, Duesseldorf

### **Dr Norbert Juchem, Munich**

Age: 56

Occupation: Management Consultant

Member of the Supervisory Board since: 15 July 2003

### **Helmut Schreyer, Munich**

Age: 65

Occupation: Banker

Member of the Supervisory Board since: 14 July 2004

Member of the Supervisory Board of Reichmuth & Co. Integrale Vermögensverwaltung AG, Munich

President of Herma Holdings S.C. Inc., Toronto, Canada

### **Rainer Merklinghaus, Vaterstetten (until 26 June 2008)**

Age: 46

Occupation: Bank Employee

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

### **Thomas Wiegelmann, Sulzbach, Taunus (until 26 June 2008)**

Age: 40

Occupation: Bank Employee

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

**Theresia Weber, Emmering**

Age: 55

Occupation: Bank Employee

Member of the Supervisory Board since: 26 June 2008 (employee representative)

**Jan Vrbsky, Frankfurt**

Age: 39

Occupation: Bank Employee

Member of the Supervisory Board since: 26 June 2008 (employee representative)

**(80) Group shareholding**

The Group holds shares, with an ownership interest of more than 5%, in the following companies which have not been included in the consolidated financial statements as subsidiaries or associates:

<b>Name/headquarters</b>	<b>Equity share (%)</b>	<b>Most recent annual financial statements</b>	<b>Equity (total)</b>	<b>Net profit/loss of the previous financial year</b>
<b>U.C A. AG, Munich</b>	13.81	31 December 2007	EUR 18,952,583.55	EUR -113,258.61
<b>KST Beteiligungs AG, Stuttgart</b>	9.19	31 December 2007	EUR 27,148,613.38	EUR -809,683.72
<b>BEN Bavarian Equity Network GmbH, Munich</b>	The company was liquidated following an entry into the commercial register on 14 January 2009.			
<b>Stillking Film Holdings Ltd., St. Helier, Jersey <sup>1)</sup></b>	6.50	31 December 2006	EUR 6,928,625.66	EUR 1,780,303.03

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

<sup>1)</sup> The equity and net profit of the financial year ended 31 December 2006 were translated (EUR/USD 1.317)

Unterschleissheim, 18 March 2009

Baader Bank AG

The Board of Directors

Uto Baader, Dieter Brichmann,  
Stefan Hock, Dieter Silmen

## **Responsibility Statement**

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

Unterschleissheim, 18 March 09  
Baader Bank AG  
The Board of Directors

Uto Baader, Dieter Brichmann,  
Stefan Hock, Dieter Silmen

## Auditors' Report

We audited the consolidated financial statements – comprising the balance sheet, the income statement, the statements of changes in equity and the cash flow statement, and the notes to the financial statements – as well as the Group management report, of **Baader Bank Aktiengesellschaft, Unterschleissheim**, for the financial year 1 January to 31 December 2008. 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). 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 an adequately 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 an accurate view of the Group's position and accurately presents the opportunities and risks of future development.

Bremen, 19 March 2009

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