BAADER

2009 Consolidated Financial Statements of Baader Bank Aktiengesellschaft

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Group Management Report

1. Business and framework conditions

The market

The first quarter of 2009 was still dominated by the global financial market crisis, with the economy slumping sharply. All sectors in unison posted massive share price losses. Only as the markets gained confidence that the monetary and fiscal policy measures initiated worldwide in 2008/2009 were also taking effect, was the trend reversal heralded on the equity markets in mid March.

In May, the European Central Bank (ECB) initiated a purchase programme for mortgage loans totalling EUR 60 billion, which gave the mortgage bond market and ultimately also the bond market as a whole an important boost. As a result, risk premiums plunged dramatically and investors' appetite for risk increased again. By the end of 2009, the ECB had processed roughly half of the purchase programme which is set to run until summer 2010.

Thanks to the extraordinary nature and scope of the fiscal and monetary policy measures, both the international and the German financial system could be stabilised during the summer months. The development on the markets was finally marked by growing confidence in the second half of the year. A brighter economic outlook and the additional liquidity from central banks contributed to price increases on the equity and bond markets. The global economy also began to recover from the third quarter on. The equity market consequently grew strongly, with the effect that – against expectations – it was a good year for the stock markets all in all.

The German share index DAX climbed to 5,957.43 points at the end of the year, an increase of 23.9%. As compared to the annual low of 3,588.89 points in March, this even represents a 66.0% rise. Measured by the DAX, 2009 was thus the best year for the stock markets since 2005, although at the end of the decade the index was still below its level at the start of 2000, when the DAX had reached 7,000 points.

The increase for German mid and small caps was more pronounced than for the DAX in 2009. The MDAX rose 34.0% while the SDAX ended the year up 26.7%. The TecDAX rose even more substantially, ending the year with a 60.8% increase. The bond index REXP ended the year at 375.62 points, a 4.9% rise. As a result of the safe haven effect, the Bund Future increased from 125.35 points in January to its annual high of 126.42 points in March and finally closed the year at 121.19 points.

Apart from the Nasdaq 100, which climbed by 50.9%, the key markets of other traditional industrialised nations developed less dynamically than the German share indices. For example, the European index DJ Stoxx 50 rose 21.2% over the course of the year. The S&P 500 ended the year up 21.3%. At the end of the year, the Dow Jones index was 17.0% higher than its level at year-end 2008. Measured by the Nikkei 225, the stock exchange in Tokyo closed 2009 with a 14.6% increase (all data is given on a Euro basis).

The big winners in 2009 as regards equity were the emerging markets of Asia, Eastern Europe and Latin America. This reflects the fact that in the past decade the global drivers of growth have shifted away from traditional industrialised nations, primarily towards Asia and Latin America. Among the BRIC countries, the Brazilian BOVESPA ended the year up 141.1%. The Russian share index (RTS) climbed by 119.7 %. In India the Sensex 30 increased by 82.1%, while the BSE 100 rose 86.4%. The Chinese share index SSEB in Shanghai increased by 119.9%. The Hang Seng Index in Hong Kong gained 45.3%, whilst on the basis of the Mexico Bolsa Index the Mexican markets climbed by 50.1% (all data is given on a Euro basis).

The rapid recovery of the equity markets which began in mid March must be considered in the light of the sharp plunge in the equivalent period of the previous year. In this period there was an initial knee-jerk reaction whereby the uncertain prospects for the global financial system caused the markets to slump rapidly and substantially, such that comparisons were drawn with the Great Depression which began in 1929. The subsequent significant increase in share prices was heralded as it was recognised that no more banks of systemic importance would collapse. One of the main reasons for the rally is thus based on relief at having staved off a major depression. Among other things, the economic knowledge gained during the Depression of 1929 was successfully applied to contain the crisis.

There is also another, unusual aspect to the equity rally 2009: the upturn was characterised by declining stock exchange trading volume. For instance, despite the substantial increases in the share indices as described above, volumes on all German securities stock exchanges including Xetra decreased by 47.1% to EUR 1,310 billion. If only floor trading stock exchanges are considered, i.e. excluding Xetra, then the decline in trading volume is much less pronounced, although it still amounts to a decrease of 24.0% to EUR 249 billion.

This negative environment for Baader Bank is also reflected in the figures of the Deutsches Aktieninstitut (German Equity Institute; DAI), according to which approximately 8.8 million investors in Germany, or 13.6% of the population, invested directly or indirectly in shares in 2009. In the previous year this figure was 9.3 million, meaning that there was a decrease of 5.4%. Of these 8.8 million **owners of shares**, 2.2 million (3.8% of the population) are pure shareholders, who only invest directly in shares. 5.2 million investors (7.7%) hold fund units and 1.4 million (2.1%) hold both shares and also equity fund units. Compared to the high in 2001, the current number of share owners represents a decrease of roughly 4 million or 31.4%.

On the basis of the low trading volume in the upturn and the number of shareholders which is stagnating at a low level, it can be deduced that many investors have not profited from the rising share prices. However, it is not just private investors but also institutional investors such as insurers and fund companies which have missed out on the upturn in many cases.

Baader Bank AG's market position

Despite the general increase in share indices, 2009 was not an easy year for Baader Bank. First, the insecurity created by the financial market crisis remained virulent. Secondly, the decline in stock exchange equity trading volumes as described above put pressure on the Bank's revenue. In this context, Baader Bank 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 intensified its efforts to gear all of its core business areas towards the changing market requirements as part of its growth strategy. Furthermore, it is thanks to the Bank's broad diversification and financial strength and its extensive trader expertise that it succeeded not only in limiting the effects of the financial crisis but also in expanding its own market position in several areas.

In the year under review, 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. This transaction means that Baader Bank further strengthened 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. In addition, Baader Bank maintained its leading position in equity trading on the Munich Stock Exchange and also on the Stuttgart Stock Exchange, where the Bank manages trading of all foreign shares as a provider of specialist activities. On the Düsseldorf Stock Exchange, where Baader Bank is the leading specialist for bond trading, it succeeded in expanding its own position.

In trading in securitised derivatives, which Baader Bank operates on the certificates stock exchange Scoach in Frankfurt, its leading market position among the specialists operating there was maintained. Here, Baader Bank benefited from Scoach's slight market share gains as against Euwax in Stuttgart.

For bond trading, the whole of 2009 was characterised by a narrowing of the spreads which had widened as a result of the financial crisis. This development, together with central banks' efforts to stabilise the interest rate at a level which is also low for financing state budgets in order to stimulate the economy, was the basis for the extremely positive development of Baader Bank's entire bonds segment, i.e. both specialist activities and also institutional agency business with bonds. Baader Bank continued to strengthen its market leadership in off-exchange agency business with bonds, particularly with government and mortgage bonds. In addition, the Bank benefited particularly from the high trading volumes in state-guaranteed bonds in 2009. The success experienced in the bonds business segment shows that setbacks in the market were cushioned by having expanded the product range some years ago to include institutional bond trading and that the Bank gained an edge over competitors who specialise in only one type of security.

In 2009, Deutsche Börse AG initiated an attempt to install bond trading on the electronic trading platform Xetra Bonds in addition to floor trading on the Frankfurt Stock Exchange. On this platform, approximately 700 fixed-interest securities – primarily corporate bonds – are traded using a specialist model, similar to fund trading on the Frankfurt Stock Exchange. In the previous year, an application by Baader Bank as a specialist in Xetra bonds was rejected by the operator. However, trading in this segment was suspended on 5 January 2010 due to an interim injunction at the instance of two trading participants which were not awarded the contract. The legal proceedings in relation to this will be of an exemplary nature for other market segments too.

Overall, however, Baader Bank considers itself well positioned in both exchange and off-exchange bond trading. In off-exchange agency business, the Bank is the market leader in Germany with a product and customer range which no competitor in the country can match.

In its committed collaboration with Deutsche Börse AG in developing a plan to reform floor trading, it is clear that Baader Bank plays an active role in the further development of exchange trading. In its press release on 1 March 2010, Deutsche Börse announced that OTC equity trading would migrate from the trading and order routing platform Xontro to the internationally linked system Xetra. Effective from 28 Mach 2012, specialist-based floor trading on the regulated market will thus be terminated. Baader expects that Deutsche Börse will then set higher requirements for the capital resources and IT equipment of future specialists. Baader Bank considers itself well prepared for this. With this step by Deutsch Börse, the consolidation process among trading participants is likely to accelerate. Within a few years, the number of trading participants is likely to decrease from just over 20 now to less than ten. This process could benefit Baader Bank.

At the end of 2009, Baader Bank was managing 14,256 order books related to equities. Securitised derivatives such as warrants, certificates and ETFs accounted for 260,741 of these order books; bonds and participation certificates accounted for 18,496 and actively managed funds accounted for 5,697. The Bank thus managed a total of 299,190 order books as at 31 December 2009, which corresponds to a decrease of 2.9%.

The Bank took a major step in 2009 in expanding banking business, thereby establishing a second strong pillar alongside the original business, trading in financial instruments. As a result of this orientation, Baader Service Bank GmbH, which offers financial services relating to securities and trading in other financial instruments such as futures and options, was merged with Baader Bank AG as planned in the year under review. The previous activities of Baader Service Bank GmbH are grouped together in the new “Customer and products” unit with responsibility directly at Board of Director level and will come under the responsibility of the new member of the Board of Directors Mr. Nico Baader. All trading-related universal bank services, including commission trading, financial portfolio management, deposit and lending business and custody account management, have thus been grouped together in one unit. The merger means that the services relating to securities which were previously offered by two institutions, are now bundled into a financially sound and efficient banking unit.

Baader Bank’s universal bank business was expanded further in the year under review. The Bank succeeded in gaining a number of new cooperation partners and their respective affiliated customer bases. This enabled Baader Bank to broaden its role as an all-round service provider for asset managers and institutional customers. The main products managed by the Bank still include certificates, public funds, and single hedge funds and funds of hedge funds.
The most important source of income for the new “Customers and products” unit is financial commission business. In this area, Baader Bank provides fund and certificate initiators, strategy providers, fund managers, asset management companies and 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.

The IPO market remained in a dire state in the year under review – only three IPOs were made in Germany in 2009. In this context, Baader Bank's activities in this field were impacted by restraint. However, the Capital Market Services area supported and executed a total of 30 transactions with a volume of approximately EUR 49 million. Among these is the inclusion of admission of the shares from KPS AG'S capital increase through contributions in kind in the amount of EUR 25.8 million. Capital increases were carried out for companies including Girindus AG, Aurelius AG, Merkur Bank KGaA and Corona Energy AG. There were no new issues. Further activities carried out for other companies included capital reductions, capital increases from corporate funds, stock splits and re-placements, and buying back own shares. Other companies changed from the regulated market to OTC trading with the support of Baader Bank.

In the area of capital market services, Baader Bank expanded its network to include France. A cooperation agreement was concluded with the investment company H. et Associés, Paris, part of the Groupe Philippe Hottinguer, which allows for mutual support in seeking investors from the respective other country. Both partners thereby strengthen their placing power and offer German and French customers valuable support for cross-border capital measures. The cooperation focuses on securing financing for small and medium-sized companies on a German-French basis.

2009 proved to be an unfavourable year for the market environment of Conservative Concept Portfolio Management AG (CCPM) and the absolute return strategy Athena pursued by the company. However, on the basis of a plausible and convincing presentation of its own strategy to the customers, the management succeeded in gaining market share and significantly increasing assets managed.

Subsidiary direcct AG's business was overshadowed by the loss of reputation of the hedge funds investment category due to a number of cases of fraud. direcct AG therefore concentrated its sales activities on those hedge fund partners which could offer their products in a UCITS III fund solution, as demand for structures via offshore funds had collapsed in the year.

In the year under review, Baader & Heins Capital Management AG (Baader & Heins) strengthened its leading position in Germany in agency business with *Schuldschein* promissory notes. Baader & Heins supports institutional customers only, which comprise banks, savings banks, cooperative banks, insurance companies, pension funds, local governments and local companies. Thanks to the increased number of employees and the high level of customer satisfaction, the company was able to increase revenue and boost its earnings considerably. As at 1 July 2009, Baader & Heins was strengthened by the acquisition of an 82% interest in KA.DE.GE Kapital. Devisen. Geld Vermittlungsgesellschaft mbh & Co. KG Finanzberatung. KA.DE.GE. is a well-established brokerage company in the money trading market.
As part of the majority acquisition of KA.DE.GE by Baader & Heins, Baader Bank also has a direct interest of 9% in the financial services provider, which specialises in money trading.

Following the acquisition of N.M. Fleischhacker AG by Baader Bank, the Annual General Meeting of the company resolved on 27 February 2009 to change the purpose of the entity such that neither financial commission business nor issue business remain a purpose of the entity in the Articles of Association. Therefore the company now only operates as a provider of specialist activities.

As part of the redistribution of order books on 28 September 2009, N.M. Fleischhacker AG was again entrusted with establishing market prices in order books related to equities on the regulated market of the Frankfurt Stock Exchange. The company thus manages a share of approximately 8% in this market.

Since 21 April 2009 and with effect from 1 January 2009, a control and profit transfer agreement has been in place between the parent company Baader Bank and N.M. Fleischhacker.

As a result of the Dubai crisis, Baader Bank suffered a setback with its investment in the Arabian Golf. For instance, Gulf Baader Capital Markets LLC, Dubai, was impacted by the effects of the crisis due to its membership in the Dubai Financial Market (DFM) and Abu Dhabi Exchange (ADX) stock exchanges. A 50% interest in Gulf Baader Capital Markets LLC is held by Gulf Baader Capital Markets S.A.O.C. (GBCM), Muscat, in which Baader Bank in turn holds a 30% stake.

In comparison with the Arab countries, the environment in India significantly worsened. The expectations from the investment in Parsoli Corporation Ltd., Mumbai, India, were not met. The representatives of Baader Bank on the Administrative Board of the company resigned from their positions with effect from 25 March 2009.

2. Earnings

The following overview comprises the main elements of the income statement for 2009 and 2008, together with the respective changes.

	2009 EUR thousand	2008 EUR thousand	Change EUR thousand	%
Net interest income	2,968	1,348	1,620	> 100.0
Allowance for losses on loans and advances	-992	-3,069	2,077	-67.7
Net fee and commission income	36,052	38,970	-2,918	-7.5
Net trading income	75,841	59,017	16,824	28.5
Net income from available-for-sale financial instruments and companies carried at equity	-1,204	-4,299	3,095	-72.0
Administrative expenses	-89,291	-87,729	-1,562	1.8
Profit/loss from operations	**23,374**	**4,238**	**19,136**	**> 100.0**
Other income and expenses, net	345	7,410	-7,065	-95.3
Profit/loss from ordinary activities	**23,719**	**11,648**	**12,071**	**> 100.0**
Tax income/expense	-5,120	-2,888	-2,232	77.3
Net profit for the period before minority interests	**18,599**	**8,760**	**9,839**	**> 100.0**

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, more than doubling profit for the year as compared to the previous year 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 19,480 thousand (previous year: EUR 22,809 thousand), Agency Business EUR 5,794 thousand (previous year: EUR -801 thousand), Capital Market Services EUR -2,262 thousand (previous year: EUR -6,277 thousand) and Financial Portfolio Management EUR -92 thousand (previous year: EUR -2,331 thousand). EUR 799 thousand (previous year: EUR -1,753 thousand) is related to the non-attributable consolidation items.

Net interest income increased considerably by EUR 1,620 thousand year-on-year, totalling EUR 2,968 thousand. This increase in income is due firstly to the positive net interest income from customer business and secondly to increased investment in bonds.

The allowance for losses is made up of write-downs of uncollectible receivables of EUR 45 thousand, write-downs on loans and advances to customers of EUR 960 thousand and income from reversals of write-downs of EUR 13 thousand. The write-downs on loans and advances to customers mainly originate from lending business.

Net fee and commission income was not maintained at the previous year's level and fell by EUR 2,918 thousand, or 7.5%, to EUR 36,052 thousand. This reflects the lower trading volume as well as changes in the market models and settlement terms on stock exchanges.

This particularly affected the Special Activities and Proprietary Trading segment with a decrease of EUR 9,334 thousand to EUR 19,226 thousand (previous year: EUR 28,560 thousand). The Agency Business segment benefited from the market development, in particular in the area of bond trading (EUR 11,049 thousand after EUR 5,619 thousand in the previous year). The restraint in the Capital Market Services segment remains tangible (EUR 607 thousand after EUR 432 thousand in the previous year), whilst in contrast there are still positive trends in the Financial Portfolio Management segment (EUR 5,170 thousand after EUR 4,421 in the previous year).

The huge growth in net trading income, rising 28.5% to EUR 75,841 thousand, was another pleasing factor in the year. In the 2009 financial year, this was due primarily to the Agency Business segment with EUR 23,652 thousand after EUR 19,481 thousand in the previous year, and to the Special Activities and Proprietary Trading segment with EUR 52,248 thousand after EUR 40,248 thousand in the previous year.

Net income from available-for-sale financial instruments and companies carried at equity amounts to EUR -1,204 thousand. This consists of write-downs on securities from available-for-sale financial instruments recognised in income and net income from companies carried at equity in the amount of EUR -546 thousand.

Administrative expenses increased only slightly by EUR 1,562 thousand (1.8%) year-on-year to EUR 89,291 thousand.

With regard to administrative expenses, EUR 51,687 thousand is attributable to staff costs (previous year: EUR 49,378 thousand), EUR 30,924 thousand to other administrative expenses (previous year: EUR 31,628 thousand) and EUR 6,681 thousand to amortisation of intangible assets and depreciation of property and equipment (previous year: EUR 6,722 thousand). The EUR 2,309 thousand increase in staff costs is primarily a result of the higher number of employees in the Group as well as the inclusion of N.M. Fleischhacker AG in the consolidated financial statements. The decrease in other administrative expenses chiefly results from lower IT expenses. The amortisation of intangible assets and depreciation of property and equipment is mostly scheduled and is primarily 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 310 thousand), income from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options (EUR 465 thousand), income from the reversal of liabilities due to the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensation Organisation of Securities Trading Organisations) due to invalidity of the special notifications (EUR 1,678 thousand), rental income (EUR 38 thousand) and income from sponsoring (EUR 113 thousand). Furthermore, the liability of EUR 607 thousand contained in the 2008 annual financial statements in order to account for the risk arising from the legal dispute with a software manufacturer concerning rescission of the contract for the implementation of a core bank software program was successfully derecognised as a result of a settlement.

Other operating expenses primarily relate to the full amortisation of the Parsoli Corporation Ltd. convertible bond (EUR 3,321 thousand) and the additional funds called in for the 2008 BaFin contribution for the area of securities trading (EUR 613 thousand).

Taxes reported for financial year 2009 contain actual income taxes for the past financial year amounting to EUR 2,799 thousand, income from accrued interest from corporate income tax credit of EUR 329 thousand as well as deferred taxes of EUR 2,650 thousand.

3. Net assets

The overview below illustrates the main items on the balance sheet for financial year 2009 compared with the previous year.

Assets	2009 EUR thousand	2008 EUR thousand	Change EUR thousand	%
Cash reserves	911	1,221	-310	-25.4
Loans and advances to other banks	66,676	166,016	-99,340	-59.8
Loans and advances to customers	36,892	23,661	13,231	55.9
Allowance for losses on loans and advances	-3,768	-3,095	-673	21.7
Assets and liabilities held for trading	178,237	42,292	135,945	> 100.0
Available-for-sale financial instruments				
a) Shares and equity investments	7,086	12,438	-5,352	-43.0
b) Bonds and debt securities	39,916	441	39,475	> 100.0
Equity-accounted investments	13,836	16,634	-2,798	-16.8
Land and buildings	17,712	18,469	-757	-4.1
Other property and equipment	1,393	1,511	-118	-7.8
Intangible assets and goodwill	47,132	45,619	1,513	3.3
Income tax assets	11,044	11,806	-762	-6.5
Other assets	3,751	6,965	-3,214	-46.1
Deferred tax assets	19,011	21,021	-2,010	-9.6
Total assets	**439,829**	**364,999**	**74,830**	**20.5**
Equity & Liabilities				
Deposits from other banks	31,605	31,834	-229	-0.7
Amounts due to customers	194,617	98,111	96,506	98.4
Liabilities held for trading	824	38,890	-38,066	-97.9
Provisions	11,757	11,436	321	2.8
Income tax liabilities	880	1,287	-407	-31.6
Other liabilities	16,289	18,997	-2,708	-14.3
Deferred tax liabilities	6,295	4,227	2,068	48.9
Shareholders' equity	177,562	160,217	17,345	10.8
Total liabilities and shareholders' equity	**439,829**	**364,999**	**74,830**	**20.5**

Total assets rose by EUR 74,830 thousand or 20.5% to EUR 439,829 thousand in the year under review.

The cash reserve primarily includes deposits with Deutsche Bundesbank of EUR 911 thousand.

Loans and advances to other banks decreased by 59.8% or EUR 99,340 thousand year-on-year to EUR 66,676 thousand. This decrease results primarily from regrouping cash and cash equivalents in the securities portfolio. Loans and advances to other banks chiefly relate to the credit balances necessary for the settlement of stock market transactions.

An increase in loans and advances to customers by EUR 13,231 thousand to EUR 36,892 thousand is primarily attributable to customer business. Customer deposits payable on demand, reported under loans and advances to customers, also rose year-on-year by EUR 21,620 thousand to EUR 98,612 thousand. The reason for the approximate match between the increases in these two items lies in the requisite clearing margins for customer trading transactions.

Assets held for trading mostly relate to listed shares and bonds. The significant increase in assets held for trading results from the investment of liquidity and of customer deposits payable on demand in bonds with a residual term of less than 15 months. On the equity and liabilities side of the balance sheet, non-current amounts due to customers accordingly rose by EUR 73,000 thousand in 2009 as a result of taking up *Schuldschein* note loans.

Available-for-sale financial instruments primarily consist of shares and other non-fixed interest securities totalling EUR 4,648 thousand, equity investments of EUR 2,438 thousand, as well as bonds and debt securities totalling EUR 39,916 thousand. The decrease in shares and other non-fixed-interest securities in the amount of EUR 6,650 thousand is primarily attributable to sales. The significant increase of EUR 39,474 thousand in the area of bonds and debt securities is due, like the increase in assets held for trading, to the investment of liquidity. However, the investment here is made in securities with a residual term of more than 15 months. The EUR 1,298 thousand increase in equity investments is due in particular to the reclassification of the shares in Parsoli Corporation Ltd., Mumbai from the equity-accounted investments item. A significant influence in the company can no longer be assumed.

Equity-accounted investments now relate to the investments in Gulf Baader Capital Markets S.A.O.C., Muscat and in BAM Berlin Asset Management GmbH, Berlin, as well as fund units in Sherpa Absolute Return AMI.

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

The change in other property and equipment, intangible assets and goodwill is chiefly due to depreciation.

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 10,553 thousand.

Other assets mainly include receivables from fees and commission and price differences of EUR 1,117 thousand and prepaid expenses of EUR 958 thousand.
As at 31 December 2009, deposits from other banks chiefly consist of the loan borrowed to refinance the administrative building in the amount of EUR 11,301 thousand and liquidity assumed as part of the Deutsche Bundesbank tender process in the amount of EUR 15,000 thousand.

Amounts due to customers represent customer deposits payable on demand and issued *Schuldschein* note loans.

There is a significant change in the liabilities held for trading. The delivery commitments arising from short sales of securities which were contained here in the previous year were reduced almost entirely from EUR 38,337 thousand to EUR 736 thousand. This item also includes negative fair values of derivative financial instruments in the amount of EUR 87 thousand.

The provisions are primarily intended for pension obligations in the amount of EUR 9,058 thousand.

Other liabilities and provisions primarily relates to accrued liabilities from staff costs amounting to EUR 8,434 thousand as well as trade payables of EUR 4,115 thousand.

Equity increased by EUR 17,345 thousand (10.8%) from EUR 160,217 thousand to a total of EUR 177,562 thousand. With an equity ratio of 40.4%, 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 911 thousand, short-term loans and advances to other banks of EUR 66,676 thousand and available-for-sale assets held for trading and available-for-sale financial instruments of EUR 225,239 thousand offset current liabilities to other banks and amounts due to customers of EUR 103,877 thousand. This results in a net balance-sheet liquidity surplus of EUR 188,949 thousand (previous year: EUR 73,203 thousand).

On the balance-sheet date, the Group had committed but unutilised credit lines of EUR 60,000 thousand.

The acquisition of N.M. Fleischhacker with effect from 1 January 2009 led to an outflow of liquidity of EUR 7,818 thousand in financial year 2009. No other material investments were made in financial year 2009.

Baader Bank took up *Schuldschein* note loans in financial year 2009, which lead to proceeds of EUR 73,000 thousand.

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

5. Supplemental report

On 3 February 2010, the Board of Directors of Baader Bank resolved and applied to transfer the stock market listing of the Bank's share from the regulated market on the Munich Stock Exchange to the m:access market segment in OTC trading on the Munich Stock Exchange. The responsible bodies at the Munich Stock Exchange accepted the Company's application on 26 February 2010, and the listing on the regulated market will thus be terminated as of 30 March 2010. From 31 March 2010, the price of the Baader share will be determined in the m:access market segment in OTC trading on the Munich Stock Exchange. In addition, the share will continue to be traded over-the-counter on all German stock exchanges.

With the entry in the Commercial Register on 23 February 2010, KA.DE.GE Kapital. Devisen. Geld Vermittlungsgesellschaft mbh & Co. KG Finanzberatung was converted retroactively with effect from 1 July 2009 from a partnership into corporation. The company will in future operate as KA.DE.GE Kapital. Devisen. Geld Vermittlungsgesellschaft mbH Finanzberatung.

6. Declaration in accordance with Section 312 of the AktG

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. Declaration on corporate management in accordance with Section 289a of the HGB

The Company publishes its declaration on corporate management on its website under Investor Relations.

8. 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 333 to 343 year-on-year. The Group’s workforce comprises 98 female employees and 245 male employees who come from 16 countries.

The Baader Group places particular emphasis on the high level of qualifications and further education of its employees. In 2009, 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 2009, a total of EUR 170 thousand was paid out. In addition, occupational health promotion and healthcare for employees was stepped up in 2009.

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 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.

9. Branch report

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

10. Compensation report in accordance with Section 289 (2) no. 5 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.

The Annual General Meeting of Baader Bank 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 item 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 2009, 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 0.8% 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 Annual 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 ahead of schedule, 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 2009 financial year as a whole, total compensation for the members of the Board of Directors was as follows:

					2009	2008
Non-performance-related compensation		Allocation of pension provision	Performance-related compensation	Components with long-term incentive effect		
Salary EUR	Other 1) EUR	Pension commitment 2) EUR	Bonus EUR	Stock options 3) EUR	Total EUR	Total EUR
1,567,752.00	116,933.55	-712,087.00	1,272,500.00	165,324.80	3,071,916.35	3,393,518.85

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 according to IASs/IFRSs for active members of the Board of Directors amount to EUR 5,889,724.00 (previous year: EUR 8,490 thousand).
3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 per share).

The performance-related remuneration is paid after completion of the 2009 annual financial statements by the Annual General Meeting of Baader Bank.

A total of 128,000 stock options were issued to the Board of Directors in financial year 2009. The following table shows changes in members of the Board of Directors' stock options for financial years 2002 to 2008. The stock options from 2000 expired in the 2008 financial year; the options from 2001 expired in the 2009 financial year.

For financial year *)	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**Total**
Options granted	128,000	64,250	63,750	75,000	75,000	103,000	170,000	679,000
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	12,850	3,750	0	0	0	19,000	35,600
Options exercised	0	0	0	0	56,250	103,000	151,000	310,250
Options outstanding	128,000	51,400	60,000	75,000	18,750	0	0	333,150
Exercisable options	0	0	60,000	75,000	18,750	0	0	153,750
Residual term in months	76	64	52	41	29	17	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, Unterschleissheim. 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 135,000 shares privately. In total Mr Uto Baader's shares equate to 66.94% 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 2009. As at 31 December 2009, members of the Board of Directors held a total of 31,023,706 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. With effect from 1 January 2010, a deductible was agreed for the members of the Board of Directors in line with the provisions of the Act on the Appropriateness of Management Board Remuneration, formulated in Section 93 (2) AktG. The Company does not consider that a deductible affects the behaviour and/or working methods of the Board of Directors.

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

For the 2009 financial year as a whole, total compensation for the members of the Supervisory Board was as follows:

		2009	**2008**
Fixed component EUR	Variable component EUR	Total EUR	Total EUR
140,739.72	130,192.47	270,932.19	234,771.98

The variable compensation component is paid after completion of the 2009 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 4,320 stock options in financial year 2009 [1)]. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2002 to 2008. Outstanding stock options from 2000 expired in the 2008 financial year; the options from 2001 expired in the 2009 financial year.

For financial year *)	2008	2007	2006	2005	2004	2003	2002	Total
Options granted	4,320	2,550	2,760	2,400	2,640	5,000	9,600	29,270
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	0	0	0	0	0	0	0
Options exercised	0	0	0	0	2,640	5,000	9,600	17,240
Options outstanding	4,320	2,550	2,760	2,400	0	0	0	12,030
Exercisable options	0	0	2,760	2,400	0	0	0	5,160
Residual term in months	76	64	52	41	29	17	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 2008, amounts to EUR 5,579.71 (previous year: EUR 2,968.71). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 per share).

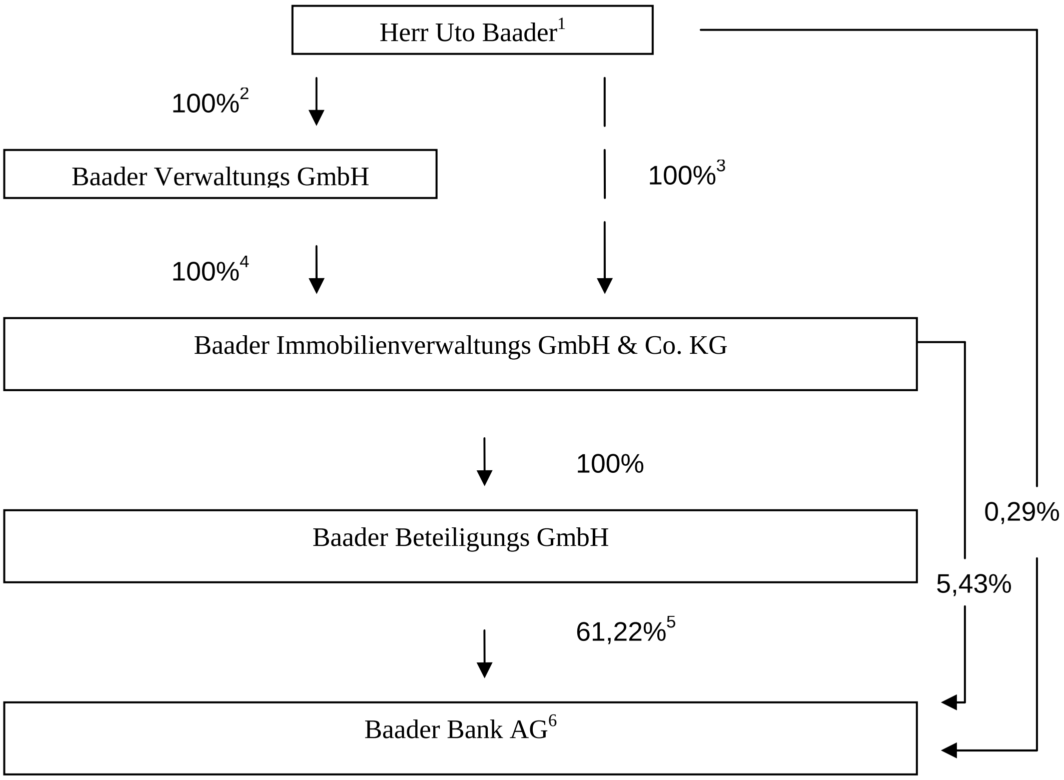
Under Section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. No purchases or sales were reported in the financial year.

As at 31 December 2009, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2009, 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.

11. Capital report in accordance with Section 315 (4) of the HGB

1. As at 31 December 2009, 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:



[1] In total, **66.94%** of the voting rights in Baader Bank AG are attributable to Mr Uto Baader!
(Mr Uto Baader and Mrs Hanne Baader hold 135,000 shares in their joint custodian account (as at: 12 September))

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

[3] Mr Uto Baader is the sole limited partner in Baader Immobilienverwaltungs GmbH & Co. KG.

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

[5] Baader Beteiligungs GmbH holds 28,104,000 shares in Baader Bank AG (as at: 1 July).

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

[6] 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.

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 Annual General Meeting on 19 July 2006 and 26 June 2007 recorded in the Commercial Register:

a) Capital increases

aa) 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).

ab) 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).

ac) 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.

ad) 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).

ae) 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 Directory 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 its 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

ca) 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 2 January 2011.
The holdings of own shares acquired for this purpose may not exceed 5% of the Company's share capital.

cb) 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 2 January 2011.

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 5 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.

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.

12. Risk report

1. Principles of risk management

The past year was still dominated by the effects of the financial market crisis. Since the outbreak of the crisis in mid 2007, banks throughout the world have made multi-billion write-downs on problem assets. In the wake of the drastic economic downturn, a significant increase in write-downs in the loan portfolio is still to be expected. Earnings in securities business were under great pressure in 2009 due to lower transaction volumes, and the effects of the liquidity crisis and of the economic crisis are still very noticeable. Despite initial signs of a stabilisation in the situation, the banking sector still has major challenges ahead. Baader Bank rose to these challenges successfully last year. Particularly in the area of risk management, considerable efforts have been made to ensure that the Baader Group not only survives the current crisis but also emerges from it stronger than before in the medium term. It also became very clear in 2009 that the sustained efforts to diversify operating activities are bearing fruit. Whereas on the one hand income from specialist activities was under pressure, on the other hand Baader Bank benefited substantially from agency business and from commission trading resulting from the merger with Baader Service Bank GmbH.

In the past year, risk management focused firstly on significantly improving liquidity management with the goal of permanently – particularly in times of crises – having sufficient liquidity available. Secondly, constantly guaranteeing risk-bearing capacity in the Baader Group was highlighted as a central task in the risk management process, so that even in cases of historical and hypothetical stress scenarios the risk-bearing capacity is ensured at all times.

In August 2009, the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Federal Financial Supervisory Authority) published a new version of the Minimum Requirements for Risk Management (MaRisk) to be implemented by the end of 2009. This new version includes various changes such as the inclusion of risk concentrations, the greater attention given to liquidity risk and the improvement in stress tests for all major types of risk to take account, among other things, of risks which became clear in the course of the financial crisis. Because the significance of the MaRisk requirements is a central part of the risk management process in the Baader Group, these were already largely implemented by the end of the year.

2. Risk-bearing capacity

Based on MaRisk, the Board of Directors of the parent institution is regularly provided with an overview of the forms that all the risks take within the Baader Bank Group. This basis guarantees that the aggregate risk cover extends to 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.

In this context, the Risk Control department regularly calculates Baader Bank's risk-bearing capacity for the current and the coming financial year. In so doing, the available aggregate risk cover is compared with the risk capital requirement. The Board of Directors then decides, depending on the business and risk strategy, how much of the aggregate risk cover it wishes to provide to cover unexpected losses and losses resulting from stress scenarios. The total risk capital requirement from all material types of risk must never exceed the aggregate risk cover made available by the Board of Directors.

Among the types of risk identified, the following can be considered material within the Baader Group and are backed with aggregate risk cover: credit risks, counterparty risks, investment risks, issuer risks, country risks, market price risks, operational risks and measurement risks. In addition, the liquidity risk is also considered a material risk.

The limits for the Baader Bank Group are determined once a year by the Board of Directors of the parent institution as part of a strategy meeting. These limits may also be adjusted over the year (generally on a quarterly basis) if the business activity and/or the risk position or results of operations make this necessary. The limits are also reduced by any losses. Any limits exceeded are reported to the Board of Directors as part of daily reporting. The Risk Control department of Baader Bank AG as the parent institution is responsible for the 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 Bank Group are developed as part of a strategy meeting of the Board of Directors and the manager of the Risk Control department of Baader Bank AG.

The objectives and plans of the main business activities laid down in the business strategy as well as Baader Bank'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 Risk Control department provides the available aggregate risk cover of the Baader Group as the basis for the risk strategy. The business and risk strategy, the allocation of the aggregate risk cover across the individual risk types and, if appropriate, business segments, and consequently the limits for the following financial year are then adopted as part of a resolution and agreed with the Supervisory Board.

4. Internal control system

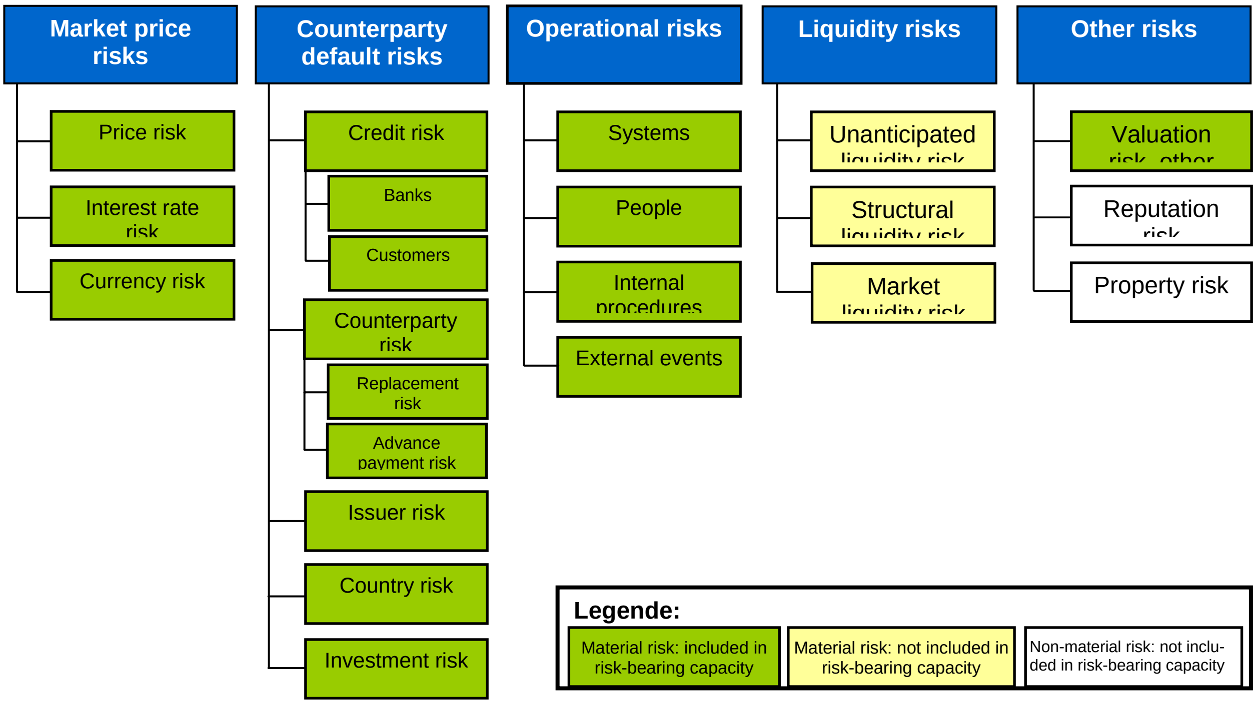
The internal control system stipulated in accordance with MaRisk is divided into structural and process organisation as well as risk management and risk control processes. An integral part of the structural and process organisation is the separation of functions. This ensures that activities which are incompatible with each other are carried out by different employees. Furthermore, Baader Bank has set up suitable risk management and control processes which guarantee identification, assessment, management and monitoring and communication of material risks in accordance with the requirements of the MaRisk. These processes are as follows in the Baader Group:

- **Identification** of new risks is taken into account in the "Activities in new products and markets" process. In so doing, the business segments concerned examine the planned activities and identify the relevant risk content. Existing activities are reviewed on an ongoing basis.
- **Assessment** of risks in the Group is carried out using detailed analyses in the Risk Control department of the parent institution, which then develops a concept for managing and monitoring these risks together with the Trading / Market division and presents this concept to the Board of Directors. The identified risks are quantified using a value-at-risk-concept and their unexpected losses are compared with Baader Bank's aggregated risk cover. In so doing, Baader's risk-bearing capacity is regularly examined.
- The permanent addition of risks to the limit system enables the Trading divisions to **manage** these risks and the Risk Control department to **monitor** them.
- **Communication** is in the form of a daily report and timely notifications of limits being exceeded to the trading officers and the Board of Directors.

These processes ensure that material risks are identified in good time, fully recorded and managed and monitored in an appropriate manner. In addition, these processes are regularly reviewed and adapted to changing conditions in a timely manner.

Brief descriptions of the risk types identified as material are presented below:

Overview of risk types (MaRisk Gerneral Section 2.2 Item 1)



As part of developing the business and risk strategy for 2010, the following changes were made with regard to assessing the materiality of the risks: In accordance with MaRisk General Section 2.2 Item 1, both the model risk and the business risk which were categorised under the heading of Other risks will no longer be listed as individual risk types in future. On the basis of the Bank's specific overall risk profile, reputation risks are classified as non-material.

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 reported to the Board of Directors of the parent institution in the Baader Group by the Risk Control department. The limits for country and investment risk and monitored separately. Credit checks at Baader Bank are carried out using an internal rating procedure.

In order to enter into a business activity with a new borrower unit, an application must be received in writing from Trading or from the Customers and Products market division and the relevant credit rating documentation must be submitted to the Risk Control department / credit department of Baader Bank AG. These departments then establish a credit decision including a limit proposal, based on the internal rating, and make this available to Board of Directors of the parent institution for resolution.

As part of lending business as defined by Section 1 (1) No. 2 of the *Kreditwesengesetz* (KWG – German Banking Act), private and corporate customers are granted (non-genuine) Lombard loans against collateral. This collateral usually takes the form of listed securities, the lending value of which is set at an extremely conservative level, or bank guarantees.

The following table shows lending exposure as at 31 December 2009:

	Total credit exposure in EUR million	Drawdowns in EUR million	Overdrafts incl. SLLP in EUR million	Total drawdowns incl. overdrafts in EUR million	Unutilised loan commitme nts in EUR million	Evaluated collateral in EUR million	Allowance for losses in EUR million
Retail customers	17.01	13.96	2.90	16.86	3.04	14.32	3.10
Corporate customers	1.17	1.08	1.24	2.48	0.09	1.31	0.59
TOTAL	18.18	15.04	4.14	19.34	3.13	15.63	3.69

Furthermore, only money market deposits at banks are made as part of the lending business. Credit risk constitutes a material risk in the Baader Group. The value-at-risk concept is based on risk exposures weighted by credit standing.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all obligations. A distinction must be made between the replacement risk in the event of default of a counterparty and the resulting inability to settle transactions that have been concluded on the one hand, and the advance payment risk that can arise from transactions not settled as delivery versus payment (DVP) transactions on the other.

Baader Bank trades derivatives only on derivative exchanges. However, because the Bank is not a clearing member of these exchanges, the transactions between Baader Bank and the relevant clearing member must be settled. A counterparty risk then arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk vis-à-vis the clearer. The replacement risk in derivative trading is classified as a material risk and is thus monitored and reported on a daily basis.

In contrast, when settling/brokering *Schuldschein* note loans where Baader Bank plays the role of counterparty as part of the purchase agreement under the law of obligations, an advance payment risk exists due to the fact that payment and transfer of the instrument do not occur concurrently. For Baader Bank, 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. The advance payment risk is classified as a material risk and is thus monitored and reported on a daily basis.

An issuer risk is understood as the risk of deterioration in creditworthiness or default of an issuer. A loss as part of an issuer risk results in the impairment of securities from this issuer. The credit standing of the respective issuer thus results in a corresponding counterparty default risk which is backed and limited with aggregate risk cover. However, separate limitation of issuer default risk is not necessarily required, provided the particular issuer price risks are taken into account to a sufficient extent in limiting the market price risks on the basis of suitable procedures. These particular (specific) issuer price risks are taken into account at Baader Bank, since a loss due to issuer risk results in the impairment of this issuer's securities as part of daily profit and loss and this loss reduces the corresponding market price limits as part of market price risk and is thus credited against the aggregate risk cover made available for market price risks. An exception to this is interest rate products in the liquidity reserve, for which the issuer risk is calculated and measured separately. This is due to the longer investment time in comparison to other areas of the trading book.

Country risks comprise all risks of international transactions for which the immediate causes relate to the economic, social and/or political environment of a particular foreign country and which are specific to this country (or to the geographical region where the country is located). The term "country risk" thus encompasses ecological, political and economic risks. This risk type is considered a material risk, is backed by risk capital and its limits are monitored on a daily basis.

Baader Bank considers the strategic investment risk as material and therefore monitors this using the market price and special analyses (discounted cash flow, peer group).

Market price risks

Market 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:

CASH MARKET		FORWARD MARKET	
Shares	16.62	Options	0.00
Bonds	144.12	Futures	-6.25
Funds, index and fund-linked certificates	11.55	Swaps	0.56
Securitised derivatives	1.65		

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 is exponentially weighted.

The following VaR values were calculated in previous years (in EUR million):

Value-at-risk of trading segments	2009	2008	2007	2006	2005
Year-end VaR	1.48	2.59	1.32	0.78	0.83
Minimum VaR	1.16	1.05	1.11	0.68	0.51
Maximum VaR	3.88	2.79	2.73	2.84	1.46
Average VaR	2.02	1.56	1.36	1.19	0.84

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). As at 31 December 2009, the number of outliers in backtesting is below the limit defined as critical. It can therefore be assumed that the outliers were purely coincidental and the model is correct. 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.

Stress tests for market price and counterparty default risks are currently carried out on a quarterly basis and their results are reported to the Board of Directors and the Supervisory Board as part of the MaRisk report. These stress tests are regularly reviewed and their results are taken into account in the risk-bearing capacity concept.

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 reputational risks are excluded. In the Baader Group, operational risks are considered a material risk.
The risk potential is evaluated, i.e. operational risks are identified and assessed, by the 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 the Board of Directors. Where necessary, the Board of Directors commissions the Security Committee to implement the measures. The findings are part of the quarterly MaRisk report to the Board of Directors and the Supervisory Board.

Along with filling in the questionnaires, it is the operational risk managers' responsibility to report losses that occur from operational risks. Significant losses are immediately analysed with regard to their causes.

Resulting measures are reported on a quarterly basis in the MaRisk report. In financial year 2009, losses totalling EUR 380 thousand were reported. The highest individual loss here was EUR 135 thousand and can be classified under the Basel II category Settlement, Sales and Process Management.

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

In summer 2008, positions for closed out 45 customers who were referred to Baader Bank by their investment advisor, due to failure to fulfil the obligation to put up addition margin. Due to the sharp drop in price at the time of the positions were closed out, these exposures were no longer sufficiently collateralised, meaning that specific impairment allowances were recognised in the 2008 annual financial statements for the credit portions which were not covered. Settlement agreements have since been reached with some customers.

However, some customers of the investment advisor who held a securities account at Baader Bank are currently claiming damages from Baader Bank on the basis, among other things, of a lack of risk disclosure / unjustified demands for collateral. An appropriate allowance for losses has been recognised for legal risks and potential defaults.

Measurement risks

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

Liquidity risks

With regard to liquidity risks, a distinction must be made between market liquidity risk, structural liquidity risk and trading liquidity risk.

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 (market liquidity risk). For this reason, a sale may only be possible if a price discount is accepted, resulting in financial losses. To take account of this risk, Baader Bank regularly examines the entire securities portfolio for such high-risk items, which are then communicated to the responsible member of the Board of Directors and necessary measures are initiated.

Structural liquidity risk refers to the risk that refinancing costs could increase due to a possible negative rating migration. Following a deterioration in creditworthiness, borrowing transactions can only be concluded at worse conditions. In addition, market-driven changes can have a major influence. If the market interest rate rises, refinancing generally becomes more expensive.

In contrast, trading liquidity risk refers to the risk that credit commitments could unexpectedly be utilised / deposits could unexpectedly be withdrawn. In addition to unexpected outflows, there could also be delays in receiving payments. This could affect the Bank’s ability to fulfil its own payment obligations.

The Treasury department is responsible for functioning liquidity management. This department ensures that even in the event of a tense market environment and a deterioration of the liquidity situation in the short term, the Bank is able to cover any liquidity requirement which arises, secure access to relevant refinancing sources and maintain sufficient liquidity reserves. In the context of the Bank's short-term liquidity management, there is close consultation between securities trading and Treasury. This ensures the coordination of the daily cash flows from these departments. Particular strains on liquidity from these departments are communicated immediately. Short-term liquidity requirements at Baader Bank are secured by various credit lines. A liquidity status showing the current liquidity situation is generated on a daily basis by the Treasury department.

In addition, the Bank’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 Bank, medium- to long-term liquidity requirements are secured by issuing *Schuldschein* note loans. In addition, a detailed liquidity overview in accordance with MaRisk which shows the medium- to long-term liquidity requirements is prepared by Treasury on a monthly basis. The assumptions underlying the expected inflows and outflows of funds are established. Furthermore, the extent to which Baader Bank is able to cover any arising liquidity requirement is reviewed on an ongoing basis.

5. Description of the key features of the internal control and risk management system with regard to the accounting process (Section 289 (5) and Section 315 (2) No. 5 HGB)

Definition of terms and elements of the internal control and risk management system of Baader Bank AG

The internal control system of Baader Bank encompasses all principles, procedures and measures to ensure the effectiveness, cost efficiency and correctness of accounting and to ensure compliance with significant legal provisions.

At Baader Bank, the internal control system consists of the internal management system and the internal monitoring system. The Board of Directors of Baader Bank with its function of managing business has assigned responsibility particularly for the areas maintained at Baader Bank of risk controlling, accounting and controlling and human resources to the internal monitoring system of Baader Bank.

Process-integrated and process-independent monitoring measures constitute the elements of the internal monitoring system in the Baader Group. Alongside manual process monitoring such as the dual control principle, mechanical IT process monitoring is also a key part of the process-integrated measures. In addition, process-integrated monitoring is ensured by specific Group functions such as Compliance and the Legal department.

The Supervisory Board and the Group internal audit department at Baader Bank are involved in the internal monitoring system in the Baader Group with process-independent auditing activities.

With regard to Group accounting, the risk management system as part of the internal control system is geared towards the risk of false statements in the Group accounting and in external reporting. Further information on the risk management system is given under Section 1. Principles of Risk Management in the risk report.

Use of IT systems

At Baader Bank, accounting processes are recorded mainly by the following accounting-relevant software.

Financial accounting is carried out using the standard software SAGE Office Line from the company SAGE, Frankfurt am Main. Payroll accounting is done using the payroll accounting module of the SAGE software.

Securities transactions and money turnover are recorded and reconciled using the DECIDE software from the company pdv Financial Software GmbH, Hamburg. Customer transactions are recorded using the Brokerbase software from the company Brokerbase GmbH, Ratingen. As an interface program for financial accounting, Baader uses the software KoLiBRI (account monitoring, supply monitoring, portfolio reconciliation, accounting, information system) developed by the company git GmbH, Lohr.

KoLiBRI takes on the following tasks in this context:

- Extraction and further processing of accounting-relevant data from the item-recording system DECIDE and from Brokerbase for customer transactions
- Further processing of account statements from the settlement banks
- Daily reconciliation of securities portfolio and securities turnover on an individual transaction basis between DECIDE and the settling banks
- Daily transfer of accounting-relevant data as summary records for each general ledger account to SAGE financial accounting via a data interface.

To prepare the consolidated financial statements of Baader Bank, further information is added to the respective single-entity financial statements by the subsidiaries to make them standardised reporting packages.

Specific accounting-related risks

Specific accounting-related risks can arise, for instance, due to concluding unusual or complex transactions, particularly time-critically at the end of the financial year. In addition, transactions which are not routinely processed also entail a latent risk. Further accounting-related risks can result from the scope of discretion necessarily granted to employees in the recognition and measurement of assets and liabilities. Outsourcing and transferring accounting-specific tasks to third parties can also result in specific risks.

Key regulation and controlling activities to ensure the correctness and reliability of accounting

The measures of the internal control system aimed at the correctness and reliability of accounting ensure that transactions are recorded completely and promptly in accordance with the provisions of the law and of the Articles of Association. It is also ensured that assets and liabilities are recognised, measured and reported accurately in the annual financial statements. The regulation activities also ensure that reliable and comprehensible information is provided in the accounting documents.

Regulation and controlling activities to ensure the correctness and reliability of accounting are documented in the Baader Bank intranet using the “Baader instructions system”.

Controlling activities to ensure the correctness and reliability of accounting include, for example, analysing data and developments using the company’s own monthly reporting system. The organisational division of trading, settlement, risk controlling and accounting functions and the fact that these functions are performed by different departments reduces the possibility of infringements or irregularities. The internal control system also ensures that changes in the economic or legal environment of Baader Bank and the companies included in consolidation are mapped and that new or amended legal provisions are applied in accounting.

The accounting regulations in the Baader Group, together with the accounting regulations under the German Commercial Code (HGB) at a single-entity level and under the International Financial Reporting Standards (IFRS) at a Group level, govern the uniform accounting policies for the entities included in consolidation.
Alongside general accounting principles and policies, regulations are established regarding in particular the balance sheet, income statement, notes, management report, cash flow statement, statement of changes in equity and segment reporting in compliance with the legal situation applicable in the EU.

The accounting regulations of the Baader Group also govern concrete formal requirements for the consolidated financial statements. In addition to determining the scope of consolidation, the components of the reporting packages to be prepared by the Group companies are also determined in detail.

At the level of the Baader Group, the scope of the regulations extends, among other things, to the central determination of the parameters to be applied for measuring pension provisions or other provisions. In addition, the preparation and aggregation of further data for providing external information in the notes and the management report (including significant events after the balance sheet date) also takes place at Group level.

Qualificatory information

Through the organisational, controlling and monitoring structures established at Baader Bank, the internal control and risk management system allows for the complete recording, preparing and evaluation of company-related matters and their proper preparation both in the single-entity financial statements and in the consolidated financial statements. However, by its very nature it is impossible to rule out the possibility of decisions based on personal discretion, controls containing errors, criminal actions or other circumstances, which could then lead to restricted effectiveness and reliability of the internal control and risk management system used. As a result, even the Group-wide application of the systems used cannot guarantee absolute certainty in terms of correct, complete and prompt recording of information in accounting.

13. Forecast

Over the past year, Baader Bank 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 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 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 began to significantly impact the industry in 2008. This has resulted in the financial market crisis having a significant negative influence on the banks’ capacity to contract debt as well as on securities trading.

Baader Bank continues to anticipate 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 was not and is not directly affected by the crisis due to the fact that it did not invest in sub-prime securities at any point. Even so, the loss of investors’ confidence – sparked by the crisis – in securities such as shares, securitised derivatives and funds will continue to affect Baader Bank’s core business of stock market trading (specialist activities).

In the area of equity, Baader Bank’s business will depend to a great extent on whether investors predominantly keep away from the markets, as in the upturn in 2009, or become more involved again. In view of the large volumes of “cheap money” in circulation (state financial assistance to private banks), the appearance of an upturn could also be deceptive. In this context, the decisive factor will be how states and central banks manage to implement their planned exit strategies from the cheap money policy.

In trading in securitised derivatives, which Baader Bank operates on the certificates stock exchange Scoach in Frankfurt, its leading market position among the specialists operating there is expected to be maintained. For 2010, however, declines in revenue are anticipated due to the expected lower volatility and decrease in order volumes. The new order types currently being established in off-exchange business should have a positive impact.

In the bonds segment, continued lively issuing activity is expected in 2010, as both states and companies are still having to use the capital market to a great extent to finance their plans. Many companies have only the possibility of issuing a bond to obtain the required funds on the capital market. Since Baader Bank has a broad customer structure particularly in trading in corporate bonds, the Bank expects to benefit from this probable development. In addition, Baader Bank will focus on further expanding its customer and product base in institutional agency business with bonds.

The strategy of dealing primarily with trading in second-grade government bonds should continue to bear fruit. Baader Bank anticipates that credit rating downgrades of countries in precisely this area in the first half of 2010 could lead to high volatility. Furthermore, it is expected that in 2010 many tap issuers will again use the option of issuing mortgage bonds for refinancing purposes. Another objective is the development and expansion of business with foreign currency bonds. The first steps in this direction were already taken in 2009 with bonds denominated in US dollars, British pounds, Norwegian krones and Swedish kronas.

In its application to participate in Deutsche Börse AG’s project to install bond trading on the electronic trading platform Xetra Bonds in addition to trading on the Frankfurt Stock Exchange, Baader Bank was initially not awarded the contract. It remains to be seen whether the Xetra Bonds model will prove to be serious competition for trading on the Frankfurt Stock Exchange (“floor trading”), where Baader Bank operates as a specialist for bonds. Another factor of uncertainty for the Xetra Bonds project is the outcome of the lawsuit which two providers of specialist activities who were also were not awarded the contract have brought against Deutsche Börse.

Despite the fact that the financial market crisis has not yet been overcome, further progress is expected in operating business for the trading-related banking services of commission trading, deposit and lending business and account und custody business, which are grouped together in the “Customers and products” unit. The positioning of the Bank as the leading service provider for asset managers, fund managers and institutional customers is to be developed further in a targeted fashion.

As part of facilitating the ambitious business objectives, it will be necessary to adjust internal resources to the growing operating business and to invest in the technical infrastructure to a considerable extent. Particular attention will be paid here to optimising processes.

Due to the continued dynamic growth of the trading-related banking services, the management expects a positive business development an increase in the profitability of this business segment, resulting in a growing share in consolidated net profits.

The competitive and price pressure affecting the issue business is likely to continue. Baader Bank is countering this trend by extending its distribution channels, expanding into foreign markets and cultivating its reputation as a quality provider. In the value added chain, there is an increasing focus on products with a high earnings contribution (particularly consulting and structuring, placement business, securities management, support in the secondary market), whereas products with a low value added contribution or a high level of risk continue to be outsourced.

The business performance of Conservative Concept Portfolio Management AG 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. The Athena strategy will have a particularly high significance in 2010; it is expected to develop positively again in a continued volatile market environment in the S&P 500. However, if the improvement in performance is not achieved in 2010, there will be no profit participation income and the fixed income from the option strategies will also be lower as a result of the repurchases/terminations to be expected from the corresponding products and funds.

The decisive factor for Baader & Heins Capital Management AG will be the further development on the bond markets. The environment here remains influenced by great uncertainty despite the measures taken by governments and central banks. Customers are expected to show greater propensity to invest in bonds with longer durations. To maintain the high level of customer satisfaction as well as flexibility, the company is focusing particularly on increasing the number of staff and their skills and qualifications.

The development of direcct AG in 2010 will depend firstly on the performance of its product partners, and a second decisive factor will be the extent to which the investment category of alternative investments can regain the trust of investors. Here, the market environment is likely to ease starting from the second quarter of 2010, bringing about more investments again. To provide direcct AG with future prospects, extensive measures are being taken to reduce costs. These allow positive synergies to be achieved in fixed costs in the administrative area and in variable costs. A greatly reduced loss is therefore still to be expected at direcct AG in 2010. From 2011 onwards, net profit for the year is anticipated.

At N.M. Fleischhacker AG, the focus on the core competency of specialist activities with shares and bonds and the related substantial improvement in the cost situation as against the previous financial years mean that positive earnings contributions are to be expected in the coming financial years.

Despite the Dubai crisis, Baader Bank expects to profit in the medium and long term from the momentum on the capital markets in the Arabian Gulf through its interest in Gulf Baader Capital Markets S.A.O.C., Muscat. Baader Bank will therefore continue to be involved in the region.

The development of the business potential for Baader Bank in India is considered with significantly less confidence. After the expectations were not met, Baader Bank's activities there are to be terminated.

In the year under review, Baader Bank has been successful in improving and developing the range of its own business areas and thus increasingly protection against market fluctuations through the expansion of its range of offers. Even if the financial crisis lasts longer than anticipated and the expectations for the development of the market environment are not realised, Baader Bank still expects to generate profits in 2010 too.

Moderate growth in the global economy and a calming on the capital markets are anticipated again for the years after 2010. Under these conditions, the Bank's Board of Directors expects an increase in income and in profits from 2011 onwards.
The strategy taken in the past of positioning the Bank to cover as many different securities-related services as possible will thus pay off.

Unterschleissheim, 17 March 2010
Baader Bank AG
Board of Directors

Uto Baader, Nico 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 Aktiengesellschaft 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 both 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 extensively and 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 Aktiengesellschaft 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. The Supervisory Board also ensured it was informed of the development and effects of the economic crisis.

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 development of strategic interests at home and abroad in particular. Other topics included the positioning of Baader Bank Aktiengesellschaft, 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 15 December 2009, 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 the Baader Bank Aktiengesellschaft website.

In its meeting of 15 December 2009, 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 Aktiengesellschaft fulfilled the recommendations of the Corporate Governance Code in accordance with its Declaration of Compliance of the same date. 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 2009 and the consolidated financial statements and the Group management report for the year ended 31 December 2009 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 Aktiengesellschaft 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 dealt with in detail in today's Supervisory Board meeting in the presence of the auditor. During the meeting, the Board of Directors outlined the financial statements of Baader Bank Aktiengesellschaft and of the Group as well as the risk management system The auditor presented the scope and focus of the audit and reported on the main findings of the audit and that there were no significant weaknesses of the internal control and risk management system. 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 and 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 2009 annual and consolidated financial statements prepared by the Board of Directors in its meeting today. The 2009 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 0.13 per no par-value share carrying dividend rights from the unappropriated surplus, to transfer EUR 12 million to other retained earnings and to carry the remaining amount forward to new account.

In 2009, the Supervisory Board decided by mutual agreement with the member of the Board of Directors Stefan Hock to restructure the Capital Market Services division and not to extend the Board of Directors' contract for Stefan Hock, which will end on 31 December 2010.

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, 29 March 2010

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

In December 2008, the Board of Directors and Supervisory Board of Baader Bank AG issued the last Declaration of Compliance in accordance with Section 161 of the AktG for the year 2008. For the period from December 2008 to 5 August 2009, the following declaration relates to the version of the German Corporate Governance Code dated 6 June 2008. For the period starting on 6 August 2009, the declaration relates to the recommendations of the German Corporate Governance Code in the version dated 18 June 2009, which was published in the electronic *Bundesanzeiger* (German Federal Gazette) on 5 August 2009.

The Board of Directors and Supervisory Board of Baader Bank AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" are generally complied with and have been complied with in the past, with the following exceptions:

1) The following is laid down under item 3.8 (2) of the German Corporate Governance Code in the version dated 6 June 2008: "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.
   The following is laid down under item 3.8 (2) of the German Corporate Governance Code in the version dated 18 June 2009: "In a D&O insurance policy for the Supervisory Board, an equivalent deductible shall be agreed."
   In November 2009, Baader Bank AG decided to conclude a suitable D&O insurance policy for the executive bodies and senior executives of the Company with effect from 1 January 2010. A deductible was agreed for the members of the Board of Directors in line with the provisions of the Act on the Appropriateness of Management Board Remuneration (VorstAG). The Company does not consider that a deductible affects the behaviour and/or working methods of the insured parties. However, Baader Bank AG adheres to the new regulation formulated by the VorstAG in Section 93 (2) AktG, although with regard to the Supervisory Board it declares a deviation from the recommendation of the German Corporate Governance Code.

2) Item 4.2.3 (3) of the German Corporate Governance Code, in the version dated 6 June 2008, 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. The declaration on this item no longer applies, in line with the version of the German Corporate Governance Code dated 18 June 2009, since the requirement to agree a cap is now governed by the VorstAG and anchored in the AktG.

3) Item 5.3.2 of the German Corporate Governance Code (version unchanged) 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) Item 5.3.3 of the German Corporate Governance Code (version unchanged) 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) Item 5.4.7 (last section) of the German Corporate Governance Code (version unchanged) 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 (version unchanged): "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 (version unchanged): "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.

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 2009.

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. At the 2009 Annual General Meeting, the shareholders elected Mr. Karl-Ludwig Kamprath, Munich for the remainder of the term in office. 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 in accordance with 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 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 item 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 2009, 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 0.8% 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 ahead of schedule, 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 2009 financial year as a whole, total compensation for the members of the Board of Directors was as follows:

					2009	**2008**
Non-performance-related compensation		Allocation of pension provision	Performance-related compensation	Components with long-term incentive effect		
Salary EUR	Other [1] EUR	Pension commitment [2] EUR	Bonus EUR	Stock options [3] EUR	Total EUR	Total EUR
1,567,752.00	116,933.55	-712,087.00	1,272,500.00	165,324.80	3,071,916.35	3,393,518.85

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 according to IASs/IFRSs for active members of the Board of Directors amount to EUR 5,889,724.00 (previous year: EUR 8,490 thousand).
3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 per share).

The performance-related remuneration is paid after completion of the 2009 annual financial statements by the Annual General Meeting of Baader Bank.

A total of 128,000 stock options were issued to the Board of Directors in financial year 2009. The following table shows changes in members of the Board of Directors' stock options for financial years 2002 to 2008. The stock options from 2000 expired in the 2008 financial year; the options from 2001 expired in the 2009 financial year.

For financial year *)	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**Total**
Options granted	128,000	64,250	63,750	75,000	75,000	103,000	170,000	679,000
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	12,850	3,750	0	0	0	19,000	35,600
Options exercised	0	0	0	0	56,250	103,000	151,000	310,250
Options outstanding	128,000	51,400	60,000	75,000	18,750	0	0	333,150
Exercisable options	0	0	60,000	75,000	18,750	0	0	153,750
Residual term in months	76	64	52	41	29	17	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, Unterschleissheim. 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 135,000 shares privately. In total Mr Uto Baader's shares equate to 66.94% 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 2009. As at 31 December 2009, members of the Board of Directors held a total of 31,023,706 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 Board 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 Annual 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 2009 financial year as a whole, total compensation for the members of the Supervisory Board was as follows:

		2009	**2008**
Fixed component EUR	Variable component EUR	Total EUR	Total EUR
140,739.72	130,192.47	270,932.19	234,771.98

The variable compensation component is paid after completion of the 2009 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 4,320 stock options in financial year 2009 [1)]. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2002 to 2008. Outstanding stock options from 2000 expired in the 2008 financial year; the options from 2001 expired in the 2009 financial year.

For financial year *)	2008	2007	2006	2005	2004	2003	2002	Total
Options granted	4,320	2,550	2,760	2,400	2,640	5,000	9,600	29,270
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	0	0	0	0	0	0	0
Options exercised	0	0	0	0	2,640	5,000	9,600	17,240
Options outstanding	4,320	2,550	2,760	2,400	0	0	0	12,030
Exercisable options	0	0	2,760	2,400	0	0	0	5,160
Residual term in months	76	64	52	41	29	17	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 2008, amounts to EUR 5,579.71 (previous year: EUR 2,968.71). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 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 2009, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2009, 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 management system throughout the Group which complies with the applicable Minimum Requirements for Risk Management (MaRisk) issued by the BaFin. 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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Notes to the consolidated income statement

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Consolidated balance sheet
as at 31 December 2009

Assets	Notes	31.12.2009 EUR	31.12.2008 EUR thousand
1. Cash reserves	(8, 26)	911,134.38	1,221
2. Loans and advances to other banks	(6, 9, 27, 65)	66,676,328.34	166,016
3. Loans and advances to customers	(6, 9, 28, 65)	36,892,237.68	23,661
4. Allowance for losses on loans and advances	(10, 29)	-3,767,845.20	-3,095
5. Assets and liabilities held for trading	(6, 12, 30, 65)	178,236,855.36	42,292
6. Available-for-sale financial instruments	(6, 13, 31, 65)	47,001,782.01	12,879
7. Equity-accounted investments	(32, 65)	13,835,703.28	16,634
8. Property and equipment	(14, 33)	19,104,940.72	19,980
9. Intangible assets	(15, 34)	22,346,841.11	20,834
10. Goodwill	(16, 35, 65)	24,785,055.44	24,785
11. Income tax assets	(22, 36)	11,043,823.86	11,806
12. Other assets	(6, 37, 65)	3,751,064.08	6,965
13. Deferred tax assets	(22, 38)	19,010,858.95	21,021
Total assets		439,828,780.01	364,999

Equity & Liabilities	Notes	31.12.2009 EUR	31.12.2008 EUR thousand
1. Deposits from other banks	(6, 18, 39, 65)	31,605,151.32	31,834
2. Amounts due to customers	(6, 18, 40, 65)	194,617,402.30	98,111
3. Liabilities held for trading	(6, 19, 41, 65)	823,620.62	38,890
4. Provisions	(20, 21, 42)	11,757,395.26	11,436
5. Income tax liabilities	(22, 43)	879,638.71	1,287
6. Other liabilities	(6, 44, 65)	16,288,911.10	18,997
7. Deferred tax liabilities	(22, 45)	6,295,243.74	4,227
8. Shareholders' equity	(24, 25, 46, 47, 48)	177,561,416.96	160,217
a) Issued capital	(46)	45,378,918.00	45,435
b) Share premium	(46)	61,426,677.43	60,838
c) Retained earnings	(7, 46)	48,995,565.10	43,496
d) Revaluation reserve	(13, 46)	1,193,138.38	359
e) Currency translation reserve	(46)	66,316.54	53
f) Consolidated net profit	(46)	18,484,838.86	8,601
Total before minority interests		175,545,454.31	158,782
g) Minority interest		2,015,962.65	1,435
Total liabilities and shareholders' equity		439,828,780.01	364,999

Consolidated income statement
for the period from 1 January 2009 to 31 December 2009

		Notes	EUR	2009 EUR	2008 EUR thousand
1.	Interest income	(50)	7,248,214.80		4,210
2.	Interest expenses	(50)	-4,279,725.91		-2,862
3.	Net interest income	(50)		2,968,488.89	1,348
4.	Allowance for losses on loans and advances	(10, 51)		-992,538.77	-3,069
5.	Net interest income after allowance for losses on loans and advances			1,975,950.12	-1,721
6.	Fee and commission income	(52)	49,382,947.75		56,309
7.	Fee and commission expenses	(52)	-13,330,877.59		-17,339
8.	Net fee and commission income	(52)		36,052,070.16	38,970
9.	Net trading income	(6, 53)		75,841,360.85	59,017
10.	Net income/expenses from available-for-sale financial instruments	(6, 54)		-657,999.78	-3,391
11.	Net expenses from equity-accounted investments	(55)		-545,982.96	-908
12.	Administrative expenses	(25, 56)		-89,291,250.02	-87,729
13.	Profit/loss from operations			23,374,148.37	4,238
14.	Other operating income	(57)		5,562,929.72	11,015
15.	Other operating expenses	(57)		-5,218,140.31	-3,605
16.	Profit/loss from ordinary activities			23,718,937.78	11,648
17.	Income tax on profit from ordinary activities	(22, 58)		-5,120,208.32	-2,888
18.	Net profit for the period before minority interests			18,598,729.46	8,760
19.	Minority interest in net profit			-493,338.41	-152
20.	Net profit for the period			18,105,391.05	8,608
21.	Accumulated income brought forward			379,447.81	-7
22.	Consolidated net profit			18,484,838.86	8,601

				2009 EUR	2008 EUR
	Basic earnings per share	(59)		0.40	0.19

Statement of changes in equity

	Issued capital	Share premium	Retained-earnings	Revaluation reserve	Currency translation reserve	Consolidated net profit	Total before minority interests	Minority interest	Shareholders' equity
Shareholders' equity 31.12.2007	**45,502,738.00**	**60,903,955.41**	**22,495,565.10**	**1,227,280.69**	**-9,669.76**	**32,374,345.64**	**162,494,215.08**	**1,408,200.85**	**163,902,415.93**
Consolidated net profit for the period						8,607,766.01	8,607,766.01		8,607,766.01
Appropriation to retained earnings			21,000,000.00			-21,000,000.00	0.00		0.00
Gains/losses							0.00	151,637.62	151,637.62
Net change to remeasurement reserve				-867,844.28			-867,844.28		-867,844.28
Net change to foreign currency rate reserve					62,445.89		62,445.89		62,445.89
Comprehensive net profit 2008	**0.00**	**0.00**	**21,000,000.00**	**-867,844.28**	**62,445.89**	**-12,392,233.99**	**7,802,367.62**	**151,637.62**	**7,954,005.24**
Adjustment of own 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
Shareholders' equity 31.12.2008	**45,435,187.00**	**60,837,559.54**	**43,495,565.10**	**359,436.41**	**52,776.13**	**8,601,347.03**	**158,781,871.21**	**1,434,815.26**	**160,216,686.47**

Shareholders' equity 31.12.2008	**45,435,187.00**	**60,837,559.54**	**43,495,565.10**	**359,436.41**	**52,776.13**	**8,601,347.03**	**158,781,871.21**	**1,434,815.26**	**160,216,686.47**
Consolidated net profit for the period						18,105,391.05	18,105,391.05		18,105,391.05
Appropriation to retained earnings			5,500,000.00			-5,500,000.00	0.00		0.00
Gains/losses							0.00	493,338.41	493,338.41
Net change to remeasurement reserve				833,701.97			833,701.97	4,108.98	837,810.95
Net change to foreign currency rate reserve					13,540.41		13,540.41		13,540.41
Comprehensive net profit 2009	**0.00**	**0.00**	**5,500,000.00**	**833,701.97**	**13,540.41**	**12,605,391.05**	**18,952,633.43**	**497,447.39**	**19,450,080.82**
Adjustment of own shares	-56,269.00	589,117.89					532,848.89		532,848.89
Dividends paid						-2,721,899.22	-2,721,899.22		-2,721,899.22
Changes in consolidated companies/other changes		0.00					0.00	83,700.00	83,700.00
Shareholders' equity 31.12.09	**45,378,918.00**	**61,426,677.43**	**48,995,565.10**	**1,193,138.38**	**66,316,54**	**18,484,838.86**	**175,545,454.31**	**2,015,962.65**	**177,561,416.96**

As at 31 December 2009, the issued capital of Baader Bank AG amounted to EUR 45,908,682 and was divided into 45,908,682 no-par value shares in accordance with the Articles of Association. After deduction of the 529,764 shares held on 31 December 2009, the issued capital recognised amounted to EUR 45,378,918. No use was made during the financial year of the authorisation by the Annual General Meeting on 3 July 2009 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 2009 of the Annual General Meeting resolution on 3 July 2009 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

			2009 EUR thousand	2008 EUR thousand
1.		**Net profit for the period (including minority interest in net profit)**	**18,599**	**8,759**
2.		Depreciation, write-downs and reversals of write-downs on loans and advances, property and equipment, and investment securities	8,001	13,279
3.		Change in provisions	-112	-6,536
4.		Other non-cash income / expense	-624	1,432
5.		Gains/losses on disposal of property and equipment and investment securities	293	57
6.		Other adjustments (net)	3,034	-517
7.	=	**Subtotal**	**29,191**	**16,474**
8.		Loans and advances		
		Loans and advances to other banks	134,927	-77,626
		Loans and advances to customers	-13,032	-19,577
9.		Securities (excluding investment securities)	-199,252	58,144
10.		Other operating assets	7,491	6,307
11.		Liabilities		
		Deposits from other banks	-28,463	12,083
		Amounts due to customers	96,461	56,681
12.		Other operating liabilities	-10,113	-259
13.		Interest and dividends received	3,108	5,324
14.		Interest paid	-2,453	-2,722
15.		Income taxes paid	-3,639	-1,997
16.	=	**Net cash from operating activities**	**14,226**	**52,832**
17.		Proceeds from disposals		
		Disposals of investment securities	50	0
		Disposals of property and equipment	13	0
18.		Payments for investing activities		
		Payments to acquire investment securities	-896	-1,297
		Payments to acquire property and equipment	-367	-191
		Payments to acquire intangible assets	-1,957	-2,156
19.		Payments to acquire consolidated companies and other business units	-8,736	-39,810
20.	=	**Net cash from/used in investing activities**	**-11,893**	**-43,454**
21.		Proceeds from additions to equity	0	0
22.		Dividends paid	-2,722	-11,381
23.		Other payments	-79	-112
24.	=	**Net cash used in financing activities**	**-2,801**	**-11,493**
25.		Net change in cash and cash equivalents (total of 16, 20, 24)	-468	-2,115
26.		Effect of exchange rate changes and changes in Group structure on cash and cash equivalents	158	63
27.		Cash and cash equivalents at beginning of period	1,221	3,273
28.	=	Cash and cash equivalents at end of period	911	1,221
		Composition of cash and cash equivalents at 31 December		
		Cash reserve	911	1,221

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). Loans and advances to other banks which are payable on demand are not included.

With effect from 1 January 2009, Baader Bank acquired a share in N.M. Fleischhacker AG (see note 3). The purchase price paid in cash (EUR 7,818 thousand) is part of the cash flow used in investing activities. However, as described above the cash is not part of the cash and cash equivalents. Through this acquisition, the bank assumed EUR 142 thousand in cash.

With effect from 1 July 2009, Baader Bank acquired a share of KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft mbH & Co. KG Finanzberatung and its general partner KDG Abwicklungsgesellschaft mbH (see note 3). The purchase price paid fully in cash (EUR 846 thousand and EUR 72 thousand respectively) is part of the cash flow used in investing activities. However, as described above the cash is not part of the cash and cash equivalents. Through the acquisition of KA.DE.GE GmbH & Co. KG the bank assumed EUR 2 thousand in cash.

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

Baader Bank Aktiengesellschaft
Weihenstephaner Straße 4
85716 Unterschleissheim
Germany

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

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

Purpose of the reporting entity

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

- 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)
- Acquisition or sale of financial instruments in the Company's own name which is not service for others as defined in Section 1 (1a) Clause 2 No. 4 (*own-account 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, Unterschleissheim. 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 2009 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 (including a description of the key features of the internal control and risk management system with regard to the consolidated accounting process), a compensation report and a capital report.

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

The balance sheet date is 31 December 2009. The financial year is the calendar year.

ACCOUNTING POLICIES

(1) Principles

The consolidated financial statements for the year ended 31 December 2009 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 2009 – 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 2009.

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, and may therefore involve uncertainty.

In general, the same accounting policies were adopted as for the consolidated financial statements for the year ended 31 December 2008 with the exception of the following standards and their effects:

- IAS 1 (amended version) Presentation of Financial Statements (to be adopted for financial years beginning on or after 1 January 2009)
  The revised standard contains several amendments to terms as well as the obligation to present comprehensive income either as a component of the income statement (alternative 1) or as a separate comprehensive income statement (alternative 2). Baader Bank AG chose alternative 2. Adopting the amended standard had no effect on the earnings situation or financial position of the Group.

- IFRS 8 Segment Reporting (to be adopted for financial years beginning on or after 1 January 2009)

  The first-time adoption of IFRS 8 (note 60), which supersedes the Standard IAS 14 on preparing segment reporting, had no effect on the earnings situation or financial position of the Group.

The amended versions of IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 39 Financial Instruments: Recognition and Measurement have not yet been applied.

(2) Standards applied

The Baader Group uses all the standards applicable at the balance sheet date in its accounting. The consolidated financial statements for the year ended 31 December 2009 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 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: Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments

Standards not included are either not relevant for the consolidated financial statements or do not need to be applied.

In financial year 2009, 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. DRÄS 5, as an amendment standard for GAS 15, GAS 5 and GAS 5-10 which are relevant to Baader Bank AG, must to be adopted for financial years beginning after 31 December 2009. Baader Bank AG did not apply the standard early.

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, eight 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 2009. Of these companies, seven 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	Headquarters		Equity interest %	Share capital	Equity	Total assets	Net profit for the year	First-time consolidation
Baader Management AG	Unter-schleissheim	EUR thou	100.0 %	50	47	48	-1	31.12.2003
Baader & Heins Capital Management AG	Unter-schleissheim	EUR thou	75.0 %	50	2,460	6,276	1,587	01.01.2005
Conservative Concept Portfolio Management AG	Bad Homburg	EUR thou	59.82 %	140	2,008	3,111	162	01.10.2006
direcct AG	Unter-schleissheim	EUR thou	100.0 % [1])	266	887	1,176	-604	01.10.2006
Conservative Concept AG	Zug, Switzerland	EUR thou	100.0 % [1])	63	1,341	1,817	270	01.10.2006
N.M. Fleischhacker AG	Frankfurt/M.	EUR thou	100.0 %	5,000	2,361	6,918	-3,523	01.01.2009
KA.DE.GE KG	Unter-schleissheim	EUR thou	91.0 %	430	632	960	202	01.07.2009
KDG Abwicklungs-gesellschaft mbH	Unter-schleissheim	EUR thou	100.0 %	70	72	82	0	01.07.2009

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

[1]) 75% of shares in direcct AG, Unterschleissheim, 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 1.4836).

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 and bonds through to actively managed funds.

The purchase price consists of equity of EUR 5,818 thousand, calculated and audited as at 31 December 2008 in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code) as part of the NMF annual financial statements and a premium of EUR 2,000 thousand. The total purchase price was EUR 7,818 thousand, which was paid fully in cash. In addition to the purchase price, Baader Bank AG paid EUR 6,700 thousand for a loan receivable from NMF to the seller.
The fair values of the acquired identifiable assets and liabilities were calculated for the purposes of distributing the total premium of EUR 2,000 thousand. Hidden reserves were calculated for the trading portfolio including deferred taxes of EUR 66 thousand. Hidden charges for previously recognised assets and liabilities are not applicable. The premium paid is therefore primarily attributable to the acquired, identifiable

assets. The order books relating to shares, bonds and commodities 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 ten 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 amounted to a fair value of EUR 4,500 thousand as at the date of acquisition on 1 January 2009. EUR 1,331 thousand of this amount is attributable to deferred tax liabilities. This results in negative goodwill of EUR 1,235 thousand which was recorded under other operating income and recognised in income in 2009. The integration of NMF into the Baader Group resulted in expenses for long-term contractual obligations and compensation which exceeded negative goodwill in terms of the amount.
On the date of first-time consolidation (1 January 2009), the assets and liabilities assumed in the acquisition of N.M. Fleischhacker were as follows:

	Carrying amount EUR thou	Adjustments EUR thou	Fair value EUR thou
Assets			
Cash reserves	142	0	142
Loans and advances to other banks and customers	34,789	0	34,789
Financial assets	5,027	97	5,124
Intangible assets	200	4,500	4,700
Income tax assets	44	0	44
Other assets	1,417	0	1,417
Liabilities			
Deposits from other banks	15,417	0	15,417
Liabilities held for trading	12,746	0	12,746
Other liabilities	7,638	0	7,638
Deferred tax liabilities	0	1,362	1,362
	5,818	3,235	9,053
Goodwill			-1,235
Purchase price			7,818

In the financial year, NMF sustained a loss of EUR 3,824 thousand in accordance with IFRS. The loss is offset via an existing profit transfer and control agreement of Baader Bank AG, albeit that from a Group perspective this is insignificant.

The Baader Service Bank GmbH subsidiary was merged with Baader Bank AG retroactively to 1 January 2009 through entry in the commercial register on 7 May 2009. The company is thus no longer included in the scope of consolidation.
With effect from 1 July 2009, Baader Bank AG and Baader & Heins Capital Management AG acquired a 91% interest in KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft mbH & Co. KG Finanzberatung as limited partners. With effect from 1 July 2009, Baader & Heins Capital Management AG also holds a 100% interest in KDG Abwicklungsgesellschaft mbH, which acts as a general partner but does not have an equity interest in the limited partnership. The objective of both companies is to act as brokers in money market, capital market and foreign exchange trades in Germany and other countries and as consultants for financing matters of all kinds. The acquisition of these two companies further expands the brokerage business for *Schuldschein* note loans previously operated for the Group by Baader & Heins Capital Management AG and extends it to include money trading.

The purchase prices of the shares in the limited partnership and the GmbH (German limited liability company) were EUR 846 thousand and EUR 72 thousand respectively. The purchase prices were settled in cash.

The equity of the limited partnership at the time of acquisition amounted to EUR 430 thousand. Taking into account the acquisition of the remaining 9% of the limited partner shares by a third party, the overall purchase price for the limited partner shares came to EUR 930 thousand. This therefore results in positive goodwill of EUR 500 thousand. No hidden assets or charges in the company's reported assets and liabilities were uncovered during purchase price allocation. The positive goodwill is therefore exclusively attributable to the acquired, identifiable assets. The company's customer relationships were identified as intangible assets eligible for recognition. These were recognised at EUR 500 thousand during purchase price allocation and are scheduled to be written down over ten years.

Because this difference can be written down as part of a supplementary balance sheet under fiscal law, deferred taxes are not taken into account.

On the date of first-time consolidation (1 July 2009), the assets and liabilities assumed in the acquisition of KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft mbH & Co. KG Finanzberatung were as follows:

	Carrying amount EUR thou	Adjustments EUR thou	Fair value EUR thou
Assets			
Cash reserves	2		2
Loans and advances to other banks and customers	847		847
Property and equipment	9		9
Intangible assets	0	500	500
Other assets	39		39
Liabilities			
Amounts due to customers	46		46
Other liabilities, income tax liabilities and provisions	421		421
	430	500	930
Purchase price			846
Minority interests			84
			930

With the entry in the Commercial Register on 23 February 2010, KA.DE.GE Kapital. Devisen. Geld Vermittlungsgesellschaft mbh & Co. KG Finanzberatung was converted retroactively with effect from 1 July 2009 from a partnership into corporation. The company will in future operate as KA.DE.GE Kapital. Devisen. Geld Vermittlungsgesellschaft mbH Finanzberatung.
For the GmbH shares the value of equity amounting to EUR 72 thousand was paid. The purchase price allocation has not resulted in any requirement for remeasurement of acquired assets and liabilities.

On the date of first-time consolidation (1 July 2009), the assets and liabilities assumed in the acquisition of KDG Abwicklungsgesellschaft mbH were as follows:

	Carrying amount EUR thou	Adjustments EUR thou	Fair value EUR thou
Assets			
Loans and advances to other banks and customers	79		79
Other assets	3		3
Liabilities			
Other liabilities, income tax liabilities and provisions	10		10
	72	0	72
Purchase price			72

In its first six months as part of the Group, KA.DE.GE KG generated profit of EUR 177 thousand in accordance with IFRS.

In its first six months as part of the Group, KDG GmbH generated profit of EUR 0 thousand in accordance with IFRS.

If the business combination with the KA.DE.GE companies had already taken place on 1 January 2009, then consolidated fee and commission income would have amounted to EUR 50,102 thousand and consolidated net profit before minority interests EUR 18,751 thousand in the period from 1 January to 31 December 2009.

Two companies (previous year: four) and interests in one special fund (previous year: two) were included in the consolidated financial statements as at 31 December 2009 in accordance with the *Investmentgesetz* (InvG – German Investment Act). The interest in SPAG St. Petersburg Immobilien- und Beteiligungs AG was sold in full in March 2009. Due to the Baader Bank AG representatives withdrawing from the Administrative Board of Parsoli Corporation Ltd., significant influence in the company can no longer be assumed. For this reason, disclosures regarding equity-accounted investments have been reclassified under the available-for-sale financial instruments item.

Company	Head-quarters	Equity interest %	Carrying amount of equity EUR thou	Assets EUR thou	Equity EUR thou	Liabilities EUR thou	Net profit for the year EUR thou	Fair value of equity EUR thou
BAM Berlin Asset Management GmbH	Berlin	30.00 %	91	517 2)	303 2)	214 2)	116 2)	6)
Gulf Baader Capital Markets S.A.O.C.	Muscat, Oman	30.00 %	5,499	20,770 4)	15,687 4)	5,083 4)	-1,371 4)	6)
Sherpa Absolute Return DWS	Frankfurt	49.77 %	8,246	16,568	-	-	5)	8,246

2) Figures are based on the unaudited annual financial statements as at 31 December 2009
4) Figures are based on the unaudited annual financial statements as at 31 December 2009; equity, assets, liabilities and net profit/loss for the year were translated (EUR/OMR 0.5515)
5) The share of Sherpa Absolute Return AMI in the net profit for the period amounts to EUR -107 thousand.
6) No public market price available

In April 2009, Baader Bank AG increased its interest in Gulf Baader Capital Markets S.A.O.C., Oman, from 24.1% to 30.0%. The purchase price for the additional share was EUR 896 thousand.

The ownership interest for the aforementioned investment fund 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) 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.

(5) Changes in accounting

As of financial year 2009, the net interest income/expense applicable to assets held for trading and available-for-sale financial instruments are reported in the interest income/interest expense items. The figures for the comparative period of 2008 were adjusted accordingly. This reclassification is a reporting correction in accordance with IAS 8 and does not have any effect on income or expense.

The reason for this change is the intention, within net interest income/expense, to offset interest income generated through investing free liquidity in assets held for trading and available-for-sale financial instruments against the interest expense in financing this free liquidity by means of *Schuldschein* note loans. The financial statements accordingly provide reliable and more relevant information with regard to the profit or loss of the Group.

In total, interest income of EUR 301,329.26 was reclassified to net interest income/expense in the corresponding figures from the previous year. In the previous year, EUR 38,966.55 of this related to net income from available-for-sale financial instruments and EUR 262,362.71 related to net trading income.

(6) 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 2009.
- 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

In the consolidated financial statements as at 31 December 2009, Baader Bank AG did not make use of the changes to IAS 39 (Financial Instruments: Recognition and Measurement) and changes to IFRS 7 (Financial Instruments: Disclosures) which came into force as of 1 July 2008 and which 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.

(7) 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):

	2009	2008
USD	1.4406	1.3917
CHF	1.4836	1.4850
INR	66.487	67.9615
OMR	0.5515	0.53815

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) 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. 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.

(13) 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.

(14) 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:

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

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

For reasons of materiality, low-value items of property and equipment acquired 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 and EUR 1,000 are placed, in line with German tax law, in an omnibus item which is depreciated by a fifth every year.

(15) 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.

	Standard useful life in years
Acquired rights of use	5-10
Acquired order books	10
Trading strategies	10 *)
Software	3-5
Customer relationships	10*)

*) The useful lives were calculated on the basis of long-term (10-year) corporate planning. Amortisation and write-downs are disclosed under administrative expenses.

(16) 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. No impairment losses were required to be charged in financial year 2009.

(17) 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 2009, a contractual agreement also exists which is classified as a finance lease but from a Group point of view is immaterial. Disclosures in accordance with IAS 17.31 are not made for reasons of materiality.
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.

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

Financial liabilities are carried at amortised cost.

(19) 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.

(20) 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:

	31.12.2009	**31.12.2008**
Discount rate	5.75 %	6.2 %
Return on plan assets	4.1 % / 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.

(21) 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.
Provisions are created based on well-founded estimates of future events, the occurrence of which involves uncertainty in terms of the amount or the maturities.

(22) 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.

(23) 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.

(24) 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.

(25) 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 at EUR 5.30 issued in the first tranche and not yet exercised expired in financial year 2008. The stock options at EUR 2.14 from the second tranche which had not yet been exercised expired in financial year 2009.

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.

c) 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 last tranche has already been allocated on 20 May 2009. No further stock option schemes are currently planned.

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.

	2008	2007	2006	2005	2004	2003	2002	Total
Options granted	781,492	418,224	374,600	299,480	299,600	323,000	468,600	**2,964,996**
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	**-**
Options forfeited	75,882	82,036	64,249	38,800	27,940	21,000	70,000	**379,907**
Options exercised	0	0	0	0	120,190	193,800	364,600	**678,590**
Waived *)	0	0	0	0	0	0	0	**0**
Options outstanding	**705,610**	**336,188**	**310,351**	**260,680**	**151,470**	**108,200**	**34,000**	**1,906,499**
Exercisable options	**0**	**0**	**310,351**	**260,680**	**151,470**	**108,200**	**34,000**	**864,701**
Residual term (in months)	76	64	**52**	**41**	**29**	**17**	**4**	**-**

Stock options for financial year 2000 at an exercise price of EUR 5.30 expired in financial year 2008. Stock options for financial year 2001 at an exercise price of EUR 2.14 expired in financial year 2009.

In financial year 2009, the number of stock options changed as follows:

	31.12.2009		31.12.2008	
	Number of stock options	Average exercise price	Number of stock options	Average exercise price
As at 1 January	**1,326,260**	**4.21**	**1,106,152**	**4.14**
Commitment (granted options)	781,492	2.08	418,224	3.75
Options forfeited	130,043	2.98	77,978	4.09
Options exercised	24,410	2.31	22,120	2.60
Lapsed options	46,800	2.14	98,018	5.30
As at 31 December 2009 / 31 December 2008	**1,906,499**	3.49	**1,326,260**	4.21
Exercisable options as at 31 December 2009 / 31 December 2008	**864,701**	**4.55**	**637,380**	**3.90**

Exercise of the options resulted in an expense of EUR 11,928.34, which was charged directly to equity. The average share price in the six exercise periods was as follows:

The potential average share prices in the exercise periods were as follows:

1.	Period:	25.02.2009 - 24.03.2009	Share price:	1.715 Stock Option Plan: 2004
2.	Period:	25.05.2009 - 16.06.2009	Share price:	2.39 Stock Option Plan: 2000
3.	Period:	18.08.2009 - 11.09.2009	Share price:	2.74 Stock Option Plan: 2000
4.	Date:	27.10.2009	Share price:	3.14 Stock Option Plan: 2004
5.	Period:	29.10.2009 - 30.10.2009	Share price:	3.14 Stock Option Plan: 2004
6.	Period:	03.11.2009 - 23.11.2009	Share price:	3.14 Stock Option Plan: 2004

The stock options granted from the Stock Option Plan 2004 and all subsequent 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.

	2008	2007	2006	Total
Options granted	728,998	381,620	374,600	1,485,218
Option price	1.2916	1.1642	1.4001	-
Total staff costs	941,573.82	444,282.00	524,477.46	1,910,333.28
Staff costs in financial year 2009	313,857.94	222,141.00	87,412.91	623,411.85

The staff costs are distributed over the two-year period during which they are incurred. Proportionate costs were recorded for four months for the stock options from 2006, twelve months for the stock options from 2007, and eight months for the stock options from 2008.
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, it is assumed that these hurdles will be overcome.

These options are call options as employees are entitled to subscribe for Baader shares. The Bank considers the options to be a short position, since Baader Wertpapierhandelsbank AG granted them 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, the 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 for measuring the options were chosen:

1. The strike price of the options to be measured is EUR 2.08.
2. Dividend distributions by Baader AG in line with the planned figures / normal case were assumed.
3. Implied volatility (volatility surface) was assumed for options on the DAX (ODAX C/P 1D SETTLEMENT) with a spread of 74.06. Explanation: the historical annual volatility of the underlying (WKN: 508810, BWB) is 61.14%. 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 103.94% 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 3.168% (par curve = zero bond)
5. The price of the Baader share amounted to EUR 2.43 on the measurement date (20 May 2009).
6. Measurement took place on 20 May 2009.
7. The Black & Scholes formula was applied as a measurement model for European options
8. The best of approximated method was applied as the measurement model for Bermudan options with dividend distributions
9. A total of 728,998 shares were assumed on the measurement date (of which 781,492 were issued and 52,494 were returned options).
10. Measurement of the exotic options resulted in a price of EUR 1.2916 per option.
11. Entering 728,998 stock options results in costs of EUR 941,574 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).

CONSOLIDATED BALANCE SHEET DISCLOSURES

(26) Cash reserve

The cash reserve is composed of the following items:

	31.12.2009	31.12.2008
Cash in hand	5,255.26	319.61
Deposits with Deutsche Bundesbank	905,879.12	1,220,288.30
Total	**911,134.38**	**1,220,607.91**

(27) Loans and advances to other banks

	31.12.2009 Germany	31.12.2009 Other countries	31.12.2008 Germany	31.12.2008 Other countries
Payable on demand	36,329,403.70	27,897,678.55	131,853,424.91	30,786,985.76
Other loans and advances	1,944,269.44	504,976.65	2,294,361.91	1,080,858.95
Loans and advances to other banks	**38,273,673.14**	**28,402,655.20**	**134,147,786.82**	**31,867,844.71**
Allowance for losses on loans and advances	-40,690.79	0.00	-40,690.79	0.00
Total	**38,232,982.35**	**28,402,655.20**	**134,107,096.03**	**31,867,844.71**

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 1,482.14. The remaining maturities of the loans and advances to other banks are presented in the maturity structure (see note 67).

The decrease in loans and advances to other banks is primarily due to regrouping cash and cash equivalents in the securities portfolio.

(28) Loans and advances to customers

	31.12.2009	31.12.2008
German customers	**5,572,452.50**	**5,119,151.70**
- Companies	2,458,831.36	2,339,950.18
- Private individuals	3,113,621.14	2,709,087.35
- Other	0.00	70,114.17
International customers	**31,319,785.18**	**18,542,106.80**
- Companies	11,190,522.53	7,340,480.98
- Private individuals	20,129,262.65	11,182,407.32
- Other	0.00	19,218.51
Loans and advances to customers	**36,892,237.68**	**23,661,258.50**
of which allowance for losses on loans and advances	-3,727,154.41	-3,053,920.27
Total	**33,165,083.27**	**20,607,338.23**

The increase in loans and advances to customers is primarily due to customer business.

The allowance for losses on loans and advances relates to loans and advances to customers in the amount of EUR 4,386 thousand. These loans and advances are due in less than one year. There is collateral of EUR 810 thousand for these loans and advances.

The remaining maturities are presented in the maturity structure (see note 67).

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

	Associates	
	31.12.2009	**31.12.2008**
Loans and advances to customers	0.00	1,576,360.00
Total	**0.00**	**1,576,360.00**

Loans and advances to customers contain loans and advances of EUR 2,752 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.

(29) 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	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
As at 1 January	**40,690.79**	**0.00**	**-3,053,920.27**	**-61,982.99**	**-3,094,611.06**	**-61,982.99**
Additions	0.00	40,690.79	-960,206.63	-3,012,408.77	-960,206.63	-3,053,099.56
Disposals						
- Utilisation	0.00	0.00	273,592.17	20,471.49	273,592.17	20,471.49
- Reversals			13,380.32	0.00	13,380.32	0.00
Changes in consolidated companies					0.00	0.00
Write-downs	0.00	0.00			0.00	0.00
As at 31 December	**40,690.79**	**40,690.79**	**-3,727,154.41**	**-3,053,920.27**	**-3,767,845.20**	**-3,094,611.06**

This allowance is solely for credit risks.

The addition to allowances for losses on loans and advances in financial year 2009 is primarily a result of write-downs on loans and advances to customers.

(30) Assets held for trading

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

	31.12.2009	31.12.2008
Debt securities and other fixed-interest securities	148,497,168.71	12,564,673.23
thereof:		
negotiable securities	148,497,168.71	12,564,673.23
listed securities	148,497,168.71	12,564,673.23
Equities and other non-fixed-interest securities	29,739,686.65	29,718,814.65
thereof:		
negotiable securities	29,193,706.44	29,701,546.69
listed securities	25,817,697.94	29,581,546.69
Positive fair values of derivatives	0.00	8,205.20
Total	**178,236,855.36**	**42,291,693.08**

The significant increase in assets held for trading results from the investment of liquidity and of customer deposits payable on demand in bonds with a residual term of less than 15 months.

(31) 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	
	2009 EUR	**2008 EUR thou**	**2009 EUR**	**2008 EUR thou**	**2009 EUR**	**2008 EUR thou**
Cost						
- As at 1 January	3,256,807.29	3,110	38,474,413.38	32,725	392,956.31	412
- Additions	354,120.00	147	1,250,491.20	0	39,705,829.25	393
- Reclassifications	2,214,578.01	0		8,016		0
- Disposals	-26,000.00	0	-8,016,277.84	-2,267	-392,956.31	-412
- As at 31 December	5,799,505.30	3,257	31,708,626.74	38,474	39,705,829.25	393
Revaluation reserve						
- As at 1 January	10,127.74	276	207,970.30	796	48,229.05	0
- Additions	78,346.28	-17	731,226.91	157	161,541.10	48
- Reclassifications		0		8		0
- Disposals		-249	-67,431.57	-753	0.00	0
- As at 31 December	88,474.02	10	871,765.64	208	209,770.15	48
Amortisation						
- As at 1 January	2,126,959.94	183	27,384,095.58	27,798	0.00	34
- Current write-downs	286,005.07	1,944	548,179.10	1,853	0.00	0
- Reclassifications	1,062,948.40	0		0	0.00	0
- Disposals	-25,999.00	0		-2,267		-34
- As at 31 December	3,449,914.41	2,127	27,932,274.68	27,384	0.00	0
Carrying amounts						
As at 31 December 2008		**1,139,975.09**		**11,298,288.10**		**441,185.36**
As at 31 December 2009		**2,438,064.91**		**4,648,117.70**		**39,915,599.40**
thereof						
negotiable securities	2,435,384.29	1,137	3,621,020.42	2,181	39,915,599.40	441
listed securities	2,254,383.33	1,089	1,466,830.42	723	39,915,599.40	441

(32) Equity-accounted investments

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

	Equity-accounted investments	
	2009 EUR	2008 EUR thou
Cost		
- As at 1 January	17,765,375.87	37,842
- Adjustment to the previous years	107,924.89	916
- Additions	896,011.51	1,456
- Reclassifications	-1,881,004.03	-15,093
- Disposals	-2,442,972.02	-7,356
- As at 31 December	14,445,336.22	17,765
Accumulated changes from measurement at equity	-609,632.94	108
Amortisation		
- As at 1 January	1,239,518.74	543
- Current write-downs	0.00	729
- Disposals	-510,144.32	0
- Reversals of write-downs	0.00	0
- Reclassifications	-729,374.42	33
- As at 31 December	0.00	1,239
Carrying amounts		
As at 31 December 2008		**16,633,782.02**
As at 31 December 2009		**13,835,703.28**
thereof		
negotiable securities	13,744,816.28	16,055
listed securities	0.00	1,293

The proportionate interests in the net profit of the previous year increase the cost item by EUR 107,924.89.

Due to Baader Bank AG representatives withdrawing from the Administrative Board of Parsoli Corporation Ltd., Mumbai, India, effective 25 March 2009, a significant influence in the company can no longer be assumed. The shares were reclassified under the available-for-sale financial instruments item using the latest carrying amount at equity of EUR 1,152 thousand (determined on 31 December 2008).

Equity-accounted investments now relate to the investments in Gulf Baader Capital Markets S.A.O.C., Muscat and in BAM Berlin Asset Management GmbH, Berlin, as well as fund units in Sherpa Absolute Return DWS.

(33) Property and equipment

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

	- Operating and office equipment		Land and buildings	
	2009 EUR	**2008 EUR thou**	**2009 EUR**	**2008 EUR thou**
Cost				
- As at 1 January	5,645,278.27	5,421	23,758,604.48	23,756
- Additions	264,221.18	189	102,835.35	3
- Disposals	-1,138,776.89	-235	0.00	0
- Changes in consolidated companies	60,140.96	270	0.00	0
- As at 31 December	4,830,863.52	5,645	23,861,439.83	23,759
Amortisation				
- As at 1 January	4,133,940.72	3,897	5,289,859.42	4,434
- Current write-downs	380,033.84	452	859,802.00	856
- Disposals	-1,129,442.61	-215	0.00	0
- Changes in consolidated companies	53,169.26	0	0.00	0
- As at 31 December	3,437,701.21	4,134	6,149,661.42	5,290
Carrying amounts				
As at 31 December 2008		**1,511,337.55**		**18,468,745.06**
As at 31 December 2009		**1,393,162.31**		**17,711,778.41**

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.

(34) Intangible assets

The following overview presents the changes in intangible assets:

	Software		Trading strategies		Order books		Customer relationships	
	2009 EUR	2008 EUR thou	2009 EUR	2008 EUR thou	2009 EUR	2008 EUR thou	2009 EUR	2008 EUR thou
Cost								
- As at 1 January	13,017,812.30	19,487	2,286,287.79	2,286	27,535,980.70	15,947	0.00	0
- Additions	1,957,098.54	2,179	0.00	0	4,500,000.00	0	500,000.00	0
- Disposals	-3,184,693.72	-8,675	0.00	0	-232,327.18	0	0.00	0
- Changes in consolidated companies	924,905.50	27	0.00	0	0.00	11,589	0.00	0
- As at 31 December	12,715,122.62	13,018	2,286,287.79	2,286	31,803,653.52	27,536	500,000.00	0
Amortisation								
- As at 1 January	8,361,686.31	15,418	541,489.21	301	13,103,222.70	9,488	0.00	0
- Current write-downs	2,293,479.53	1,559	240,661.87	241	2,881,833.00	3,615	25,000.00	0
- Disposals	-2,981,483.33	-8,615	0.00	0	-232,326.18	0	0.00	0
- Changes in consolidated companies	724,659.71	0	0.00	0	0.00	0	0,00	0
- As at 31 December	8,398,342.22	8,362	782,151.08	542	15,752,729.52	13,103	25,000.00	0
Carrying amounts								
As at 31 December 2008	**4,656,125.99**		**1,744,798.58**		**14,432,758.00**		**0.00**	
As at 31 December 2009	**4,316,780.40**		**1,504,136.71**		**16,050,924.00**		**475,000.00**	

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.

As part of the first-time consolidation of N.M. Fleischhacker AG, order books amounting to EUR 4,500 thousand were recognised as assets and reported under intangible assets at EUR 4,282 thousand at the balance sheet date.

At the first-time consolidation of KA.DE.GE KG, the company's customer relationships were identified as intangible assets eligible for recognition. These were recognised at EUR 500 thousand during purchase price allocation and are reported at EUR 475 thousand at the balance sheet date.

Impairment losses on order books in the amount of EUR 186 thousand were charged in financial year 2009.

(35) Goodwill

	Goodwill	
	2009 EUR	2008 EUR thou
Cost		
- As at 1 January	25,748,019.84	4,600
- Additions	0.00	21,148
- Disposals	0.00	0
- Changes in consolidated companies	0.00	0
- As at 31 December	25,748,019.84	25,748
Write-downs		
- As at 1 January	962,964.40	0
- Current write-downs	0.00	963
- Disposals	0.00	0
- Changes in consolidated companies	0.00	0
- As at 31 December	962,964.40	963
Carrying amounts		
- As at 31 December 2008		**24,785,055.44**
- As at 31 December 2009		**24,785,055.44**

As at the 2009 balance sheet date, the Company reported the following goodwill in the IFRS consolidated financial statements:

Subsidiaries	Goodwill EUR thou	Initial recognition
Baader & Heins Capital Management AG	1,618	2005
Conservative Concept Portfolio Management AG	2,019	2006
DBM Deutsche Börsenmakler GmbH (merged)	21,148	2008
Total	**24,785**	

The impairment tests required for goodwill were carried out using an acknowledged measurement method, the discounted cash flow method, by discounting the cash flows expected after taxes for the subsidiaries based on long-term corporate planning with the help of a risk-adequate and maturity-matching capitalisation interest rate of 10% or 15% (previous year: between 8.59% and 13.58%).

Using the corporate planning available for the 2010 to 2012 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 2009 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 10%. 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 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.

(36) 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 11,043,823.86. 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 10,553 thousand.

(37) Other assets

The other assets are composed of the following items:

	31.12.2009	31.12.2008
Other assets	2,792,961.77	6,301,671.32
Prepaid expenses	958,102.31	663,996.75
Total	**3,751,064.08**	**6,965,668.07**

The receivable contained in other assets from the advance payment for a portion in a convertible bond issued by Parsoli Corporation Ltd., Mumbai, India has been written down in full. The issue has still not been divided into individual securities and entered in the bank’s security account. The impairment of EUR 1,638 thousand carried out on 31 December 2008 has therefore been increased to EUR 4,959 thousand. This reflects the current uncertainties regarding the position of the company and its future development. The impairment expense relates to the Special Activities/Proprietary Trading segment.

(38) 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:

	31.12.2009	31.12.2008
Loss carryforwards	16,859,699.50	19,823,787.48
Tax-relevant goodwill	1,361,733.33	0.00
Provisions for pensions/asset values	789,426.12	1,192,596.22
Securities	0.00	4,883.52
Total	**19,010,858.95**	**21,021,267.22**

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:

	Baader Bank AG	Direcct AG	CCPM AG	Total
Loss carryforward as at 31 December 2008 (EUR thousand)	67,726	415	16	68,157
- Use of/increase in loss carryforward in 2009	-11,300	821	-16	-10,495
= Loss carryforward as at 31 December 2009 (EUR thousand)	56,427	1,236	0	57,663
x Tax rate in %	29.18%	31.92%	28.08%	-
= Tax claims as at 31 December 2009 (EUR thousand)	16,465	395	0	16,860
- Write-downs (EUR thousand)	0	0	0	0
= Deferred tax assets as at 31 December 2009 (EUR thousand)	**16,465**	**395**	**0**	**16,860**
- Deferred tax assets as at 31 December 2008 (EUR thousand)	-19,646	-174	-4	-19,824
Reversal of/addition to deferred tax assets/tax expense in 2009 (EUR thousand)	**-3,181**	**221**	**-4**	**-2,964**

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.

As at 31 December 2008, the tax loss carryforwards of Baader Bank AG expected to be used amounted to EUR 67,726 thousand.

The loss carryforwards attributable to direcct AG amounting to EUR 1,236 thousand for the past and the current financial year were also included. On the basis of extensive restructuring measures to be implemented in financial year 2010, corporate planning expects profits to be generated in the following financial years. The CCPM AG loss carryforward of EUR 16 thousand generated in financial year 2008 was utilised fully in the current financial year with corresponding tax gains.

The changes in the tax asset arising from the utilisation of the remaining tax loss carryforward as a result of the profit of financial year 2009 impacted the income statement with tax expense of EUR 2,964 thousand causing deferred tax assets from loss carryforwards to decrease from the previous year by EUR 2,964 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 2009.

Baader Service Bank GmbH was merged with Baader Bank AG retroactively to 1 January 2009. The merger resulted in tax depreciable goodwill in the amount of EUR 5,000 thousand to be backdated to 31 December 2008 in the tax accounts. This will be written down in the tax accounts over 15 years from 1 January 2009 and amounts to EUR 4,667 thousand at 31 December 2009. Deferred tax assets must be recognised for this temporary difference between the carrying amounts in the IFRS balance sheet (no recognition) and the tax accounts (goodwill). With a tax rate of 29.18%, these amount to EUR 1,362 thousand as at 31 December 2009 and were recognised in income as a deferred tax expense under the income taxes item.

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 expense under the income taxes item.

(39) Deposits from other banks

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

	31.12.2009	31.12.2008
Payable on demand	4,967,807.54	19,464,454.04
With agreed maturity or notice	26,637,343.78	12,369,630.05
Total	**31,605,151.32**	**31,834,084.09**

The “With agreed maturity or notice” item includes a loan for refinancing the business premises totalling EUR 11,300,718.78 and liquidity assumed as part of the Deutsche Bundesbank tender process in the amount of EUR 15,000,000. The remaining maturities of the deposits from other banks are presented in the maturity structure (see note 67).

(40) Amounts due to customers

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

	31.12.2009	31.12.2008
German customers	**111,854,687.02**	**36,345,992.01**
- Companies	37,742,855.09	29,785,703.61
- Private individuals	5,467,723.71	6,469,831.97
- Other	68,644,108.22	90,456.43
International customers	**82,762,715.28**	**61,765,139.57**
- Companies	61,057,866.29	56,857,217.68
- Private individuals	21,704,848.99	4,907,921.90
- Other	0.00	0.00
Total	**194,617,402.30**	**98,111,131.58**

Amounts due to customers chiefly result from customer deposits payable on demand and from issued *Schuldschein* note loans of EUR 94,000 thousand. The amounts due to customers item includes deferred interest of EUR 2,004,571.78. The remaining maturities of the deposits from customers are presented in the maturity structure (see note 67).

(41) 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.

	31.12.2009	31.12.2008
Delivery commitments arising from short sales of securities	736,370.62	38,336,927.34
Negative fair values of derivatives	87,250.00	552,798.48
Total	**823,620.62**	**38,889,725.82**

Disclosures in accordance with IAS 7.10 are not made for reasons of materiality.

(42) Provisions

Provisions are composed of the following items:

	31.12.2009	31.12.2008
Provisions for pensions	9,057,921.00	9,289,609.00
Other provisions	2,699,474.26	2,146,251.28
Total	**11,757,395.26**	**11,435,860.28**

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 2009 amounts to EUR 7,086 thousand (previous year: EUR 9,524 thousand). The difference between this figure and the provisions for pensions is the result of actuarial gains and losses of EUR -2,331 thousand (previous year: EUR -1,198 thousand) not recognised in the balance sheet to date, past service cost of EUR 0 thousand (previous year: EUR 0 thousand) and from the fair value of plan assets of EUR 359 thousand (previous year: EUR 1,432 thousand).

The pension obligations changed as follows:

	2009	2008
Pension obligations (DBO) as at 1 January	**9,523,760.00**	**9,824,478.00**
Service cost	85,845.00	873,607.00
Interest cost	590,473.00	471,492.00
Plan amendments	-1,942,461.00	74,020.00
Settlements	0.00	-239,326.00
Actuarial gains/losses	-1,171,675.00	-2,118,660.00
Additions following acquisition of DBM	0.00	638,149.00
Pension obligations (DBO) as at 31 December	**7,085,942.00**	**9,523,760.00**

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

	2009	2008
Plan assets as at 1 January	**1,432,149.00**	**942,027.00**
Employer contributions	3,957	107,093.00
Repayments	-1,101,138.00	0.00
Expected return on plan assets	39,535.00	57,462.00
Actuarial gains/losses	-15,072.00	40,373.00
Benefits	0.00	0.00
Additions following acquisition of DBM	0.00	285,194.00
Fair value as at 31 December	**359,431.00**	**1,432,149.00**

The actual return on plan assets amounted to EUR 24,463 (previous year: EUR 97,835).

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:

	2009	2008
Current service cost	85,845.00	873,607.00
Interest cost	590,473.00	471,492.00
Expected return on plan assets	-39,535.00	-57,462.00
Actuarial gains/losses	-1,965,652.00	240,928.00
Past service cost	0.00	0.00
Settlements	0.00	-122,911.00
Total	**-1,328,869.00**	**1,405,654.00**

Pension income reduces the administrative expense in its full amount.

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

	2009	2008	2007	2006	2005
Present value of defined benefit obligation (DBO)	7,085,942.00	9,523,760.00	9,824,478.00	8,625,434.00	7,687,243.00
Fair value of plan assets	-359,431.00	-1,432,149.00	-942,027.00	-806,033.00	-697,649.00
Plan deficit	**6,726,511.00**	**8,091,611.00**	**8,882,451.00**	**7,819,401.00**	**6,989,774.00**

The best estimate of the expected employer's contributions paid into the plan in 2010 is EUR 7 thousand.

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

	As at 01.01.09 EUR thou	Utilisation EUR thou	Reversals EUR thou	Addition EUR thou	As at 31.12.09 EUR thou
Staff	985	863	47	309	384
Cost	437	223	183	1,118	1,149
Miscellaneous	724	442	80	964	1,166
Total	**2,146**	**1,528**	**310**	**2,391**	**2,699**

Staff provisions are attributable to compensation; cost provisions chiefly relate to cost allocation of supervisory authorities.

(43) Income tax liabilities

The income tax liabilities of EUR 879,638.71 are the current tax liabilities of the Group companies for which no legally valid tax assessment notice has yet been issued.

(44) Other liabilities

Other liabilities of EUR 16,288,911.10 (previous year: EUR 18,997 thousand) primarily include outstanding invoices and accrued liabilities (EUR 14,783 thousand) and salary deductions (EUR 1,506 thousand) still to be paid.

(45) 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:

	31.12.2009	31.12.2008
Securities	2,024,575.09	665,885.22
Intangible assets	4,270,668.65	3,561,752.59
Total	**6,295,243.74**	**4,227,637.81**

The changes in deferred tax liabilities from securities measurement differences of EUR 65,871.77 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, DBM and N.M. Fleischhacker. 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.

(46) Shareholders’ equity

	31.12.2009 EUR	31.12.2008 EUR
a) Issued capital	45,378,918.00	45,435,187.00
b) Share premium	61,426,677.43	60,837,559.54
c) Retained earnings	48,995,565.10	43,495,565.10
d) Revaluation reserve	1,193,138.38	359,436.41
e) Currency translation reserve	66,316.54	52,776.13
f) Consolidated net profit	18,484,838.86	8,601,347.03
Total before minority interests	**175,545,454.31**	**158,781,871.21**
Minority interest	2,015,962.65	1,434,815.26
Shareholders' equity	**177,561,416.96**	**160,216,686.47**

a) Issued capital

The issued capital (share capital) on 31 December 2009 comprised 45,908,682 no-par value bearer shares totalling EUR 45,908,682.00.

	Shares
Number of shares outstanding at 1 January 2008	**45,435,187**
Plus: treasury shares held at 31 December of the previous year	473,495
Issuance of bonus shares	0
Number of shares issued at 31 December 2008	**45,908,682**
Less: treasury shares held at the balance sheet date	529,764
Number of shares outstanding at 31 December 2009	**45,378,918**

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:

	31.12.2009		31.12.2008	
	EUR thou	Shares	EUR thou	Shares
Issued shares	45,909	45,908,682	45,909	45,908,682
./. Treasury shares held	530	529,764	473	473,495
= Outstanding shares (issued capital)	45,379	45,378,918	45,436	45,435,187
+ Shares of authorised capital not yet issued	22,954	22,954,341	22,954	22,954,341
Total	**68,333**	**68,333,259**	**68,390**	**68,389,528**

80,679 treasury shares were acquired in financial year 2009. Cost amounted to EUR 146,778.51, representing an average share price of EUR 1.82.

The Annual General Meeting on 3 July 2009 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 2008 and issued authorisation in accordance with Section 71 (1) no. 7 and no. 8 of the AktG until 2 January 2011 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 71 (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 2 January 2011. 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 5 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 48,996 thousand (previous year: EUR 43,496 thousand). The addition is based on the Annual General Meeting resolution of 3 July 2009.

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.

	2009 EUR thou	2008 EUR thou
Measurement of available-for-sale financial instruments	1,164	266
Deferred taxes from measurement of available-for-sale financial instruments	-139	-75
Capital consolidation of gradual acquisition	168	168
Total	**1,193**	**359**

The increase in the revaluation reserve is primarily due to expansion of available-for-sale financial instruments and their measurement.

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.

A reconciliation in accordance with IAS 21.52 b) is not provided for reasons of materiality.

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 2009. 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 0.13 per share is to be proposed to the Annual General Meeting on 29 June 2010. The distribution total is EUR 5,899 thousand for the 45,378,918 shares that are currently outstanding. In the previous year, a dividend of EUR 0.06 per share was distributed. An amount of EUR 12,000 thousand is due to be appropriated to retained earnings. The remaining unappropriated surplus will be carried forward to new account.

(47) 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:

T€	Contingent capital 01.01.2009	Additions	Expiry/ utilisation	Contingent capital 31.12.2009
Issuance of shares	3,400			3,400
Convertible bonds/warrants from bonds with warrants	10,000			10,000
Total	**13,400**	**0**	**0**	**13,400**

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 19.07.06 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.

(48) Authorised capital

Date of resolution	Original amount	Utilised for capital increases in previous years	Restriction expired	Remaining amount	Restriction
26.06.2007	22,954	0	0	22,954	25.06.2012
Total	**22,954**	**0**	**0**	**22,954**	

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 Directory 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 186 (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).

(49) Foreign currency items

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

	2009 EUR	2008 EUR
Loans and advances to other banks	2,101,071	13,545,265
Loans and advances to customers	25,035,375	3,000,073
Assets and liabilities held for trading	11,772	0
Available-for-sale financial instruments	673,829	7,162,825
Other balance sheet items	11,610	3,373,375
Foreign currency assets	**27,833,658**	**27,081,538**
Deposits from other banks	49	159,569
Amounts due to customers	25,951,043	15,237,950
Liabilities held for trading	0	0
Other balance sheet items	408,154	769,016
Foreign currency liabilities	**26,359,246**	**16,166,535**

CONSOLIDATED INCOME STATEMENT DISCLOSURES

(50) Net interest income

The net interest income is composed of the following items:

	31.12.2009	31.12.2008
Net interest income from	**7,248,214.80**	**4,210,362.89**
- lending and money market transactions	1,460,271.73	3,881,822.60
- fixed-interest securities	5,787,943.07	328,540.29
Interest expenses	**-4,279,725.91**	**-2,862,509.71**
Total	**2,968,488.89**	**1,347,853.18**

Interest expenses are composed primarily of interest expenses on client funds amounting to EUR 288,669.09, interest expenses on own *Schuldschein* note loans amounting to EUR 3,104,474.75, interest expense on current liabilities amounting to EUR 236,456.67 and interest expenses on loans amounting to EUR 613,782.75.

(51) Allowance for losses on loans and advances

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

	31.12.2009	31.12.2008
Additions to allowance	960,206.63	3,053,099.56
Reversals	-13,380.32	0.00
Write-downs	45,712.46	15,685.38
Total	**992,538.77**	**3,068,784.94**

(52) Net fee and commission income

	31.12.2009	31.12.2008
Fee and commission income	**49,382,947.75**	**56,309,150.55**
- Brokerage fee income/transaction fees	27,065,612.79	40,011,952.18
- Order routing	4,072,276.18	5,792,109.88
- Capital market services	616,759.59	432,668.22
- Brokerage of *Schuldschein* note loans	8,152,278.32	3,509,716.50
- Brokerage commissions	1,520,465.11	560,766.48
- Management and performance fee	7,463,604.98	5,801,645.38
- Other fee and commission income	491,950.78	200,291.91
Fee and commission expenses	**-13,330,877.59**	**-17,339,259.66**
- Brokerage fee expenses	-1,039,687.06	-2,055,640.10
- Order routing	-681,734.44	-1,467,412.40
- Capital market services	0.00	-348.43
- Brokerage of *Schuldschein* note loans	-74,226.07	-199,414.40
- Brokerage commissions	-2,520,232.46	-1,379,516.84
- Management and performance fee	-1,615,794.43	-1,460,552.31
- Settlement fees	-6,631,100.66	-8,712,476.17
- Other fee and commission expense	-768,102.47	-2,063,899.01
Total	**36,052,070.16**	**38,969,890.89**

(53) 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. Net trading income includes realised and unrealised earnings from trading activities.

	31.12.2009	31.12.2008
Securities trading	**75,862,785.74**	**59,235,330.60**
- Interest and dividends	406,444.44	571,698.37
- Securities	57,953,387.23	34,360,108.11
- Options and futures	-424,877.22	3,533,993.36
- Price differences	17,927,831.29	20,769,530.76
Foreign currencies	**-21,424.89**	**-218,820.10**
- Exchange differences resulting from foreign currency transactions	-24,788.46	292,645.68
- Other	3,363.57	-511,465.78
Total	**75,841,360.85**	**59,016,510.50**

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

	31.12.2009	31.12.2008
Dividend income	**85,057.61**	**400,492.77**
- Equities/other non-fixed-interest securities	85,057.61	400,161.39
- Equity investments	0.00	331.38
Gain/loss on the disposal of available-for-sale financial instruments	**91,126.73**	**11,955.50**
- Equities/other non-fixed-interest securities	-5,497.68	11,955.50
- Bonds and debt securities	187,992.36	0.00
- Equity investments	-91,367.95	0.00
Net write-downs	**-834,184.12**	**-3,803,653.64**
- Write-downs	-834,184.12	-3,814,971.47
- Reversals of write-downs	0.00	11,317.83
Total	**-657,999.78**	**-3,391,205.37**

In particular, write-downs contain write-downs on the Baader Bank AG equity investments in Stillking Film Holdings Ltd. (EUR 517 thousand) and write-downs on Parsoli Corporation Ltd. (EUR 286 thousand), which have been recognised as an expense as a result of lasting impairment.

(55) Net expense/income from equity-accounted investments

	31.12.2009	31.12.2008
Share of net income	-545,982.96	-178,412.75
Goodwill amortisation	0.00	-729,374.42
Total	**-545,982.96**	**-907,787.17**

The share of net income item comprises received dividends and the proportionate interest of Gulf Baader Capital Markets (EUR -405 thousand) and Berlin Asset Management (EUR 44 thousand) and proportionate loss from special funds (EUR -185 thousand).

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

(56) Administrative expenses

	31.12.2009	31.12.2008
Staff costs	**-51,686,811.44**	**-49,378,296.41**
- Salaries and wages	-49,053,245.27	-43,561,898.54
- Social security contributions	-3,446,784.18	-3,285,326.17
- Expenses for pensions and other benefits	813,218.01	-2,531,071.70
Other administrative expenses	**-30,923,628.34**	**-31,628,186.63**
Amortisation and write-downs of intangible assets and depreciation and write-downs of property and equipment	**-6,680,810.24**	**-6,722,204.46**
- Operating and office equipment	-380,033.84	-451,835.78
- Property	-859,802.00	-855,756.17
- Intangible assets	-5,440,974.40	-5,414,612.51
Total	**-89,291,250.02**	**-87,728,687.50**

The salaries and wages item contains variable salary components in the amount of EUR 25,591 thousand (previous year: EUR 20,850 thousand). Income in connection with the reversal of provisions for pensions (EUR -1,329 thousand), as well as the expenses from defined contribution plan obligations (EUR 117 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 3,348 thousand.

(57) Other income/expenses

	31.12.2009	31.12.2008
Other operating income	5,562,929.72	11,014,982.92
Other operating expenses	-5,218,140.31	-3,605,186.89
Total	**344,789.41**	**7,409,796.03**

The other operating income encompasses items which cannot be allocated to other items in the consolidated income statement. These mainly relate to income from the reversal of provisions (EUR 310 thousand), income from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options (EUR 465 thousand), income from the cancellation of liabilities due to the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensation Organisation of Securities Trading Organisations) due to invalidity of the special notifications (EUR 1,678 thousand), rental income (EUR 38 thousand) and income from sponsoring (EUR 113 thousand). Furthermore, the liability of EUR 607 thousand contained in the 2008 annual financial statements in order to account for the risk arising from the legal dispute with a software manufacturer concerning rescission of the contract for the implementation of a core bank software program was successfully derecognised as a result of a settlement.

The other operating expenses item encompasses items which cannot be allocated to other items in the consolidated income statement. Other operating expenses primarily relate to the full amortisation of the Parsoli Corporation Ltd. convertible bond (EUR 3,321 thousand) and the additional funds called in for the 2008 BaFin contribution for the area of securities trading (EUR 613 thousand).

(58) Income tax on profit from ordinary activities

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

	31.12.2009	31.12.2008
Current income taxes	-2,799,056.48	-2,254,922.63
Accrued interest from corporate income tax credit	328,760.73	1,240,647.20
Deferred taxes	-2,649,912.57	-1,873,906.56
Total	**-5,120,208.32**	**-2,888,181.99**

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 2,964 thousand which were not used in the financial year (see note 39).

	31.12.2009	31.12.2008
Deferred tax assets	-2,010,408.27	-2,964,804.28
Deferred tax liabilities	-639,504.30	1,090,897.72
Total	**-2,649,912.57**	**-1,873,906.56**

In financial year 2009, 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.

	31.12.2009 T€	31.12.2008 EUR thou
Net profit before income taxes in accordance with IASs/IFRSs	**23,719**	**11,647**
Group income tax rate (%)	29.18 %	29.28 %
Expected income tax expense in financial year	**6,921**	**3,410**
Effects of non-deductible operating expenses and tax-free income	311	3,586
Effects of deferred taxes on loss carryforwards	-122	-2,831
Tax effects from deviation from measurement principles under fiscal law	-1,464	0
Effects of non-recognised deferred taxes	208	1,139
Accrued interest from corporate income tax credit	-329	-1,241
Effects of taxes from previous years recorded in the financial year	-83	-894
Effects of differing tax rates on deferred taxes recognised in income	-94	-281
Other effects	-19	0
Income tax expense	**5,120**	**2,888**

The decrease in the Group income tax rate in comparison to previous accounting periods is a result of the changed weighting of the trade tax assessment rate.

(59) Earnings per share

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

	2009	2008
Net profit for the period	18,105,391.05	8,607,766.01
Weighted average number of outstanding shares	45,376,229	45,510,306
Earnings per Share	**0.40**	**0.19**

The diluted earnings per share amount to EUR 0.39 (previous year: 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.

(60) Segment reporting

Segment reporting in the consolidated financial statements of Baader Bank AG as at 31 December 2009 is classified by business segments. Four sub-activities have been defined as the Group's primary business segments: Specialist Activities and Proprietary Trading, Agency and Commission 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 2009, the Group managed, as a provider of specialist activities, 14,256 order books related to equities, 18,496 order books to bonds and profit participation certificates, and 260,741 order books to warrants, certificates and ETFs and 5,697 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, institutional and private investors are also given access to domestic and foreign stock exchanges 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. KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft mbH & Co. KG Finanzberatung and KDG Abwicklungsgesellschaft mbH act as brokers in money market, capital market and foreign exchange trades in Germany and other countries and as consultants for financing matters of all kinds.

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 Bank AG 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 specialise 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.

In line with reporting to the Company’s key decision makers, interest income and interest expenses are allocated to the segments in their net amounts. For the same reason, there is no allocation of income taxes and equity-accounted investments to the segments.

IFRS 8 Operating Segments was adopted for the first time for segment reporting, superseding the governing standard IAS 14. IFRS 8 contains new regulations on the identification of operating segments. Due to the fact that the primary segment classification applied to date, in accordance with IAS 14 and based on business areas, is identical to the segment classification applied for purposes of internal management, the first-time adoption of IFRS 8 has not resulted in the necessity to adjust segment classification.

Breakdown by business segment

Financial year 2009 in EUR thousand	**Specialist Activities and Proprietary Trading**	**Agency Business**	**Capital Market Services**	**Financial Portfolio Management**	**Other/ consolidation**	**Consolidated**
Net interest income	1,788	1,161	1	19	0	2,969
Allowance for losses on loans and advances	-498	-480	-10	-5	0	-993
Net interest income after allowance for losses on loans and advances	**1,290**	**681**	**-9**	**14**	**0**	**1,976**
Net fee and commission income	**19,226**	**11,049**	**607**	**5,170**	**0**	**36,052**
Net trading income	52,248	23,652	72	156	-287	75,841
Net income from available-for-sale financial instruments	-972	1	-557	-244	1,114	-658
Net income from companies carried at equity	0	0	0	0	-546	-546
Net income from financial operations	**51,276**	**23,653**	**-485**	**-88**	**281**	**74,637**
Directly attributable administrative expenses	**-35,113**	**-19,952**	**-1,089**	**-4,599**	**-135**	**-60,888**
Other operating income/expense	**-669**	**109**	**20**	**232**	**653**	**345**
Profit/loss after directly attributable income/expenses	**36,010**	**15,540**	**-956**	**729**	**799**	**52,122**
Indirectly attributable administrative expenses	**-16,530**	**-9,746**	**-1,306**	**-821**	**0**	**-28,403**
Profit from ordinary activities	**19,480**	**5,794**	**-2,262**	**-92**	**799**	**23,719**
Segment assets in EUR thousand	238,605	129,902	32,202	9,065		409,774
Segment liabilities in EUR thousand	32,847	215,997	3,239	3,009		255,092
Risk-weighted assets in EUR thousand	262,694	49,307	8,783	10,754		331,538
Allocated capital in EUR thousand	96,333	63,666	8,871	8,691		177,561
Profitability of the allocated capital in regard to profit before taxes	20.2%	9.1%	-25.5%	-1.1%		13.4%
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	5,880	1,313	75	56		7,324
Impairment expenses in EUR thousand	4,105	493	527	35		5,160
Write-downs of segment assets in EUR thousand	5,006	1,194	137	344		6,681
Average number of employees during the period	124	65	10	16	134	349

Breakdown by business segment (previous year)

Financial year 2008 in EUR thousand	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Management	Other/ consolidation	Consolidated
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 after allowance for losses on loans 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 income from available-for-sale financial instruments	-35	0	-4,089	3	769	-3,352
Net income from companies carried at equity	0	0	0	0	-908	-908
Net income 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/expense	**9,166**	**63**	**19**	**-66**	**-1,772**	**7,410**
Profit/loss after directly attributable income/expenses	**43,070**	**9,569**	**-4,870**	**920**	**-1,753**	**46,936**
Indirectly attributable administrative expenses	**-20,261**	**-10,370**	**-1,406**	**-3,251**	**0**	**-35,288**
Profit from ordinary activities	**22,809**	**-801**	**-6,276**	**-2,331**	**-1,753**	**11,648**
Segment assets in EUR thousand	182,772	103,651	18,877	26,872		332,172
Segment liabilities in EUR thousand	76,420	116,755	3,465	2,628		199,268
Risk-weighted assets in EUR thousand	397,691	66,461	7,502	10,977		482,631
Allocated capital in EUR thousand	89,472	48,782	7,345	14,618		**160,217**
Profitability of the allocated capital in regard to profit before taxes	25.5 %	-1.6 %	-85.5 %	-15.9 %		**7.3 %**
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	27,153	6,992	1,234	26		35,405
Impairment expenses in EUR thousand	1,638	3,026	3,769	78	1,692	10,203
Write-downs of segment assets in EUR thousand	4,838	1,375	191	318		6,722
Average number of employees during the period	113	56	9	24	122	324

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

FINANCIAL INSTRUMENTS: DISCLOSURES

(61) Risk reporting

In accordance with the new version of the Minimum Requirements for Risk Management (MaRisk) issued by the BaFin as at 14 August 2009, the Bank must use appropriate measures to ensure that in particular counterparty risks, market price risks, liquidity risks and operational risks and related risk concentrations are limited taking into account the risk-bearing capacity. Taking into account risk, concentrations must be based on qualitative and, where possible, quantitative procedures. Risk concentrations are to be managed and monitored using suitable procedures. It is planned to introduce a corresponding procedure for the identification, assessment, management, monitoring and communication of risk concentrations in the Baader Group in financial year 2010.

Please refer to the comments in the Risk Report, which is a part of the Group Management Report, for further details of market price risks and credit risks as well as the key figures for own funds in line with regulatory banking provisions.

(62) Derivative transactions

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

	Fair value 31.12.2009		**Fair value 31.12.2008**	
	positive	**negative**	**positive**	**negative**
Derivatives used for trading purposes	0.00	87,250.00	8,205.20	552,798.48
Derivatives used as hedging instruments for cash flow hedge accounting	*0.00*	96,353.79	0.00	51,737.21
Total	**0.00**	**183,603.79**	**8,205.20**	**604,535.69**

In the context of agreements in connection with the CCPM DTS certificate managed by CCPM, Baader Bank AG (previously 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. Baader Bank AG 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 96,353.76.

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.

(63) Collateral

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

	31.12.2009	31.12.2008
Loans and advances to other banks	34,891,923.98	24,820,653.50
Assets held for trading/available-for-sale financial instruments/companies consolidated at equity	46,724,292.88	11,571,676.80
Other assets	2,012.48	2,012.48
Total	**81,618,229.34**	**36,394,342.78**

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

Lombard loans have been granted for the purchase of securities or for the coverage of collateral payments (margin requirements) for listed options and futures trading conducted through the Bank. As a rule, they are made available with a maturity of 6 months. The Lombard loans are backed by valuable collateral, as a rule through the pledging of securities and bank guarantees. At 31 December 2009, the fair value of the securities pledged was EUR 1,619 thousand, the value of bank guarantees amounted to EUR 14,720 thousand.

(64) 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 2009.

(65) 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	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	
Category in accordance with IAS 39	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 thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Financial assets								
Loans and advances to other banks					66,635	1		
Loans and advances to customers					33,165	1,004		
Assets held for trading	178,237	0						
Available-for-sale financial instruments			47,002	834				
Equity-accounted investments							13,836	0
Other assets					1,198	3,321		
Subsidiaries							0	0
Total	**178,237**	**0**	**47,002**	**834**	**100,998**	**4,326**	**13,836**	**0**

Class in accordance with IFRS	Recognised in income at fair value		At amortised cost	
Category in accordance with IAS 39	Held for trading purposes		Other financial liabilities:	
	Carrying amounts	Impairment expenses	Carrying amounts	Impairment expenses
	EUR thou	EUR thou	EUR thou	EUR thou
Financial liabilities				
Deposits from other banks			31,605	0
Amounts due to customers			194,617	0
Liabilities held for trading	824	0		
Other liabilities			15,665	0
Total	**824**	**0**	**241,887**	**0**

The table below shows financial instruments for which subsequent measurement is at fair value. In line with IFRS 7.27A and IFRS 7.27B, these are divided into three levels depending on the extent to which the fair value can be observed:

- Level 1 – Measurements at fair value are based on listed prices (unadjusted) on active markets for identical financial assets or liabilities.
- Level 2 – Measurements at fair value are based on parameters which do not correspond to listed prices for assets and liabilities as in Level 1 (data), but are either derived directly (i.e. as prices) or derived indirectly (i.e. derived from prices).
- Level 3 – Measurements at fair value result from models which use parameters for measuring assets or liabilities which are not based on observable market data (non-observable parameters, assumptions).

In the following overviews, financial instruments recognised at fair value in the balance sheet are grouped according to categories and broken down by measurement bases. A distinction is made here depending on whether measurement is based on listed market prices (Level 1), or whether the measurement models are based on observable market data (Level 2) or on parameters which are not observable on the market (Level 3).

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
	31.12.2009				**31.12.2008**
	EUR thou	**EUR thou**	**EUR thou**	**EUR thou**	**EUR thou**
Assets and liabilities held for trading	178,237	-	-	178,237	42,292
Available-for-sale financial instruments	42,771	4,231	-	47,002	12,879
Total	**221,008**	**4,231**	**-**	**225,239**	**55,171**

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
	31.12.2009				**31.12.2008**
	EUR thou	**EUR thou**	**EUR thou**	**EUR thou**	**EUR thou**
Liabilities held for trading	824	-	-	824	38,890
Total	**824**	**-**	**-**	**824**	**55,171**

There were no transfers between the individual levels during the period.

OTHER DISCLOSURES

(66) Maturity structure

The consolidated balance sheet, broken down by maturity, presented the following picture at the 2009 balance sheet date:

	Less than 3 months EUR thou	Between 3 months and 1 year EUR thou	Between 1 and 5 years EUR thou	More than 5 years EUR thou	No expiration EUR thou	Total EUR thou
Assets						
Cash reserves	911	0	0	0	0	911
Loans and advances to other banks	66,676	0	0	0	0	66,676
Loans and advances to customers	24,352	12,181	341	18	0	36,892
Allowance for losses on loans and advances	-3,768	0	0	0	0	-3,768
Assets and liabilities held for trading	178,237	0	0	0	0	178,237
Available-for-sale financial instruments	3,322	1,152	31,398	11,130	0	47,002
Equity-accounted investments	0	0	0	0	13,836	13,836
Property and equipment	0	0	0	0	19,105	19,105
Intangible Assets	0	0	0	0	22,347	22,347
Goodwill	0	0	0	0	24,785	24,785
Income tax assets	487	1,824	5,450	3,283	0	11,044
Other assets	1,145	264	2,340	2	0	3,751
Deferred tax assets	0	0	19,011	0	0	19,011
Total assets	**271,362**	**15,421**	**58,540**	**14,433**	**80,073**	**439,829**
Equity & Liabilities						
Deposits from other banks	5,264	15,040	11,301	0	0	31,605
Amounts due to customers	98,613	0	43,917	52,087	0	194,617
Liabilities held for trading	824	0	0	0	0	824
Provisions	0	2,699	6,702	2,356	0	11,757
Income tax liabilities	0	880	0	0	0	880
Other liabilities	3,151	13,089	49	0	0	16,289
Deferred tax liabilities	6,295	0	0	0	0	6,295
Shareholders' equity	0	0	0	0	177,562	177,562
Total liabilities and shareholders' equity	**114,147**	**31,708**	**61,969**	**54,443**	**177,562**	**439,829**

The consolidated balance sheet, broken down by maturity, presented the following picture at 31 December 2008:

	Less than 3 months EUR thou	Between 3 months and 1 year EUR thou	Between 1 and 5 years EUR thou	More than 5 years EUR thou	No expiration EUR thou	Total EUR thou
Assets						
Cash reserves	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 and liabilities 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
Total assets	**214,840**	**29,847**	**30,703**	**3,910**	**85,699**	**364,999**
Equity & Liabilities						
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
Total liabilities and shareholders' equity	**155,427**	**7,032**	**20,172**	**22,151**	**160,217**	**364,999**

(67) Borrowing costs

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

(68) 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 not ruled out, as already shown by the accounting treatment.

	31.12.2009	31.12.2008
Contingent liabilities		
- Liabilities from guarantees and warranty agreements	120,000.00	170,000.00
- Liabilities from the provision of collateral for third parties	0.00	0.00
Irrevocable loan commitments	**3,138,181.97**	24,583,425.00
- Current account credits granted to customers		

(69) 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.

	31.12.2009	31.12.2008
Lent securities	0.00	0.00
Borrowed securities	0.00	366,612.29

(70) Trust activities

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

(71) Other financial obligations

There are financial obligations, deriving from rental contracts for office space and car parking spaces, totalling EUR 854 thousand, with remaining terms of between 1 to 44 months.

In addition, there are obligations arising from vehicle leases and leases for operating and office equipment in the amount of EUR 4,081 thousand, with remaining terms of between 1 to 43 months. EUR 3,175 thousand of this is attributable to the “less than one year” term band and EUR 906 thousand to a term of between 1 and 5 years.

In addition, there are financial obligations from consulting contracts with a residual term of up to 8 months.

(72) 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.

Since financial year 2008, capital management has acted in accordance with the regulations set out in the SolvV.

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 2009:

	31.12.2009 EUR thou	31.12.2008 EUR thou
Tier 1 capital	**103,000**	**108,000**
Tier 2 capital	**0**	**0**
Deduction pursuant to Section 10 (6) of the KWG	-1,238	-1,199
Equity	**101,762**	**106,801**

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

	31.12.2009 EUR thou	31.12.2008 EUR thou
Capital requirements		
Counterparty risks	10,000	8,000
Market risks	13,000	27,000
Operational risks	15,000	12,000
Total	**38,000**	**47,000**
Tier 1 ratio	21.68 %	18.38 %
Total ratio	21.43 %	18.18 %

In terms of Group planning, the Tier 1 and equity ratios were reached. Throughout financial year 2009, 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.

(73) Auditor's fee

In comparison with the previous year, additional disclosure in the annual financial statements is no longer required, in accordance with Section 285 No. 17 HGB, if the disclosure is contained in consolidated financial statements which include the company.

-{}-	2009 EUR	2008 EUR
Audit of the annual accounts	427,340.87	411,100.00
Other confirmation and measurement services	367,177.41	277,720.33
Tax consultancy services	116,413.18	74,814.59
Other services performed	55,791.44	111,303.93
Total	**966,722.90**	**874,938.85**

(74) Employees

An average of 349 staff (324 staff in the previous year) were employed by Baader Bank AG Group in the year under review. At the balance sheet date there were 343 employees. 191 were employees in trade-related areas and 152 were employees in the administration departments. The Group's workforce comprises 98 female employees and 245 male employees who come from 16 countries.

(75) 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 item 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 2009), EUR 2,260 thousand is reported as the total compensation for members of the Board of Directors in financial year 2009. This payment, independent of performance, includes EUR 117 thousand (previous year: EUR 138 thousand) which are to be treated as cash value benefits for tax purposes.

In accordance with the accrual principle:

	2009 EUR	**2008 EUR**
Board of Directors		
- fixed compensation (performance related)	1,684,685.55	1,887,460.00
- variable compensation (performance-related)	575,003.40	2,015,040.67
Total	**2,259,688.95**	**3,902,500.67**

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 2010) amounts to EUR 1,272 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 128,000 stock options were issued to the Board of Directors in financial year 2009. The following table shows changes in members of the Board of Directors' stock options for financial years 2002 to 2008.

	2008	2007	2006	2005	2004	2003	2002	Total
Options granted	128,000	64,250	63,750	75,000	75,000	103,000	170,000	679,000
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	12,850	3,750	0	0	0	19,000	35,600
Options exercised	0	0	0	0	56,250	103,000	151,000	310,250
Options outstanding	**128,000**	**51,400**	**60,000**	**75,000**	**18,750**	**0**	**0**	**333,150**
Exercisable options	**0**	**0**	**60,000**	**75,000**	**18,750**	**0**	**0**	**153,750**
Residual term (in months)	76	64	**52**	**41**	**29**	**17**	**4**	**-**

The monetary value of the stock options granted to members of the Board of Directors for 2008 amounts to EUR 165,324.80 (previous year: EUR 74,799.85). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 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 2009 in accordance with IASs for active Board of Directors members amount to EUR 5,889,724.00 (previous year: EUR 8,490 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 5,000.00. 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, Unterschleissheim. 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 135,000 shares privately. In total Mr Uto Baader’s shares equate to 66.94% 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 2009. As at 31 December 2009, members of the Board of Directors held a total of 31,023,706 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. With effect from 1 January 2010, a deductible was agreed for the members of the Board of Directors in line with the provisions of the Act on the Appropriateness of Management Board Remuneration, formulated in Section 93 (2) AktG. The Company does not consider that a deductible affects the behaviour and/or working methods of the Board of Directors.

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 2009, the Supervisory Board received the following compensation according to the accrual principle:

	2009 EUR	2008 EUR
Supervisory Board (without indemnification or disbursements)		
- fixed compensation (no sales tax)	140,739.72	150,000.00
- variable compensation (no sales tax)	78,621.22	237,764.47
Total	**219,360.94**	**387,764.47**

Subject to the Annual General Meeting of Baader Bank AG approving the annual financial statements for 2009 in the present form, this will result in a variable compensation for financial year 2009 totalling EUR 130,192.47.

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 plan 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 in the Supervisory Board received a total of 4,320 stock options in financial year 2009. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2002 to 2008.

	2008	2007	2006	2005	2004	2003	2002	Total
Options granted	4,320	2,550	2,760	2,400	2,640	5,000	9,600	29,270
Exercise price	2.08	3.75	5.32	6.02	2.34	2.96	1.12	-
Options forfeited	0	0	0	0	0	0	0	0
Options exercised	0	0	0	0	2,640	5,000	9,600	17,240
Options outstanding	**4,320**	**2,550**	**2,760**	**2,400**	**0**	**0**	**0**	**12,030**
Exercisable options	**0**	**0**	**2,760**	**2,400**	**0**	**0**	**0**	**5,160**
Residual term (in months)	76	64	52	41	29	17	4	-

The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2008, amounts to EUR 5,579.71 (previous year: EUR 2,968.71). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.2916 per share (previous year: EUR 1.1642 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 2009, no Supervisory Board member owned more than 1% of the share capital of Baader Bank AG. As at 31 December 2009, 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.

At the balance sheet date, the total amount of credit granted to executive bodies was as follows:

	2009 EUR	**2008 EUR**
Board of Directors	300,000.00	300,000.00
Supervisory Board	0.00	0.00

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 2009 were provided with maturity periods as at 31 December 2009 of 6 months and an interest rate of 5%. No credit commitments were granted to members of the Supervisory Board in financial year 2009.

One member of the Baader Bank AG Board of Directors was granted a guarantee of EUR 120 thousand.

In addition, Baader Bank AG takes on fund management for the Sherpa Absolute Return fund, which is included in the consolidated financial statements as part of equity-accounted consolidation. The Company received management remuneration of EUR 176 thousand for this in the financial year.

Besides this, there were no further transactions involving related parties.

(76) Letter of comfort

There was no letter of comfort as at the balance sheet date. The letter of comfort assumed by Baader Bank AG for the former subsidiary Baader Service Bank GmbH no longer applied due to the merger of the latter.

(77) Corporate Governance Code

The Company's Declaration of Compliance was issued by the Board of Directors and the Supervisory Board on 15 December 2009 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 2009 and publication in the electronic *Bundesanzeiger* (German Federal Gazette) on 17 December 2009.

(78) Executive bodies of Baader Bank AG

<u>Board of Directors</u>

Uto Baader, Munich
- Chairman of the Board of Directors of Baader Bank AG, Unterschleissheim
- Managing Director of Baader Beteiligungs GmbH, Unterschleissheim
- Member of the Supervisory Board of Baader Management AG, Unterschleissheim
- 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 (until 25 March 2009)
- Chairman of the Administrative Board of Parsoli Insurance Brokers Ltd., Mumbai, India (until 25 March 2009)
- Chairman of the Administrative Board of Parsoli Commodities Ltd., Mumbai, India (until 25 March 2009)
- Chairman of the Administrative Board of Parsoli Travel House Ltd., Mumbai, India (until 25 March 2009)
- 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 (until 7 May 2009)
- Chairman of the Supervisory Board of Baader Management AG, Unterschleissheim
- Chairman of the Supervisory Board of Baader & Heins Capital Management AG, Unterschleissheim
- Chairman of the Supervisory Board of Conservative Concept Portfolio Management AG, Bad Homburg
- Member of the Supervisory Board of direcct AG, Unterschleissheim
- Chairman of the Supervisory Board of N.M. Fleischhacker AG, Frankfurt am Main (since 27 February 2009)

Stefan Hock, Munich
- Member of the Board of Directors of Baader Bank AG, Unterschleissheim
- Member of the Supervisory Board of Baader Management AG, Unterschleissheim

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
- Member of the Supervisory Board of N.M. Fleischhacker AG, Frankfurt am Main (since 27 February 2009)

Nico Baader, Gräfelfing
- Member of the Board of Directors of Baader Bank AG, Unterschleissheim
- Deputy Chairman of the Supervisory Board of direcct AG, Unterschleissheim
- Deputy Chairman of the Supervisory Board of Baader & Heins Capital Management AG, Unterschleissheim
- Member of the Supervisory Board of Conservative Concept Portfolio Management AG, Bad Homburg
- 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

- Member of the Administrative Board of Gulf Baader Capital Markets S.A.O.C., Muscat, Oman

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 (until 30 June 2009)
- Deputy 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: 73
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

Karl-Ludwig Kamprath, Munich
Age: 66
Occupation: Chairman of the Board of Directors of Kreissparkasse München-Starnberg, retired
Member of the Supervisory Board since: 3 July 2009

- Chairman of the Supervisory Board of Deutsche Leasing AG&CoKG, Bad Homburg

Helmut Schreyer, Munich
Age: 67
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 Bahcan U.S. Inc., Toronto, Canada

Dr Norbert Juchem, Munich (†)
Member of the Supervisory Board from 15 July 2003 until 15 January 2009

Theresia Weber, Emmering
Age: 56
Occupation: Bank Employee
Member of the Supervisory Board since: 26 June 2008 (employee representative)

Jan Vrbsky, Frankfurt
Age: 40
Occupation: Bank Employee
Member of the Supervisory Board since: 26 June 2008 (employee representative)

(79) Group shareholdings

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:

Name/headquarters	Equity share (%)	Most recent annual financial statements	Equity (total)	Net profit/loss of the previous financial year
Parsoli Corporation Ltd., Mumbai, India [2)]	21.93	31.03.2009	€ 4,110,126.79	€ -7,071,607.98
Performaxx Research GmbH, Munich	15.00	31.12.2008	€ 436,290.31	€ 59,004.91
U.C.A. AG, Munich	13.81	31.12.2008	€ 14,207,125.38	€ -4,745,458.00
Conquest Investment Advisory AG, Feldkirchen	13.33	31.12.2007	€ 103,625.57	€ -50,500.14
KST Beteiligungs AG, Stuttgart	9.19	31.12.2008	€ 7,285,077.04	€ -19,863,536.34
Stillking Film Holdings Ltd., St. Helier, Jersey [1)]	6.50	31.12.2008	€ 4,638,212.26	€ 130,056.77

1) The equity and net profit of the financial year ended 31 December 2008 were translated (EUR/USD 1.39170)
2) The equity and net profit of the financial year ended 31 March 2009 were translated at the exchange rate on 31 December 2009 (EUR/INR 66.487)

Unterschleissheim, 17 March 2010
Baader Bank AG
Board of Directors

Uto Baader, Nico 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, 17 March 2010
Baader Bank AG
Board of Directors

Uto Baader, Nico 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 2009. 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, 18 March 2010

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Seal)

Signed: Jasper
Auditor

Signed: Clostermann
Auditor

Baader Bank Aktiengesellschaft
Weihenstephaner Str. 4
85716 Unterschleissheim
Phone +49 (0) 89 5150-0
www.Baaderbank.de
info@baaderbank.de
www.baadermarkets.de