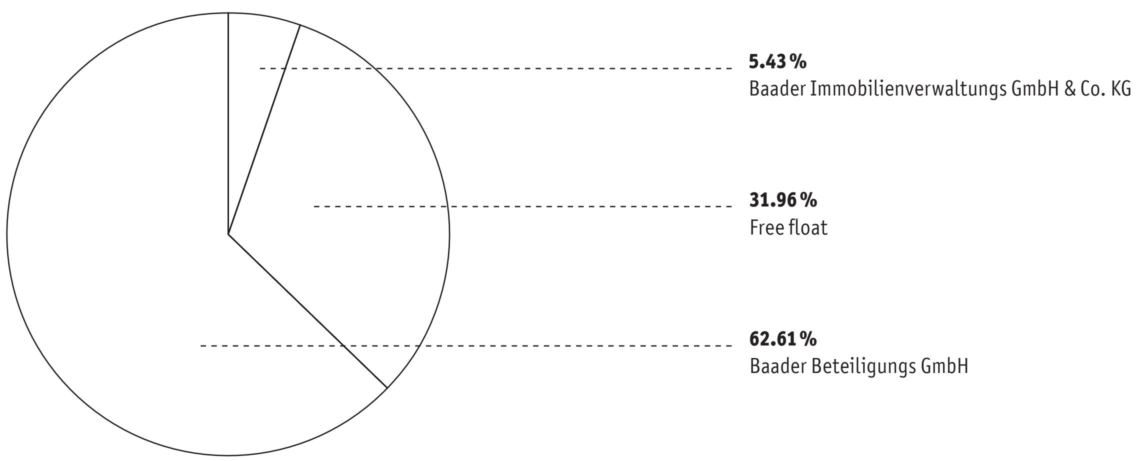
BAADER

2011 Consolidated Financial Statements of Baader Bank Aktiengesellschaft

Key data

Consolidated Income Statement		2011	2010	Change in %
Net interest income	€ mn	5.88	4.87	20.7
Net income from commissions	€ mn	31.22	34.57	– 9.7
Net result from trading portfolio	€ mn	46.27	63.61	– 27.3
Administrative expenses	€ mn	89.76	88.68	1.2
Net income	€ mn	0.66	– 35.77	> – 100
EPS	€	0.01	– 0.79	> – 100
Consolidated statement of financial position				
Equity	€ mn	105.03	110.32	– 4.8
Total assets	€ mn	535.82	623.7	– 14.1
Financial ratios				
Employees (as of 31.12.)		414	389	6.4
Order books (as of 31.12.)	Number	589,179	380,705	54.8
Baader Bank Share price				
Open price (03.01.)	€	3.07	3.27	– 6.1
High price	€	3.45	3.83	– 9.9
Low price	€	1.65	3.01	– 45.2
Close price (30.12.)	€	1.73	3.08	– 43.8
Market capitalisation (30.12.)	€ mn	79.42	141.4	– 43.8
Transaction volume (daily average)	Unit	4,038	9,009	– 55.2

Shareholder structure



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1 Business and general conditions

1.1 Operating activities
The Baader Group considers itself one of Germany's leading service providers in the trading of financial instruments. The Baader Group offers its customers many years of expertise and the highest quality in the pricing, trade and settlement of financial instruments on the global financial markets. Baader Bank AG advises and supports medium-sized companies in corporate actions, IPOs and the issue of corporate bonds. In its role as corporate broker, the bank produces equity research and acts as a designated sponsor and market maker. Baader Bank AG's portfolio of products and services also includes the placement of floating-rate and fixed-income securities, registered bonds and promissory notes as well as the management of client funds in option strategies. In short, the Baader Group provides a comprehensive portfolio of products and services in the financial and capital markets.

1.2 The market – 2011 marked by the sovereign debt crisis
The performance of the asset classes in 2011 was influenced by the sovereign debt crisis in the Western countries, including Japan, with the biggest impact resulting from the political crisis in the eurozone. This made the defensive asset classes the clear winners. In euro terms, gold and oil did particularly well, profiting, as did German government bonds, from their role as a safe haven. The only equity market to benefit from this trend was that of the US. The other equity markets, in contrast, were punished for their higher risk.

The emerging markets also turned in a sub-par performance as the inflationary overheating associated with interest-rate increases brought their indices down sharply.

In addition to Greece's debt burden, discussions also focused on the economic situation of other euro countries. Even German equities were not spared – they were faced with increased economic risks because of their strong cyclicality and export strength. The DAX, which reached a high of 7,600 in May and recorded an above-average performance in international comparison, was ultimately unable to avoid the effects of the crisis. It fell significantly in the summer months and ended the year below 5,900. This represented a drop of around 14%, following a gain of about 16% in 2010.

The euro was also hurt by the crisis. Shortly before the end of the year, the exchange rate fell to around USD 1.2850, its lowest level since September 2010. The US currency, which rose by 3.4% against the euro in 2011, profited from its safe-haven status, although even the US government budget is regarded as anything but solid. This holds true to an even greater extent for the Japanese yen, which was one of the main beneficiaries among the major currencies. It rose by 8.4% against the euro.

German government bonds provided investors with impressive gains. Bund futures closed at 138.96, not far off their record high of 139.58. The sovereign debt crisis drove investors to the safety of German government paper. 10-year German government bonds hit a record low return of just under 1.70% in September. The euro periphery saw the other side of this coin. The debt crisis put major pressure on prices of government bonds from the weak eurozone countries. Italy, Spain, Portugal, Ireland and, of course, Greece, were forced to pay record interest rates on their bonds.

The commodity markets were unable to build on a strong 2010 and turned in just an average performance. However, oil and precious metals recorded significant gains, with the latter now also viewed as a safe haven for investments. For example, gold was up 14% for the year after rising as high as EUR 1,375 during the year; this represented a 29% increase from the beginning of the year. In contrast, the majority of agricultural commodities and industrial metals were down sharply.

1.3 Market position of Baader Bank AG
Position in investment banking expanded further
Investment banking in Germany was in upheaval again in 2011. Many participants left the market or announced their withdrawal. This structural change was particularly visible in the banking centre of Munich. More and more banks left this key segment as the result of takeovers and mergers. Some banks have reduced the size of the relevant departments, while others have closed them completely. In our view, this trend runs counter to the needs of the market. Corporate financing via the capital markets is gaining in significance as an alternative to traditional loans. This has provided Baader Bank with a strategic opportunity that it has used to further expand its investment banking business.

As a specialised full-service bank with over 400 employees and nearly 30 years of experience in trading financial instruments, Baader Bank has the expertise required to offer its customers a comprehensive range of services in capital market financing and commission trading. The central focus of the Bank in 2011 was the further expansion of this strategic business area. The entire value chain was reinforced with a total of 45 employees. Most are specialists who had been employed in similar positions in investment banking at major European banks and who have an average of well over 10 years of experience in their fields.

In order to diversify the sources of income from investment banking, the Bank's range of equity solutions was expanded to include debt solutions and independent financial advisory services. In addition, a complete institutional distribution platform comprising the segments of equity, derivative sales and sales trading was added. This gives Baader Bank another source of income via the secondary market.

These steps make it possible to offer the entire value chain between providers of capital (investors) and borrowers (companies). The majority of the earnings will be generated in the agency role. This limits the Bank's market and default risk, as it will not enter into any of its own risk positions in transactions in the primary or secondary markets. The fact that the investment banking business segment generated an operating profit in its first year confirms the soundness of the Bank's decision and shows that there is a need for an investment specialist in the market.

This business segment was completed in 2011 with the addition of a team of well-known and experienced analysts. Their focus is on German and Austrian securities. Geographical proximity to large parts of Austria is a distinct advantage, as is the intersection of culture and values between Bavaria and Austria.

In addition to information on market strategy, Baader Bank's research currently covers in particular the sectors of construction and building supplies, foodstuffs and trading, real estate, industrial goods and services, engineering and utilities. The analysts' expertise has been confirmed in recent years by the numerous team and individual awards that they have won.

In the last year alone, the Bank carried out 15 corporate actions, putting it in second place in German equity transactions based on the number of transactions. The transaction volume totalled more than EUR 100 million. Baader Bank has now been involved in more than 160 successful transactions.

Helping shape the transformation of the exchanges
In its role as a market maker (lead broker or specialist) on the exchanges in Berlin, Düsseldorf, Frankfurt, Munich and Stuttgart, Baader Bank strengthened its leading position in 2011. Together with the respective market operators, the Bank has worked continually on developing and increasing the attractiveness of the current market models and of the technical infrastructure.

The most important change this year in the area of market making was the change from floor trading on the Frankfurt Stock Exchange (FSE) to a fully electronic trading model supported by specialists. As part of this change, the technical infrastructure was also adapted to the new circumstances and on the Frankfurt Stock Exchange the Xontro exchange trading system was replaced by Xetra. The previous commission system was replaced by specialist remuneration to be paid by the Deutsche Börse.

The FSE saw its market share fall slightly last year. The Berlin-based Tradegate Exchange has developed into its strongest competitor in the area of share trading. The zero-fee policy in place on this exchange was a primary consideration in the best-execution policies of many banks.

The elimination of commissions, coupled with the continued decline in trading volume, led to further consolidation among specialists. As a result, only 14 specialists now remain of the 21 market makers in existence at the beginning of 2011. Further concentration into a few major houses appears to be inevitable.

Baader Bank was also active in the consolidation of market makers last year. A number of profitable books were added to the portfolio with the acquisition of the order books of the companies Bid & Ask, Mercurius and Hordorff.

2011 was a difficult year in bond trading both in the brokerage business and for market makers. This segment's new structure enabled it to weather the difficult conditions on the bond market. The bond brokerage business is now divided into three product segments (Eurobonds, Government Bonds, Jumbos) and a customer area (Fixed Income Sales). The Government Bonds trading desk was a new addition.

Baader Bank views the configuration of MiFID II, whose draft form contains rigorous regulations for bond trading (e.g. post-trading transparency for OTC bond transactions), as a major factor in the development of bond trading. Its implementation would revolutionise the traditional bond brokerage business.

The organisational restructuring of bond market making completed last year has had positive effects both in terms of cost and in the steady increase in market share.

Baader Bank defended its market share in the trading of securitised derivatives on the Scoach exchange in 2011. The winning of new customers and concentration of market participants on the leading issuers more than compensated for the loss of an existing mandate. With the debt crisis at mid-year and the resulting volatility, sales were high overall. The number of transactions increased significantly again, particularly in the second half of the year. However, the order size per transaction fell toward the end of the year. With costs largely fixed, income per transaction fell accordingly.

Over-the-counter trading developed as a business segment

The team responsible for OTC trading was restructured during the reporting period. The bundling of liquidity from different venues significantly increased the price quality at the end of the year. In addition to the expansion of tradable shares, bonds and funds, ETFs and ETCs were integrated into OTC trading. The customer base for this service was expanded. The increasing number of transactions toward the end of the year in a generally declining market environment takes account of these changes.

In 2011, Baader Bank generated surprisingly high sales in its first full financial year in institutional OTC trading with ETFs, partially due to a strategic partnership with a leading ETF advisor. The growing number of customers validates this partnership. Internal customers in Baader Bank also benefited from the increase in quality. At the same time, the discussion between product providers and the supervisory authorities had an influence on the entire industry. Opinions on possible risks in the replication techniques hampered the further growth of the market for ETFs.

New banking software as the basis for further growth in the banking business

Baader Bank's transformation from a pure securities trading firm to a full-service bank was completed in terms of systems with the introduction of new banking software in 2011. The Bank chose the OBS system as the new core banking software for account and custody management. The replacement of the old system and the implementation of the new software were completed as scheduled within one year.

The introduction of the new core banking system provides the Bank with the basis for the expansion of automation and for further increasing processing stability and quality in account and custody management. In addition, the new system will simplify the introduction of additional innovative banking products. As part of its range of services for institutional clients, Baader Bank offers account and custody management for asset managers, fund managers and investment companies. With its new core banking software, Baader Bank is well equipped to meet the future challenges of account and custody management at a modern bank.

Börsenstrasse 1 – Commitment to Frankfurt

The move of Baader Bank's Frankfurt branch into new premises at Börsenstrasse 1 was completed in the spring of last year. This is not only evidence of sustained success – it is also an expression of appreciation for Frankfurt as a location and of its importance to the Bank.

Subsidiaries – diversification bears fruit

In a volatile market, institutional clients avoided high-risk interest-rate products and parked most of their liquidity in the money market and at the European Central Bank. Nevertheless, the subsidiary Baader & Heins generated a solid net profit again in 2011. Commission income was generated primarily through the placement of promissory notes and securities with banks and non-banks as well as through sales in the money market.

In 2011, Baader & Heins acquired the remaining shares of KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft mbH. KADEGE is a very well established brokerage in the money market. On 6 July 2011, the Company was merged with Baader & Heins Capital Management AG retroactively to 1 January 2011. All employees were also absorbed in the merger. The KADEGE name remains a brand that is well-known in the industry for services in all aspects of money markets and foreign exchange trading.

The customer deposits managed by Conservative Concept Portfolio Management AG grew accordingly as a result of solid investment results and as part of the continued positive development of the German alternative investments industry. Total client assets under management rose from EUR 698 million in the previous year to EUR 786 million.

In 2011, N.M. Fleischhacker transferred its specialist mandates to the parent company Baader Bank. N.M. Fleischhacker thus no longer has its own market making operations. The company generated steady positive income from the transfer of the mandates for the order books.

On 6 July 2011, direcct AG was merged with Baader Bank AG, thus completing the legal side of Baader Group's long-planned integration of product distribution into the client and product segments at the parent company.

Table 1 Results of operations

	2011	2010	Change	
	€ thousand	€ thousand	€ thousand	%
Net interest income	5,875	4,868	1,007	20.69
Current income	979	346	633	> 100.00
Net fee and commission income	31,222	34,572	– 3,350	– 9.69
Net income of the trading portfolio	46,273	63,610	– 17,337	– 27.26
Administrative expense	– 89,758	– 88,683	– 1,075	– 1.21
Partial operating profit	**– 5,409**	**14,713**	**– 20,122**	**> – 100.00**
Other expenses (–) and income (+) (including risk provisions)	504	– 19,167	19,671	> 100.00
Withdrawals (+) from or additions (–) to the fund for general banking risks	5,900	– 36,000	41,900	> 100.00
Operating profit	**995**	**– 40,454**	**41,449**	**> 100.00**
Extraordinary income	0	6,569	– 6,569	> – 100.00
Taxable income	– 115	– 1,467	1,352	92.16
Third-party share of net income	– 216	– 418	– 202	– 48.43
Net income for the year	**664**	**– 35,770**	**36,434**	**> 100.00**

2. Results of operations

The results of operations (including the earnings components/financial performance indicators) of the Baader Group for the 2011 financial year compared to the previous year were as follows: → **Table 1**

Net interest income is largely attributable to interest income from the investment of liquid assets in fixed-income securities and money market products (€14,290 thousand) and corresponding interest expenses from the issue of own promissory notes and the assumption of short-term liquidity (€8,604 thousand). In spite of reduced interest-rate items, rising interest-rate margins pushed interest income up by 20.69% in the 2011 financial year.

Current income increased by €633 thousand over the previous year, primarily due to higher dividend income from the trading portfolio.

Net fee and commission income fell by €3,350 thousand or 9.69% in the reporting year. €2,513 thousand of this decline is attributable to subsidiaries. This reflects the cautious and conservative investment approach of the institutional clients. The drop of €837 thousand at Baader Bank AG is attributable to the lower trading volumes and the changes in the market models on the exchanges. The increase in client commissions and income from capital market services of €4,323 thousand could not compensate for lower brokerage and transaction income of €4,828 thousand.

The net income of the trading portfolio fell by €17,337 thousand from the previous year. This drop is largely attributable to the extremely volatile environment on the exchanges in the last financial year and primarily concerns the equity market making business segment. The impact on earnings was especially strong in the second half of the year. In the Group, only Baader Bank AG generated income here after May 2011. N.M. Fleischhacker AG transferred its specialist mandates to the parent company.

The administrative expenses comprise general administrative expenses as well as depreciation on intangible assets and property, plant and equipment. Personnel expenses were kept constant in spite of the increase in the number of employees. This was the result of the variable remuneration system, as a short-term influence on the development of costs is possible at any time when business is more difficult. Other administrative expenses increased slightly by €1,707 thousand or 5.71% over the previous year. The largest increase in expenses was in IT expenses (€1,040 thousand) and expenses for information and communication (€938 thousand).

Depreciation increased by €1,349 thousand over the previous year and, in addition to depreciation on the administrative building, primarily concerns depreciation on order books, on goodwill of the merged firms DBM GmbH and Baader Service Bank GmbH, as well as depreciation on software.

In the 2011 financial year, other income and expenses consisted primarily of non-cash benefits from company cars (€436 thousand), income from the reversal of provisions (€373 thousand), out-of-period income (€343 thousand), other operating expenses (€–418 thousand) and net measurement gain/loss from loans and advances, financial assets and the liquidity reserve (€–674 thousand) and realised gains (€498 thousand). The overall improvement in other income and expenses (incl. loan loss provisions) over the previous year (€+19,671 thousand) results primarily from lower depreciation and from realised gains in the banking book.

The key to positive operating results of €995 thousand was the withdrawal from the fund for general banking risks. The comparatively high addition to the fund the previous year was the result of the complete endowment of the fund in accordance with Section 340e (4) in conjunction with 340g HGB as part of the initial application of BilMoG.

Extraordinary income in the 2010 financial year concerns primarily income and expenses in connection with the conversion of the annual financial statements to new regulations under BilMoG.

Taxable income for 2011 of €–115 thousand comprises primarily income tax expense (€–531 thousand), interest income on corporate tax credits (€507 thousand) and other taxes (€–116 thousand).

As at 31 December 2011, the total net profit reported for the year was €664 thousand.

Overall, partial operating profits were down by €20,122 thousand, but the cyclical nature of the trading operations of Baader Bank should be emphasised once again. In addition, it should be borne in mind that the expenses required in order to mitigate the cyclical effects constitute investment in new business areas. Such expenses generally do not have an immediate effect on revenue. Baader Bank is already seeing a positive trend in this area, which according to the company's forecasts and expectations will gain in strength in the coming financial year. Against this backdrop, we consider the earnings trend to be sustainable and secured.

Table 2 Net assets

Assets	2011 € thousand	2010 € thousand	Change € thousand	Change %
Cash and cash equivalents	90,059	151,316	– 61,257	– 40.48
Loans and advances to customers	21,104	31,159	– 10,055	– 32.27
Debt securities and other fixed-income securities	213,095	260,962	– 47,867	– 18.34
Equities / other non-fixed-income securities	500	693	– 193	– 27.85
Trading portfolio	117,652	98,316	19,336	19.67
Equity investments and interests in Associates	6,039	6,415	– 376	– 5.9
Intangible assets and property, plant and equipment	71,043	59,101	11,942	20.21
Other assets	11,933	12,180	– 247	– 2.03
Prepaid expenses and accrued income	1,504	553	951	> 100.00
Positive difference from offsetting	2,891	3,000	– 109	– 3.63
Total assets	**535,820**	**623,695**	**– 87,875**	**– 14.09**
Equity and liabilities				
Liabilities to banks	69,685	76,511	– 6,826	– 8.92
Liabilities to customers	316,602	379,611	– 63,009	– 16.60
Trading portfolio	1,909	2,938	– 1,029	– 35.02
Other liabilities	3,642	5,510	– 1,868	– 33.90
Provisions	8,851	12,803	– 3,952	– 30.87
Fund for general banking risks	30,100	36,000	– 5,900	– 16.39
Shareholders' equity	105,031	110,322	– 5,291	– 4.80
Total assets	**535,820**	**623,695**	**– 87,875**	**– 14.09**

3. Net assets

As at 31 December 2011, the net assets and capital structure of Baader Bank AG in comparison with the previous year was as follows: → **Table 2**

Cash and cash equivalents fell by €61,257 thousand in comparison to the previous year to €90,059 thousand. This development was mainly the result of outflows from customer deposits payable on demand. The item Loans and advances to customers fell by €10,055 thousand from the previous year.

Debt securities and other fixed-income securities are fully allocated to the liquidity reserve and fell by €47,867 thousand in comparison to the previous year to €213,095 thousand. The €6,467 thousand reduction in the item Debt securities is attributable to depreciation. Financial instruments were also sold at maturity or moved to trading book positions.

The equities and other non-fixed-income securities recorded on the reporting date relate exclusively to the shares in Stillking Film Holdings Ltd., St. Helier (Jersey) that are held by Baader Bank AG and which are allocated to the liquidity reserve.

The securities portfolio (trading portfolio and liquidity reserve) contains government bonds amounting to €36.4 million, of which €25.2 million are from the so-called GIIPS countries (Greece, Italy, Ireland, Portugal, Spain), with the smallest part, €2.2 million, being from Greece. The Greek government bonds in the portfolio were valued at market prices and, despite the continued uncertainty regarding the restructuring of Greece, because of the low volume, they do not represent a significant risk to the assets and earnings of the Bank. The Bank sees no acute risk of default in the other GIIPS countries.

Equity investments and interests in associates decreased by €376 thousand from the previous year to €6,039 thousand.

With the use of the at-equity method, the interests in Gulf Baader Capital Markets S.A.O.C., Muscat (Oman) are included in the consolidated financial statements as an associate. Their pro rata equity weighting is therefore presented in the accounts. The proportional earnings attributed to the Group on 31 December 2011 was €–386 thousand.

The interests in Berlin Asset Management GmbH (BAM) are also included in the consolidated financial statements as an associate. As Baader Bank AG sold its entire interest in the company effective 9 February 2012, it was presented on 31 December 2011 at its sale price. This resulted in an increase in the valuation of the position in the consolidated financial statements of €57 thousand.

The change in intangible assets and property, plant and equipment by €11,943 thousand to €71,043 thousand is largely attributable to investments made during the financial year amounting to €20,807 thousand and amortisation amounting to €8,844 thousand. Investments in property, plant and equipment of €10,273 thousand primarily relate to payments made for the expansion of the company's headquarters. Investments in intangible assets break down into €5,000 thousand for the acquisition of order books and €2,843 thousand for the new OBS banking software implemented in the 2011 financial year. Depreciation breaks down as follows: €1,407 thousand on property, plant and equipment, €7,437 thousand on intangible assets (order books €3,086 thousand; goodwill €2,256 thousand; software €1,831 thousand, other €264 thousand).

Other assets fell by €247 thousand to €11,933 thousand. As a result of the Act on Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules (SEStEG), the existing system for lowering corporate tax was replaced by a proportional payment of corporate tax credits over 10 years. In 2006, this resulted for the first time in the capitalisation of the present value of the corporate tax credits in the Group. Following receipt of the fourth instalment of €1,469 thousand, the credits had a present value of €8,612 thousand on the reporting date. In addition, other assets broke down as follows as at 31 December 2011: → **Table 3**

Table 3 Other assets € thousands

	31.12.2011
Corporate tax credits (discounted)	8,612
Income tax receivables	714
Other tax receivables	1,972
Receivables from brokerage fees and price differences	273
Reinsurance claims from life insurance policies	17
Other receivables	345
Other assets	**11,933**

Significant changes on the liabilities side consist primarily of the reduction in liabilities to customers by €63,009 thousand to €316,602 thousand, which is mainly attributable to the €67,787 thousand drop in customer deposits. The own promissory notes issued rose by €10,000 thousand to €203,170 thousand.

In addition, liabilities to banks fell by €6,825 thousand to €69,686 thousand, primarily due to the reduction in current accounts for collateral payments.

In accordance with Section 340e (4) No. 2 HGB, the fund for general banking risks amounting to €5,900 thousand was dissolved in the 2011 financial year.

The change in equity capital of €5,291 thousand is mainly attributable to dividend distributions (€5,885 thousand), the acquisition of treasury shares (€111 thousand) and the net income for the 2011 reporting year (€664 thousand). The equity ratio of the Baader Group was 19.60% on 31 December 2011. The overall ratio for the Group in accordance with the German Solvency Regulation (SolvV) was 18.00%. The Baader Group is thus well positioned for the future equity capital requirements under Basel III.

The above changes are mainly the result of the reduction in total assets by 14.09% to €535,820 thousand.

Overall, the Baader Group's asset position remains stable.

4. Financial position

At the reporting date the Bank had cash reserves and short-term loans and advances to banks and customers of €111,162 thousand and available-for-sale marketable securities of €314,685 thousand compared to short-term liabilities to banks and customers amounting to €141,946 thousand. This results in a net liquidity surplus on the balance sheet of €283,901 thousand (previous year: €295,119 thousand).

The liquidity ratio of the Baader Bank AG was 4.12 on 31 December 2011. The liquidity ratio in accordance with the Liquidity Regulation represents the ratio of cash and cash equivalents to payment obligations with a maturity of up to one month. The payment obligations of Baader Bank AG may not exceed the level of cash and cash equivalents. This implies that the liquidity ratio must not fall below one.

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

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

5. Subsequent events

We are not aware of any events of particular significance that occurred after the reporting date.

6. Non-financial performance indicators

6.1 Employees

In the reporting year the number of staff employed by the Group increased from 389 to 414 as at the reporting date. There are 116 female employees and 298 male employees within the Group from a total of 19 countries.

The Baader Group places particular emphasis on the high qualifications and further education of its staff. In this context, HR work in 2011 focused on furthering specialists and junior managers.

The range of additional social benefits for staff members enhances the appeal of Baader Bank as an employer. For example, the Baader Group grants all members of staff voluntary financial support of €10 thousand when they have a child, which resulted in the payment of €140 thousand in 2011.

With its own provident fund, Baader Unterstützungskasse e.V., the Group has an independent social institution that can guarantee post-employment benefits within the context of occupational pensions to all Group employees.

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

6.2 Environmental report

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

7 Risk report

7.1 Risk management objectives and methods, including risk-bearing capacity

Group management is provided with a regular overview of the characteristics of all the risks at Group level. This ensures that all material risks are met by the Group's risk cover at all times, thus ensuring the required risk-bearing capacity. This means that particular attention is paid to risk-bearing capacity as part of setting the business and risk strategy of the Group.

The risk-bearing capacity of the Baader Group is reviewed at least quarterly by the Risk Controlling department of Baader Bank AG, which is responsible for monitoring at Group level. In the review, the available risk cover is compared to the risk capital requirement. Depending on the business and risk strategy of the Baader Group, Group management then decides how much risk capital should be made available from the total risk cover to cover unexpected losses. As the Baader Group uses a going concern approach as a risk-bearing capacity concept, only the available capital components pursuant to SolvV may be used as risk cover. The objective is thus to continue business operations even if the risks contemplated become reality, with the additional condition that it must be ensured that the minimum capital requirements of Pillar 1 are met at all times.

The risk capital provided is then distributed to the various types of risk and represents the maximum limit for losses in respect of the given type of risk. The following types of risk are considered material by the Baader Group and are covered with risk capital: default risks, market price risks, operational risks and liquidity risks.

The limits are established annually by Group management in a strategy meeting. These limits may be adjusted during the year, usually quarterly, if operating activities and/or the risk or earnings situation makes it necessary. The limits remain self-consuming, i. e. they are reduced by any losses. Any limit overruns are reported to Group management as part of the daily reporting. The monitoring and communication of limit utilisation is the responsibility of the Risk Controlling department of the parent institution, Baader Bank AG.

The amount made available and the allocation of the risk capital to the risk types of the individual institutions is decided by the individual institutions at the end of the year in accordance with the risk policy of the Baader Group and then made available to the Risk Controlling department of the parent institution. Risk Controlling then coordinates the amount of risk capital made available with the risk capital provided by Group management for the Group. This ensures that the risk capital made available by the individual institutions and the allocation to the risk types are consistent with the decision of Group management. If there are any inconsistencies, the individual institutions are urged to make the appropriate adjustments.

In summary, it has been established that the risk-bearing capacity of the Baader Group, even in the event of stress, was not in danger at any time in the 2011 financial year; this provides an excellent starting point for 2012.

7.2 Business and risk strategy

During Group management's annual strategy meeting, the business strategy and the goals for the core business activities of the Baader Group are defined. The strategic considerations take into account external factors, their underlying assumptions and internal factors such as the Group's risk-bearing capacity, the earnings situation, liquidity, etc.

Based on the business strategy, and taking into account internal factors, Group management establishes a risk strategy for the coming year that is consistent with the business strategy. This risk strategy is broken down into sub-strategies according to the material types of risk. The main component of the risk policy strategy of the Baader Group is to ensure the Group's risk-bearing capacity at all times – even in the event of stress. Accordingly, a specific amount of the risk capital is made available by Group management for all material risk types, which represents the maximum limit for losses in respect of the given type of risk.

The components that are relevant to the individual institutions are made available to these institutions. The management of the individual institutions, taking into account the strategy of Group, then decides on a business and risk strategy for that individual institution and makes it available to the office of the Board and to Risk Controlling at Baader Bank AG. Risk Controlling at the parent institution then reviews this strategy for consistency with the business strategy of the Baader Group. As part of the regular Supervisory Board meetings, the business and risk strategy for the coming financial year approved by the individual institutions is presented to and discussed with the Supervisory Board.

7.3 Internal control system

The internal control system set forth in accordance with the Minimum Requirements for Risk Management (MaRisk) is divided into structural and process organisation, risk management and risk control processes as well as stress tests. An integral part of the structural and process organisation is the separation of functions. This ensures that incompatible activities are carried out by different employees. In the Baader Group, the division of duties of risk controlling and settlement and control is ensured up to and including Group management for Trading/Market.

Moreover, the Baader Group has set up appropriate risk management and controlling processes which ensure the identification, assessment, management and monitoring and communication of the key risks in accordance with the requirements of MaRisk. These processes are as follows:

- The **identification** of new risks is taken into account as part of the "Activities in new products and new 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.
- The risk **assessment** is carried out based on detailed analyses in the Risk Controlling department of the parent institution, which then develops a concept to manage and monitor these risks together with the Trading/Market division, before presenting it to Group management. The identified risks are in principle quantified using a value-at-risk concept and their unexpected losses are compared with the risk cover. This also involves a regular examination of the Baader Group's risk-bearing capacity.
- The permanent addition of risks to the limit system enables the Trading division to **manage** these risks and Risk Controlling to **monitor** them.
- Group management is responsible for the proper organisation of the business and its ongoing development. This responsibility includes all essential elements of risk management, including the establishing of the risk policy. To ensure that Group management is able to meet this responsibility, the parent institution has a complex risk controlling reporting system which ensures that the **communication** requirements under MaRisk are met; this takes the form of daily reporting and prompt notification in the event that limits are exceeded.

These processes ensure that material risks are identified early, fully captured and managed and monitored in an appropriate manner. Additionally, the processes are regularly reviewed and adapted to the changing conditions in good time. The technical features of the Baader Group's risk monitoring and control systems are more than adequate with regard to the risk management system. In addition, the Group takes care at all times to ensure that the staff is fully qualified. Internal Audit systematically monitors the risk management process at least once annually.

Below is a brief description of the risk types considered material: → Chart 1

The structural liquidity risk was quantified for the first time in the preparation of the business and risk strategy report for 2011. Any unexpected losses will be covered with corresponding risk capital.

7.3.1 Default risks

With default risks a distinction is made between credit risks, counterparty risks, issuer risks and investment risks. Here, an overall limit per borrower unit is determined based on credit rating reviews for credit, counterparty and issuer risks. The daily utilisation of these limits is monitored and reported to Group management by the Risk Controlling department of the parent institution. Investment risk is subject to special monitoring. Credit rating checks are carried out based on an internal rating procedure.

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

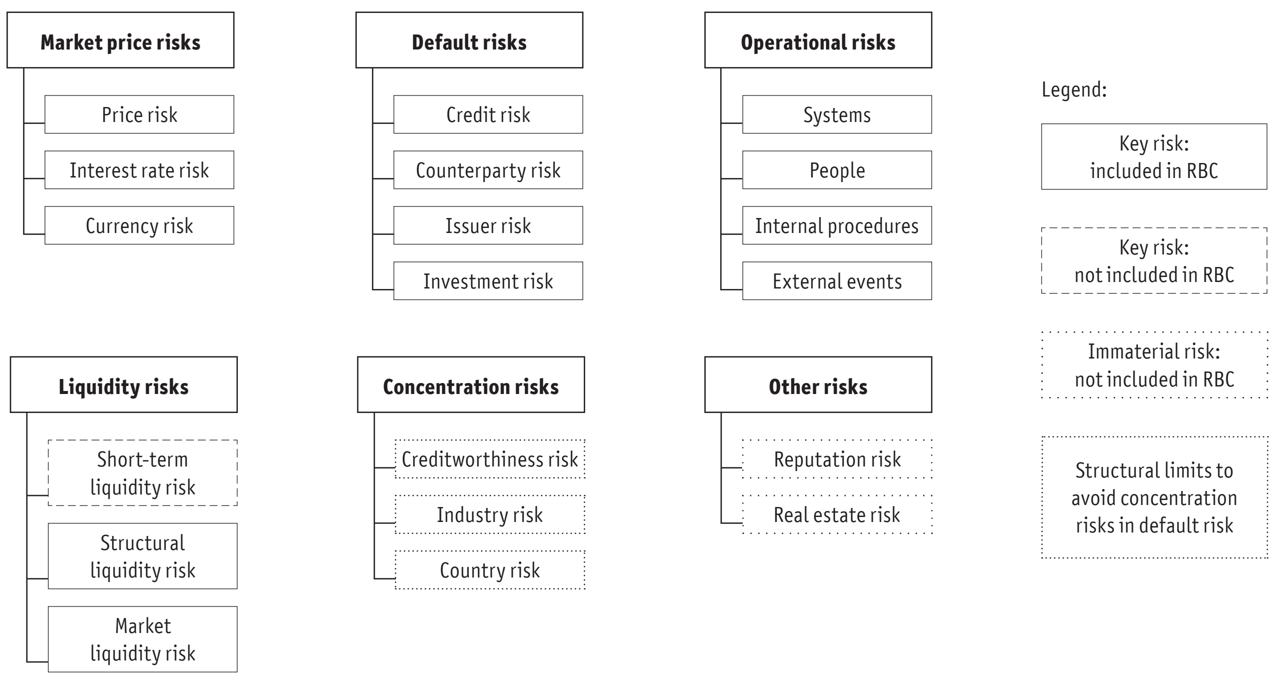
The following table displays customer lending commitments as at 31 December 2011: → Table 4

Furthermore, only money market investments at banks are made as part of the lending business.

Table 4 Customer lending commitments as at 31 December 2011 in € million

	Total lending commitments	Drawdowns	Overdrafts	Total drawdowns incl. overdrafts	Unutilised lending commitments	Collateral (measured)	Loan loss provisions
Private customers	9.86	7.96	3.10	10.99	1.90	7.82	3.54
Corporate customers	3.25	0.74	1.91	2.64	2.51	11.35	0
Banks	2.00	0	0	0	2.00	0	0
Total	**15.11**	**8.70**	**5.01**	**13.63**	**6.41**	**19.17**	**3.54**

Chart 1 Overview of risk types (MaRisk AT 2.2 (1))



When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all of its obligations. A distinction must be made here between the replacement risk in the event of default by the counterparty and the resulting non-performance of the concluded transactions on the one hand, and the advance payment risk that can arise from transactions not settled as delivery-versus-payment transactions on the other.

The Baader Group, and Baader Bank AG in particular, only trades in derivatives on derivatives exchanges. However, because the Bank is not a clearing member of these exchanges, the transactions between Baader Bank and the given clearing member must be settled. A default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk vis-à-vis the clearer.

By contrast, when settling/brokering promissory note loans where Baader Bank plays the role of counterparty as part of the purchase agreement, an advance payment risk arises given that the payment and the transfer of the instrument (certificate) do not take place at the same time. For the Group this risk only exists vis-à-vis the seller of the promissory note loan and lasts for the period between the payment and the transfer of the instrument.

Corresponding risk capital is provided for unexpected losses arising from the default risks described above; this risk capital serves as a limit for this type of risk and is monitored daily and reported to Group management by Risk Controlling at Baader Bank AG. The value-at-risk concept for the quantification of the default risk is based on the credit-risk weighted risk exposure. The internal rating procedure is backtested regularly. → **Chart 2 and 3**

Chart 2 Fair value of bonds by sector

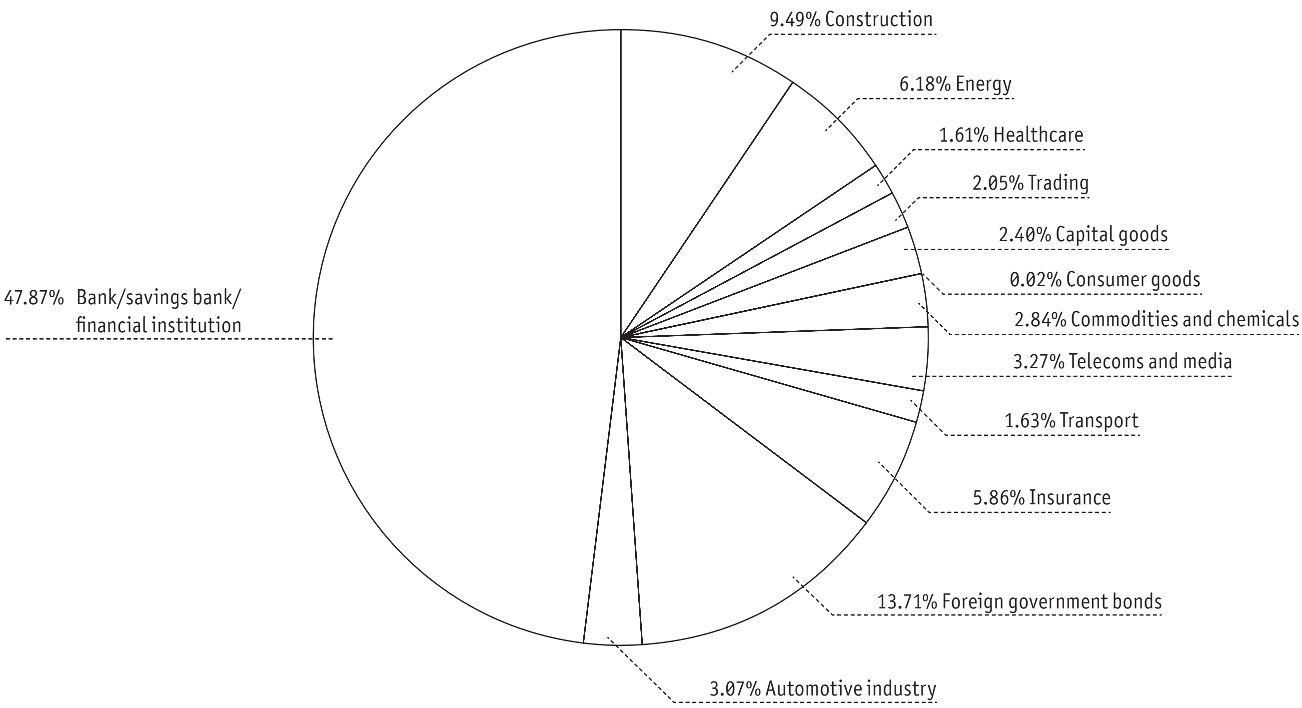
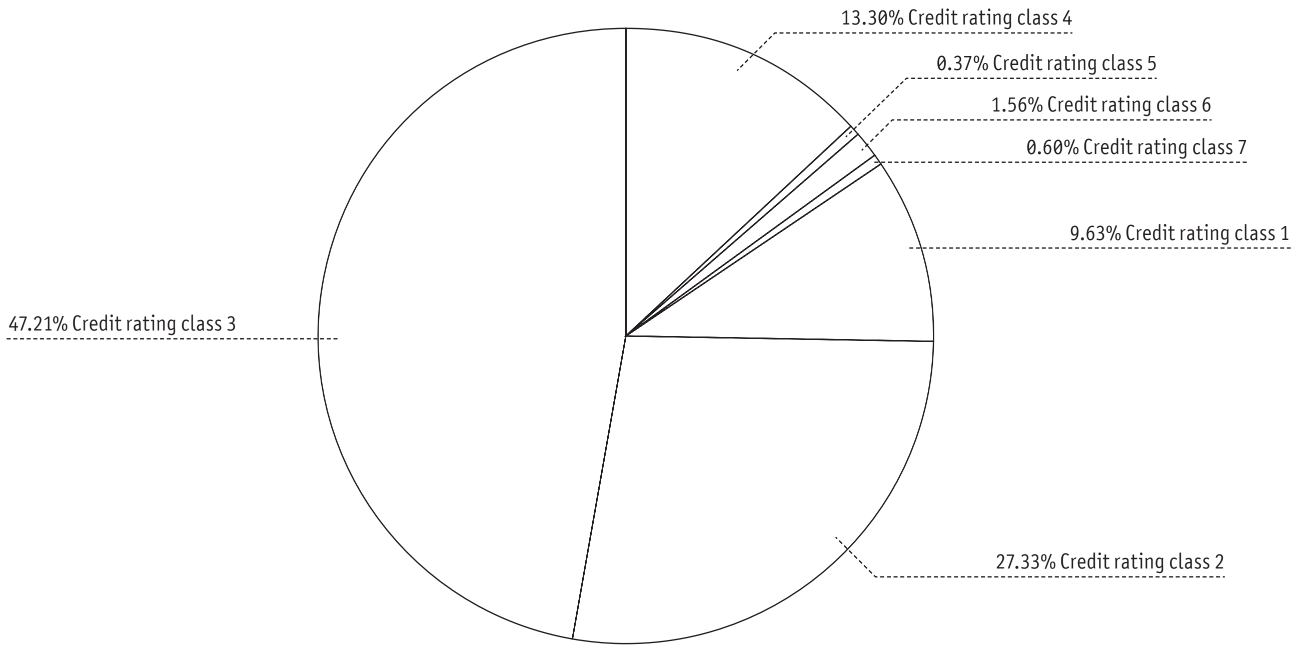


Chart 3 Default risk – fair value by credit rating class



Issuer risk is understood to mean the risk of a downgrade in creditworthiness or default of an issuer. A loss from an issuer risk results in the impairment of the securities from this issuer. The credit rating of the given issuer thus represents the corresponding default risk. However, in contrast to the other default risks, it is not necessary to provide separate risk capital to cover issuer risk, provided that, in limiting the market price risks using appropriate processes, proper account is taken of the special price risks of the issuer. These special (specific) issuer price risks are taken into account in the Baader Group, because a loss arising from issuer risk results in an impairment of the securities of this issuer as part of the daily income statement, and this loss reduces the corresponding market price limits as part of the market price risk and is thus included in the calculation of the risk capital available for the market price risk.

In addition, limits are also set for credit, counterparty and issuer risk regarding compliance with limits for large-scale loans and loans in the millions of euros for individual borrowers, the utilisation of which is also monitored daily at Group level and reported to Group management by the Risk Controlling department of Baader Bank AG.

The risk of strategic investments, in contrast, is quantified using market prices and specific analyses (discounted cash flow, peer group) and separately covered with risk capital. In this area, too, the utilisation of the risk capital provided is monitored daily and reported.

Additionally, default risk comprises the monitoring of concentration risks regarding creditworthiness, sector and country risks to identify and oversee possible risk concentrations (cluster risks) in the Baader Group. However, these risks are not separately covered with risk capital in order to avoid multiple offsetting.

The Risk Controlling department of the parent institution immediately reports any limit overruns to the responsible Group managers and to the overall Group management as part of its daily reporting. The measures to be taken are communicated to Risk Controlling and their implementation is monitored accordingly.

Stress tests are also carried out for default risk on a quarterly basis, which include the examination of historical and hypothetical scenarios. The results of the stress tests are reported to Group management in the MaRisk report and are also taken into consideration in the review of risk-bearing capacity.

7.3.2 Market price risks

Market price risk is the risk of fluctuations in a given item due to changes in market prices, such as share prices, exchange rates, interest rates and volatility. At the end of the year the trading book and banking book (liquidity reserve) contained the following risk positions with fair values in € million: → **Table 5**

Market price risks for the trading book positions are measured using a value-at-risk model based on Monte Carlo simulations in the central trading system of Baader Bank (normal distribution; generally a 1 – 10 day holding period with a confidence level of 99%). The input risk parameters are determined using a variance-covariance matrix based on the Bank's own historical data, which is exponentially weighted. Deviating from this, the interest-rate risk and foreign-exchange risk of the banking book are determined with the aid of historical simulations in a separate system.

The following VaR figures were calculated in previous years for current assets (trading portfolio, liquidity reserve) in € million: → **Table 6**

In accordance with MaRisk, the quality of the VaR model is constantly reviewed as part of a backtesting (clean backtesting) process using the ratio of VaR figures to changes in the position's fair value based on actual price changes. In the event that the number of “outliers” from the backtesting is above the critical limit, corresponding adjustments to the VaR model are made by Risk Controlling. Furthermore, the model is reviewed based on “dirty backtesting”. This involves the actual daily earnings being compared with the value-at-risk figures in the trading segments.

The Risk Controlling department of Baader Bank AG immediately reports any limit overruns to the responsible Group managers and to the overall Group management as part of its daily reporting. The measures to be taken are communicated to the Risk Controlling department of the parent institution and their implementation is monitored accordingly.

Stress tests are carried out for market price risk on a quarterly basis, which include the examination of historical and hypothetical scenarios. The results of the stress tests are reported to Group management in the MaRisk report and are also taken into consideration in the review of risk-bearing capacity.

7.3.3 Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. This also includes legal risks, but strategic and reputation risks are excluded.

The Risk Controlling department of Baader Bank AG evaluates the risk potential, i. e. operational risks are identified and assessed using questionnaires to be completed by Op Risk managers and special self-assessments. The findings from the information collected are first presented to the Security Committee of the Baader Group, which proposes measures to Group management. Where necessary, the Group management orders the Security Committee to implement the measures. The findings are included in the quarterly MaRisk report to Group management.

In addition to completing the questionnaires, the operational risk managers are responsible for reporting any damage or losses sustained from operational risks. The causes of significant losses are immediately analysed. Any resultant measures are also reported on a quarterly basis in the MaRisk report. In the 2011 financial year losses totalling €582 thousand were reported. The highest individual loss amounted to €90 thousand and can be classified under the Basel II category of business disruption and system failures.

The quantification of unexpected losses from operational risks is carried out quarterly with the aid of historically recorded losses in the Baader Group. The procedure makes use of the loss distribution approach under which the parameters of severity distribution and frequency distribution are estimated in accordance with the maximum likelihood method to determine a total loss per year. This approach assumes that the loss amounts have a log-normal distribution, the number of losses follows a Poisson process and the losses are independently and identically distributed. The total distribution of the losses is estimated with the aid of statistical software based on the Monte Carlo simulation. The 99% quantile is used for unexpected losses to determine the amount that must be covered by risk capital.

The Risk Controlling department of the parent institution monitors daily to ensure that the risk capital provided by Group management is sufficient to cover unexpected losses from operational risks; this monitoring is part of the daily reporting to Group management.

In addition, a quarterly stress test is conducted for operational risks. The quantification of losses from stress tests is similar to the procedure for determining unexpected losses. However, the 99.9% quantile is used for stress tests. The results of the stress tests are reported to Group management in the MaRisk report and are also taken into consideration in the review of risk-bearing capacity.

Table 5 Risk positions with fair values in € million

Cash market		Forward market	
Shares	46.81	Options	0.08
Bonds	267.27	Futures	– 8.37
Funds, index and fund-linked certificates	7.08	Swaps	0.00
Securitised derivatives	0.17		

Table 6 VaR figures in € million

Value-at-Riskof trading segments	2011	2010	2009	2008	2007
Year-end VaR	8.47	2.62	1.48	2.34	1.18
Minimum VaR	2.37	1.30	1.15	0.88	0.94
Maximum VaR	11.04	3.96	3.60	2.54	2.58
Average VaR	5.91	2.25	1.91	1.35	1.23

7.3.4 Liquidity risks

With liquidity risk it must be ensured that payment liabilities can be met at any time. In this context we have to distinguish between market liquidity risk, short-term liquidity risk and structural liquidity risk.

There are securities with different levels of market liquidity; for such securities the liquidity risk is based on the least liquid values. A low market liquidity in individual trading products means that transactions in these products at the opening and closing of positions are limited or impossible because of the low level or absence of market liquidity. To counter this risk, the Risk Controlling department of the parent institution prepares assessments at regular intervals and communicates them to the corresponding Group manager. These assessments serve as the basis for making decisions on the measures required. On the basis of expert estimates, the risk potential for the market liquidity risk is calculated quarterly and covered accordingly with risk capital.

Short-term liquidity risk on the other hand refers to the risk that credit commitments could be used unexpectedly or deposits could be withdrawn unexpectedly (call risk). In addition to unexpected outflows, delays in the receipt of payments may occur, which means that the capital commitment periods of lending transactions are extended without notice (scheduling risk). This can have an effect on the ability of the Bank to meet its payment obligations. The Treasury department is responsible for ensuring that payments are timely. Securities trading is closely coordinated with the Treasury department. This allows Treasury to adequately coordinate daily cash flows. In addition, on a daily basis Treasury prepares and monitors a liquidity status report showing the current liquidity situation. In addition, short-term liquidity requirements are secured by various credit lines and the issue of promissory notes. The liquidity obtained in this way is invested in ECB-eligible bonds with the same maturities, which in turn are deposited at the Bundesbank as refinancing facilities in making use of the open market policy. However, due to the unique nature of this risk it is not practical to quantify it and cover it with risk capital. Emphasis here is placed on the quality of risk management processes.

Structural liquidity risk refers to the risk that (present value) refinancing costs could increase on account of a possible increase in spreads of individual institutions. Following a deterioration in creditworthiness, deposit transactions can only be concluded under worse terms and conditions. In addition, market-driven changes can have a major influence. If the market interest rate rises, refinancing generally becomes more expensive. Possible refinancing losses are quantified through the preparation of liquidity reports and the calculation of potential liquidity shortfalls. Refinancing under current conditions is compared with refinancing in unexpected cases every quarter. Significantly more expensive refinancing and unexpected outflows are used in this comparison. The difference that results represents the refinancing losses in unexpected cases; this difference is taken into account in determining the risk-bearing capacity of the Baader Group and, if necessary, covered with risk capital.

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

In addition, a quarterly stress test is conducted for liquidity risks. The quantification of losses from stress tests is similar to the procedure for determining unexpected losses. The results of the stress tests are reported to Group management in the MaRisk report and are also taken into consideration in the review of risk-bearing capacity.

Summary of the risk situation

Looking at the current risk situation of the Baader Group, it is clear that the available risk cover less the minimum capital requirements under SolvV is more than sufficient to cover losses from unexpected risks and even losses from stress tests for all major types of risk. In this context, it should be noted that when the risk cover and risk potential are compared it is assumed that all risks will occur at the same time. In addition, no risk-reducing correlation effects between the risk types are assumed, i. e. the risk amounts from the individual risk types are added together in calculating unexpected losses and for stress tests. Consequently, the risk situation of the Baader Group is currently classified as non-critical.

8. Forecast report

Outlook for the market in 2012

There is a high degree of uncertainty inherent in forecasting the performance of the capital and financial markets in 2012. Because of these uncertainties, the typical first quarter rally to start the year could be weaker than expected or the markets could even fall. Many market participants – arguing that the year has just begun – will wait to see how political developments proceed and whether the many issues of government bonds by countries in a precarious economic and financial position are successful. In addition, the capital requirements of European banks are likely to create a negative mood. And finally, concerns about a recession in the eurozone could peak in the spring.

Two main factors will be key to the performance and mood of the markets and thus for the business segments of the Baader Group. First: whether euro policies will produce market-oriented and realistic solutions to the current situation; second: whether the European Central Bank will do justice to its role and take politically independent action to support the stability of the financial market system. If this happens, the picture on the financial markets could brighten quickly as the year goes on. This will be particularly true if the fundamental data also improve.

Strong fluctuations in investor behaviour – as in the summer of 2011 – must be expected for the entire year, however, as the economic outlook is far from clear and is changing more rapidly than has historically been the case. In addition, political events of great significance, such as the presidential elections in the US and France, will also have an effect on the risk behaviour of investors.

The development of the business segments of the Baader Group

With the further tightening of capital requirements for banks under Basel III, companies are likely to find it more difficult to borrow money via traditional paths. In addition, many companies with long-term orientations have learned from the experiences of the financial crisis and have fundamentally reorganised their financing structure. In doing so, many came to the conclusion that a financing structure that is independent of lenders can have a decisive influence on corporate independence, particularly in difficult times.

This has foreseeable consequences for the market: an increased need for financing solutions outside of conventional lending will be met with a reduced number of qualified providers. Baader Bank is in an ideal position to fill this gap with an appropriate range of offerings and thus to further expand its position in a changing competitive environment.

This year, the Bank will concentrate on further expanding its activities in the German and Austrian markets. In addition, research will also be expanded in order to regularly analyse and monitor around 150 shares in Germany and Austria in the medium term. A major milestone this year will be the Baader Investment Conference, which is being held at BMW Welt in Munich from 25 – 27 September. The invitation has been extremely well received and many companies from the DAX, MDAX, TECDAX, SDAX and ATX market segments as well as international investors have already confirmed that they will be participating. The aim is to further increase market share in both the primary and secondary markets and to establish Baader Bank as a powerful investment bank, specialist and local player in the financial centre of Munich.

The focus in 2012 will remain on the new issue business in the areas of government bonds, covered bonds and corporate bonds. The political framework will be particularly decisive for the borrowing capacity of the market players. In addition, more smaller and medium-sized companies will be refinancing via the capital markets, thus ensuring further growth in these market segments. 2012 will reveal whether the attempts to get a grip on the debt crisis in the eurozone, Japan and the US succeed. Because of the rising refinancing requirements of countries, municipalities and companies, the focus this year will generally remain on new issue activity.
As a result, bond trading will be of special importance again in 2012. Baader Bank's long-term business relationships put it in an ideal position in this area. In addition, the restructuring of support in the bond order books on the exchanges in Berlin, Düsseldorf, Frankfurt and Munich will make corresponding growth in this market segment possible.

Given the ongoing debt crisis and political uncertainties around the globe, trading on the exchanges threatens to remain at a comparatively low level. The effects of further regulatory measures or, worse, the introduction of a financial transaction tax will make this task even more difficult. The aim is to maintain market leadership by transferring strategic expertise to the new market models of the exchange operators. Baader Bank will continue to play a strong, decisive role in the reorganisation of the German exchange landscape.

It is clear that there will be consolidation among issuers of securitised derivatives in the 2012 calendar year. The virtual standstill on the primary market in the last few months of 2011 will also hit the secondary market in 2012. Baader Bank will seek at a minimum to maintain its existing mandates in the development of the derivatives business, but it also sees good opportunities to win new customers. The expansion of the activities of the exchange operator Scoach into the Asian markets, particularly Hong Kong, offers additional opportunities to expand business.

In the over-the-counter market, the competitiveness of Baader Bank will be further increased through the implementation of limit control systems. Alongside existing customers, the Bank plans to connect additional trading partners to the system. The broad range of products offered by Baader Bank is of particularly great interest to potential trading partners.

The EU financial supervisor ESMA will issue new guidelines for ETFs in 2012 to simplify product definitions. These guidelines will further increase the popularity and thus the sale of these products. Product providers expect an average increase in assets of 15% to 20%. Baader Bank’s services as an OTC market maker will allow it to participate in this growth.

Subsidiaries
When confidence has been restored to the capital markets, the investment behaviour of the customers of Baader & Heins will change. The assets parked in short-term investments would then be invested in longer-term interest rate products once more.

N.M. Fleischhacker expects to realise steady income and thus a positive result again in 2012 from the transfer of its specialist mandates to Baader Bank.

Due to the continuing strong recovery on the financial markets since 2009 alongside low sales, not to mention the extremely low interest rates, Conservative Concept Portfolio Management is in a situation that finds few parallels even in a long-term comparison, and thus makes forecasting difficult.

Unterschleißheim, 14 March 2012
Baader Bank AG

Board of Managing Directors

Uto Baader	Nico Baader
Dieter Brichmann	Dieter Silmen

Report of the Supervisory Board

In the past financial year the Supervisory Board fulfilled its responsibilities as set forth by law and in the Articles of Association. It was regularly informed by the Board of Managing Directors about the position of Baader Bank AG and the Group, whilst monitoring and supporting the work of the Board of Managing Directors. In so doing the Board of Managing Directors informed and consulted with the Supervisory Board verbally and in writing about business policy, fundamental issues of future management, the financial position and strategic developments, the risk position and risk management as well as key business transactions. This comprehensive information was provided in a timely manner. Deviations in the course of business and in earnings performance from plans and targets were explained individually and reviewed by the Supervisory Board. The Supervisory Board was included in decisions of major importance.

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

The Supervisory Board convened five times during the reporting year. The focus of the discussions between the Board of Managing Directors and the Supervisory Board was primarily on the development of the new business segment Corporates & Markets as well as the risks in the treasury portfolio. Other topics included the reorganisation of the market-making shares on the Bavarian Stock Exchange and the introduction of new banking software. Further topics included the positioning of Baader Bank AG, its financial performance and that of its subsidiaries, key business events as well as the latest changes on the stock market, particularly on the Frankfurt Stock Exchange. In a report delivered at the meeting held on 20 December 2011 the compliance officer informed the Supervisory Board about his activities within the framework of the new MaComp. In addition, the compliance officer presented an half-yearly detailed report at the Supervisory Board meetings and provided an explanation of the contents.

A detailed discussion of the business and risk strategy of Baader Bank also took place at the meeting held on 20 December 2011.

Between meetings the Supervisory Board was also informed about important plans, and where necessary, circular resolutions were passed in writing. The Chairman of the Supervisory Board was also informed about important decisions and key business events in regular discussions with the Board of Managing Directors, and the minutes of Board meetings were made available in a timely manner. Regular discussions with the compliance officer ensured the flow of information on individual topics. Regular discussions with the compliance office ensured the flow of information on individual topics.

The annual financial statements and management report of Baader Bank AG for the year ended 31 December 2011 together with the consolidated annual financial statements and the Group management report for the year then ended were audited in accordance with the German Commercial Code (HGB) by Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, as appointed by the General Meeting of Shareholders. An unqualified auditor's opinion was expressed. The consolidated financial statements were prepared in accordance with the provisions of the HGB, most recently amended by the German Accounting Law Modernisation Act (BilMoG), and the German Accounting Principles for Banks and Financial Services Institutions Regulation (RechKredV). The auditor conducted the audit in line with the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) in Germany.

All members of the Supervisory Board were sent the annual financial statement documents and auditor's report along with the proposal of the Board of Managing Directors for the appropriation of net earnings in good time. In its meeting held today to discuss the annual results the Supervisory Board carefully examined the annual financial statements and management report of Baader Bank AG presented by the Board of Managing Directors as well as the consolidated financial statements, 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 Managing Directors explained the financial statements of Baader Bank AG and the Group as well as the risk management system. The auditor presented the scope and the focal points of the audit and reported on the main findings of the audit, stating that there were no significant weaknesses in the internal control and risk management system. The Supervisory Board concurred with the auditor's findings. Following the conclusion of its examination the Supervisory Board raised no objections.

In accordance with Section 312 AktG the Board of Managing Directors prepared a dependent company report. The auditor, Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, audited the dependent company report of the Board of Managing Directors in accordance with legal regulations and expressed the following unqualified opinion:

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

1. the facts set out in the report are correct, and
2. payments by the Bank in connection with the legal transactions referred to in the report were not unduly high,
3. there are no circumstances calling for an appraisal of the measures listed in the report that differs significantly from that given by the Board of Managing Directors.”

The Supervisory Board approved the 2011 annual and consolidated annual financial statements in its meeting today. The 2011 annual financial statements are thus adopted. The Supervisory Board concurs with the proposal of the Board of Managing Directors to pay a dividend from net earnings of €0.03 per dividend-bearing share and carry the remaining amount forward to new account.

In December 2011 the Supervisory Board decided to extend the Board of Managing Directors' mandate for Mr Nico Baader for another five years. The Supervisory Board would like to thank the Board of Managing Directors and all employees for their conscientious and successful work in the past financial year.

Unterschleißheim, 29 March 2012

The Supervisory Board

Dr. Horst Schiessl
Chairman

/ Consolidated annual financial statements

Contents consolidated annual financial statements

Consolidated statement of financial position

as at 31 December 2011

Assets in €		31.12.2011		31.12.2010
1. Cash reserves				
a) Cash-in-hand	1,043.07		2,758.48	
b) Deposits at central banks	5,029,689.76	**5,030,732.83**	2,890,601.85	2,893,360.33
including:				
at the Deutsche Bundesbank € 5,029,689.76				
2. Loans and advances to banks				
a) Payable on demand	65,172,445.18		136,428,557.17	
b) other loans and advances	19,855,755.79	**85,028,200.97**	11,994,792.68	148,423,349.85
3. Loans and advances to customers		**21,103,849.23**		31,159,427.49
including:				
secured by property liens € 747.883,33				
Municipal loans € 0.00				
4. Bonds and other fixed-income securities				
a) Bonds and notes				
aa) from public issuers	35,461,045.89		58,052,809.81	
including:				
acceptable as collateral at the Deutsche Bundesbank € 10,232,784.25				
ab) from other issuers	177,633,971.66	**213,095,017.55**	202,908,925.33	260,961,735.14
including:				
acceptable as collateral at the Deutsche Bundesbank € 31,322,898.44				
5. Equities / other non-fixed-income securities		**500,000.00**		693,167.60
5a. Trading portfolio		**117,651,799.84**		98,315,904.08
6. Equity investments		**1,560,083.27**		1,562,969.51
including:				
in banks € 0.00				
in financial services institutions € 120,000.00				
7. Investments in Associates		**4,479,148.69**		4,851,545.56
including:				
in banks € 0,00				
in financial services institutions € 0.00				
8. Intangible assets				
a) purchased concessions, trademark rights and similar rights and assets as well as licences to such rights and assets	27,630,335.67		19,252,136.67	
b) Goodwill	13,951,033.00		16,207,048.00	
c) payments made	486,531.50	**42,067,900.17**	4,522,652.67	39,981,837.34
9. Property, plant and equipment		**28,975,665.18**		19,119,846.57
10. Other assets		**11,932,729.18**		12,179,602.59
11. Prepaid expenses and accrued income		**1,504,191.83**		553,186.46
12. Positive difference from offsetting		**2,891,178.26**		2,999,507.09
Total assets		**535,820,497.00**		**623,695,439.61**

Equity and liabilities in €			**31.12.2011**		**31.12.2010**
1. Liabilities to banks					
a) Payable on demand		34,310,739.73		43,695,683.60	
b) with agreed term or period of notice		35,374,845.87	**69,685,585.60**	32,814,822.51	76,510,506.11
2. Liabilities to customers					
a) other liabilities					
aa) Payable on demand		109,094,857.12		177,184,253.02	
ab) with agreed term or period of notice		207,507,334.98	**316,602,192.10**	202,426,887.77	379,611,140.79
3. Trading portfolio			**1,909,056.37**		2,937,899.74
4. Other liabilities			**3,641,879.14**		5,509,147.83
5. Provisions					
a) Provisions for pensions and similar commitments		821,229.54		733,410.47	
b) Tax provisions		235,624.13		580,080.59	
c) other provisions		7,794,277.06	**8,851,130.73**	11,489,664.08	12,803,155.14
6. Fund for general banking risks			**30,100,000.00**		36,000,000.00
7. Shareholders' equity					
a) Subscribed capital		45,326,917.00		45,389,518.00	
b) Capital reserve		31,431,265.61		31,431,265.61	
c) Retained earnings					
ca) Other retained earnings	23,829,815.57			25,502,355.69	
cb) Currency translation reserve	189,780.66	24,019,596.23		150,561.06	
d) Shares held by minority shareholders		1,865,061.28		2,278,074.97	
e) Retained profit		2,387,812.94	**105,030,653.06**	5,571,814.67	110,323,590.00
Total equity and liabilities			**535,820,497.00**		**623,695,439.61**
Contingent liabilities					
a) Liabilities from guarantees			**7,583.00**		0.00
Other obligations					
a) Irrevocable loan commitments			**1,010,065.41**		1,914,118.22

Consolidated income statement

for the period 1 January 2011 to 31 December 2011

in €			31.12.2011		31.12.2010
1. Interest income from					
a) Lending and money market transactions	2,371,074.37			1,039,120.30	
b) Fixed-income securities and book entry securities	14,039,556.61	16,410,630.98		11,579,535.01	
2. Interest expense		–10,535,354.49	**5,875,276.49**	–7,750,900.08	4,867,755.23
3. Current income from					
a) Equities / other non-fixed-income securities		964,304.55		331,607.14	
b) Equity investments		14,632.50	**978,937.05**	14,632.50	346,239.64
4. Fee and commission income		49,148,800.53		49,937,974.00	
5. Fee and commission expense		–17,926,867.96	**31,221,932.57**	–15,366,323.04	34,571,650.96
6. Net profit or net expense on the trading portfolio			**46,272,850.88**		63,609,478.03
7. Other operating income			**1,848,155.79**		2,566,032.97
8. General administrative expense					
a) Personnel expense					
aa) Wages and salaries	–44,809,270.38			–46,808,977.00	
ab) Social security contributions and expenses for pension provisions and for support	–4,515,306.47	–49,324,576.85		–4,443,487.20	
including:					
for pension provisions € –108,210.22					
b) Other administrative expense		–31,589,670.26	**–80,914,247.11**	–29,936,120.74	–81,188,584.94
9. Amortisation and write-downs on intangible assets and property, plant and equipment			**–8,843,981.37**		–7,493,860.50
10. Other operating expenses			**–851,194.27**		–931,236.96
11. Amortisation and write-downs on loans and advances and certain securities as well as additions to loan loss provisions			**–174,715.71**		–19,372,658.15
12. Additions to the fund for general banking risks					–36,000,000.00
13. Withdrawals from the fund for general banking risks			**5,900,000.00**		0.00
Amount carried forward:			**1,313,014.32**		**–39,025,183.72**

in €		31.12.2011		31.12.2010
Amount carried forward:		**1,313,014.32**		**– 39,025,183.72**
14. Depreciation and write-downs on equity investments, interests in dependent companies and securities treated as investments		**0.00**		– 865,623.58
15. Income from the revaluation of equity investments, interests in dependent companies and securities treated as investments		**11,084.89**		130,094.74
16. Profit from investments in Associates		**– 328,896.86**		– 693,477.72
17. Profit from ordinary activities		**995,202.35**		– 40,454,190.28
18. Extraordinary income	0.00		6,600,264.38	
19. Extraordinary expenses	0.00	**0.00**	– 31,214.00	6,569,050.38
20. Taxes on income		**452.39**		– 1,142,121.97
21. Other taxes not recognised under item 10		**– 115,732.52**		– 325,138.51
22. Net income for the year		**879,922.22**		– 35,352,400.38
23. Minority interest in net income		**– 215,553.32**		– 417,954.22
24. Retained earnings brought forward		**125,072.51**		4,308,417.79
25. Withdrawals from retained earnings				
a) from other retained earnings	1,891,253.02	**1,891,253.02**	38,765,776.85	38,765,776.85
26. Transfer to retained earnings				
a) to other retained earnings	– 292,881.50	**– 292,881.50**	– 1,732,025.37	– 1,732,025.37
27. Retained profit		**2,387,812.93**		**5,571,814.67**

Statement of changes in equity

as of 31.12.2010 and 31.12.2011

2010 financial year	Parent company			
	Subscribed capital		Consolidated earnings	
in € thousand	Common shares	Capital reserve	Retained earnings	Retained profit
As at 31 December 2009 (IFRS)	**45,909**	**61,427**	**50,189**	**18,485**
IFRS - HGB - Conversion	0	– 29,995	845	3,724
As at 1 January 2010 (HGB old)	**45,909**	**31,431**	**51,034**	**22,209**
Issuance of shares	0	0	19	0
Purchase/withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	– 5,900
Other changes	0	0	0	0
Consolidated net profit for the year	0	0	0	– 35,770
Other consolidated earnings	0	0	0	0
Total consolidated earnings	0	0	0	– 35,770
BilMoG – effect of initial application	0	0	– 1,046	530
Neutral changes in earnings	0	0	– 24,504	24,504
As at 31 December 2010 (HGB)	**45,909**	**31,431**	**25,502**	**5,572**

2011 financial year	Parent company			
	Subscribed capital		Consolidated earnings	
in € thousand	Common shares	Capital reserve	Retained earnings	Retained profit
As at 1 January 2011 (HGB)	**45,909**	**31,431**	**25,502**	**5,572**
Issuance of shares	0	0	0	0
Purchase/withdrawal of treasury shares	0	0	– 48	0
Dividends paid	0	0	0	– 5,447
Other changes	0	0	– 26	0
Consolidated net profit for the year	0	0	0	665
Other consolidated earnings	0	0	0	0
Total consolidated earnings	0	0	0	665
Neutral changes in earnings	0	0	– 1,598	1,598
As at 31 December 2011 (HGB)	**45,909**	**31,431**	**23,830**	**2,388**

Treasury shares	Shareholders' equity	Equity difference from currency translation	Minority shareholders Minority equity	Consolidated equity
–530	**175,479**	**66**	**2,016**	**177,561**
0	–25,427	39	–93	–25,481
–530	**150,053**	**105**	**1,923**	**152,081**
11	30	0	0	30
0	0	0	0	0
0	–5,900	0	–63	–5,963
0	0	0	0	0
0	–35,770	0	418	–35,352
0	0	46	0	46
0	–35,700	46	418	–35,307
0	–516	0	0	–516
0	0	0	0	0
–519	**107,895**	**151**	**2,278**	**110,324**

Treasury shares	Shareholders' equity	Equity difference from currency translation	Minority shareholders Minority equity	Consolidated equity
–519	**107,895**	**151**	**2,278**	**110,324**
0	0	0	0	0
–63	–111	0	0	–111
0	–5,447	0	–439	–5,886
0	–26	0	–190	–216
0	665	0	216	881
0	0	39	0	39
0	665	39	216	920
0	0	0	0	0
–582	**102,976**	**190**	**1,865**	**105,031**

Cash flow statement

in € thousand	2011	2010
1. Net profit for the period (incl. net profit of minority shareholders)	**880**	**– 35,352**
Non-cash items and reconciliation to the cash flow of ordinary activities contained in net profit for the period:		
2. Depreciation, write-downs and reversals of impairments on loans and advances and assets	9,670	9,533
3. Changes in provisions	– 3,952	– 1,126
4. Other non-cash expenses	– 6,521	28,054
5. Profit and loss from the sale of assets	10	– 70
6. Other adjustments (net)	– 5,160	– 1,895
7. Sub-total	**– 5,073**	**– 856**
Changes to assets and liabilities from operating activities:		
8. Loans and advances		
8a. to banks	70,023	– 63,610
8b. to customers	10,576	1,491
9. Securities (excluding non-current securities)	28,415	– 137,038
10. Other operating assets	– 596	1,895
11. Liabilities		
11a. to banks	– 6,300	45,578
11b. to customers	– 73,180	83,571
12. Liabilities from trading activities	– 1,029	2,273
13. Other operating liabilities	– 1,867	– 398
14. Interest and dividends received	16,651	9,859
15. Interest paid	– 9,525	– 4,977
16. Income taxes paid	– 1,493	– 2,942
17. Cash flow from operating activities	**26,172**	**– 65,154**
18. Proceeds from disposals of		
18a. financial assets	14	24
18b. property, plant and equipment and intangible assets	0	32
19. Payments for investments into		
19a. property, plant and equipment	– 11,282	– 1,275
19b. intangible assets	– 9,525	– 5,627
20. Payments for the acquisition of consolidated companies and other business units	– 216	– 2,224
21. Cash flow from investment activities	**– 21,009**	**– 9,070**
22. Payments to business owners and minority shareholders		
22a. dividend payments	– 5,447	– 5,900
22b. other payments	– 111	29
23. Changes in assets from other capital (net)	9,098	91,449
24. Cash flow from financing activities	**3,540**	**85,578**
25. Net change in cash and cash equivalents (17, 21, 24)	**8,703**	**11,354**
26. Effect of changes in exchange rates, scope of consolidated companies and measurement on cash and cash equivalents	39	624
27. Cash and cash equivalents at start of period	**12,889**	**911**
28. Cash and cash equivalents at end of period	**21,631**	**12,889**

/ Notes

I. Basis

In accordance with Section 315a (1) of the German Commercial Code (HGB) in conjunction with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) have been mandatory since 1 January 2005 for all companies active on the capital markets in the European Union.

With the segment switch of the stock exchange listing of the shares of Baader Bank AG from the regulated market to the regulated unofficial market in March 2010, the Bank no longer has a capital market focus as defined in Section 264d HGB. Effective 1 January 2011, Baader Bank AG no longer makes use of voting rights in accordance with Section 315a (3) Sentence 1 HGB.

The consolidated financial statements of Baader Bank AG for the 2011 financial year were prepared in accordance with the provisions of the HGB, most recently amended by the German Accounting Law Modernisation Act (BilMoG), and the German Accounting Principles for Banks and Financial Services Institutions Regulation (RechKredV). The provisions of the German Stock Corporation Act (Aktiengesetz, AktG) were observed.

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

In addition to the consolidated statement of financial position and the consolidated income statement, the consolidated financial statements also include a statement of changes in equity, a cash flow statement and notes. Voting rights in accordance with Section 297 (1) Sentence 2 HGB were not exercised and there was no segment reporting.

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

The reporting date is 31 December 2011 and the financial year is the calendar year.

II. Accounting policies

In the measurement of the assets and liabilities reported in the annual financial statements, the general measurement principles (Sections 252 ff. HGB), the special provisions for companies (Sections 264 ff. HGB) and the special measurement provisions applying to banks (Sections 340a ff. HGB) are observed.

In the interest of improved clarity and comprehensibility, all the notices required in accordance with the statutory provisions for the items in the statement of financial position and the income statement, as well as all the notices whose inclusion in the statement of financial position and the income statement are optional are included in the Notes. Individual items that are summarised in the statement of financial position and the income statement are broken down in the Notes.

The specific accounting policies used are listed below:

Cash reserves
Cash reserves are measured at their nominal value.

Loans and advances
As a rule, loans and advances to banks and customers are recognised at their nominal amount or cost and are reduced by a sufficient level of write-downs.

Securities (excluding trading portfolio)
Securities that are held for trading purposes are measured as described in the separate section "Trading portfolio".

Securities that are intended to permanently service business operations are recognised as financial assets under the modified lower of cost or market principle pursuant to Section 253 (1 and 3) HGB at amortised cost. Any expected permanent impairments are taken into account.

If necessary, revaluations are made in accordance with the reversal requirement (Section 253 (5) HGB). Use is made of offsetting permitted in accordance with Section 340c (2) HGB.

The measurement option according to Section 340e (1) Sentence 3 HGB in conjunction with Section 253 (3) Sentence 4 HGB is not used. On the reporting date, the Baader Group held no securities in its portfolio that were intended to permanently service business operations.

Securities that are not intended to permanently service business operations and are not allocated to the trading portfolio are recognised as current assets under the strict lower of cost or market principle pursuant to Section 253 (1 and 4) HGB at cost or at the lower of their market value or the lower of their fair value.

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

Trading portfolio
The financial instruments in the trading portfolio are initially measured at cost. Subsequent measurement takes place in accordance with Section 340e (3) HGB at fair value less a risk discount for financial assets or plus a risk premium for financial liabilities. Please see the section "Securities (excluding trading portfolio)" for information on the calculation of fair value.

The starting point for calculating the risk discount or risk premium is the value-at-risk (VAR). Value-at-risk refers to a risk measurement that indicates the level of loss on the portfolio that will not be exceeded with a given probability in a given time horizon. The Baader Group uses the Monte Carlo simulation approach to calculate the market price risk (VAR). A holding period of 10 days with a confidence level of 99% is assumed for the calculation. Up to 100 observation days are taken into account.

The value-at-risk is calculated at the end of every month for the entire trading portfolio and set in relation to the total fair value of the trading book (percentage risk discount). For financial assets the percentage risk discount is applied to the positive difference between the fair value and the historical cost, while for financial liabilities the percentage risk discount is applied to the negative difference between the fair value and the historical cost. The trading assets are reduced by the amount of the risk discount and the trading liabilities are increased by the amount of the risk premium calculated.

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

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

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

No reclassification of financial instruments took place in the 2011 financial year.

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

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

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

Intangible assets and property, plant and equipment
In accordance with the BaFin (Federal Financial Supervisory Authority) letter of 16 August 2005, banks are also to recognise user software under the item intangible assets. In its letter, BaFin refers to the corresponding opinion of the accounting and auditing committee of the Institut der Wirtschaftsprüfer (IDW - Institute of Public Auditors in Germany). In conformance with this letter, the Baader Group has reported its standard computer software under intangible assets since 31 December 2005.

Purchased intangible assets are measured at cost net of straight-line amortisation. If impairment appears to be long term then unscheduled amortisation is recorded.

Property, plant and equipment is measured at cost net of straight-line amortisation. Low-value assets with a cost of up to €150.00 (net) are recognised immediately through profit and loss under expenses. In addition, low-value assets with a cost of up to €1,000.00 are recognised in an annual compound item and amortised over five years using the straight-line method.

Payments made on intangible assets and property, plant and equipment are recognised at their nominal amount and, where necessary, are reduced by a sufficient level of write-downs.

Other assets
Other assets are recognised at their nominal amount net of any amortisation and depreciation.

Liabilities and provisions
Liabilities are recognised at their settlement amount.

Pension provisions are measured using the pro rata degressive projected unit credit method, applying the average market interest rate resulting from an assumed remaining maturity of 15 years. The Deutsche Bundesbank has set this interest rate at 5.14%.

Pension obligations whose amount is determined by the fair value of securities held in assets or the fair value of a reinsurance claim are recognised at the fair value of these securities or the fair value of the reinsurance claim, provided it exceeds a guaranteed minimum amount.

Other provisions are measured at the level of their required settlement amount which is determined in conformance with Section 253 (1) HGB in accordance with the principles of a prudent commercial assessment. If the expected remaining maturity of a provision is more than one year, the provision is discounted by the interest rate published by the Deutsche Bundesbank at that time.

Fund for general banking risks
The fund for general banking risks includes amounts that a prudent commercial assessment would deem necessary to cover special risks. Irrespective of the amount, in accordance with Section 340e (4) HGB, the fund receives allocations from the net income of the trading portfolio. On the reporting date, in accordance with Section 340e (4) No. 2 HGB, the fund for general banking risks contained the equivalent of 50% of the average annual net income from the trading portfolio from the last five years.

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

Assets denominated in foreign currency and assets treated as investments that are not specially hedged in the same currency are generally recognised at their historical cost. Other assets and liabilities and outstanding cash transactions that are denominated in foreign currency are translated at the average spot price on the reporting date; forward exchange transactions are translated at the forward rate on the reporting date.

On the reporting date the company held assets denominated in foreign currency totalling €8 thousand, which were translated at the average spot price on the reporting date. These assets relate solely to the assets of Conservative Concept AG, Zug (Switzerland). In addition, as at 31 December 2011, there were no other assets treated as investments that were denominated in foreign currency.

The treatment of the results from foreign currency translation depends on whether they arise from foreign currency transactions of the trading portfolio, special hedged transactions or non-special hedged transactions. If the results arise from the trading portfolio as well as the existence of special hedges, both the expenses and income from the currency translation are recognised through profit and loss. The same holds true for foreign currency items without special hedges with a remaining maturity of up to one year. In contrast, for foreign currency items without a special hedge and with a remaining maturity of more than one year, only the expenses from the currency translation are recognised through profit and loss in accordance with the imparity principle.

As at the reporting date, there were no foreign currency items without special hedges with a remaining maturity of more than one year.

III. Changes in accounting policies

In contrast to the previous year, the consolidated financial statements of Baader Bank AG for the 2011 financial year were prepared in accordance with the provisions of the HGB. Because of this change, the prior year amounts have been adjusted.

Under Section 340c (2) Sentence 1 HGB, depreciation on equity investments, interests in dependent companies and non-current securities are offset against income from the revaluation of equity investments, interests in dependent companies and non-current securities and are presented in a single income or expense item.

Income and expenses arising from the application of Section 340f (1) HGB, from transactions with securities in the liquidity reserve and expenses from depreciation and income from the revaluation of these securities may, in accordance with Section 340f (3) HGB, be offset against expenses from depreciation and write-downs on loans and advances, additions to provisions for contingent liabilities and for credit risks as well as against the income from the revaluation of loans and advances or from their receipt after partial or complete depreciation and from the reversal of provisions for contingent liabilities and for credit risks, and presented in the income statement as depreciation and write-downs on loans and advances and specific securities as well as additions to loan loss provisions or income from the revaluation of loans and advances and specific securities as well as from the reversal of loan loss provisions.

The partial offsetting of the above items in the income statement is not permitted under Section 33 RechKredV or Section 32 RechKredV.

The Baader Group made use of the presentation options described for the first time in the income statement dated 31 December 2011. Because of this change, the prior year amounts have been adjusted.

TABELLE 7 THE FOLLOWING FULLY IN € THOUSAND

Name / Registered office	Equity interest in %	Share capital	Equity capital	Total assets	Net profit for the year	First consolidated
Baader Management AG, Unterschleißheim	100.00	50	45	46	– 1	31 December 2003
N.M. Fleischhacker AG, Frankfurt am Main	100.00	5,000	6,377	9,084	0 [1]	1 January 2009
Baader & Heins Capital Management AG, Unterschleißheim	75.00	50	3,775	5,622	1,286	1 January 2005
Conservative Concept Portfolio Management AG, Bad Homburg	60.89	140	2,105	2,652	221	1 October 2006
Conservative Concept AG, Zug (Switzerland) [2]	100.00 [3]	62	1,070	1,198	– 326	1 October 2006

1 The result of the financial year as at 31 December 2011 is presented as €0.00 because of a profit transfer agreement concluded with Baader Bank AG.
2 The shares in Conservative Concept AG, Zug (Switzerland) are held indirectly via the investment in Conservative Concept Portfolio Management AG, Bad Homburg.
3 The figures for the financial year as at 31 December 2011 have been converted (€/CHF 1.2156).

IV. CONSOLIDATED COMPANIES

In addition to Baader Bank AG as the parent company, the consolidated financial statements for the year ended 31 December 2011 comprise five subsidiaries (previous year: eight subsidiaries), in which Baader Bank AG holds a direct or indirect interest of more than 50% or a controlling influence (Baader Group). Four of these companies are based in Germany while one is headquartered abroad. There are no subsidiaries or associates that are immaterial from the perspective of the Baader Group's net assets, financial position and the results of operations.

The following fully consolidated companies were included in the consolidated financial statements as at 31 December 2011: → **TABLE 7**

With Baader Unterstützungskasse e. V., Unterschleißheim, Baader Bank AG maintains a special purpose vehicle as defined in Section 290 (2) No. 4 HGB whose inclusion in the consolidated financial statements is in principle obligatory. For reasons of materiality, it was not consolidated on 31 December 2011 in accordance with Section 296 (2) Sentence 1 HGB.

In a purchase agreement dated 31 January 2011, Baader Bank AG acquired an additional 25% of the shares of direcct AG, Unterschleißheim, increasing its ownership of the company to 100%.

In accordance with the merger agreement dated 22 June 2011, direcct AG was merged into Baader Bank AG effective 1 January 2011.

In a purchase agreement dated 8 May 2011, Baader Bank AG sold its holdings in KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft m. b. H., Unterschleißheim to Baader & Heins Capital Management AG, Unterschleißheim.

With a merger agreement dated 28 June 2011, KA.DE.GE Kapital.Devisen.Geld Vermittlungsgesellschaft m. b. H. was merged into Baader & Heins Capital Management AG effective 1 January 2011.

KDG Abwicklungsgesellschaft mbH i. L., Unterschleißheim was dissolved effective 12 December 2011.

The following associated companies were included in the consolidated financial statements as at 31 December 2011: → **TABLE 8**

Baader Bank AG continued to hold a 21.93% interest in Parsoli Corporation Ltd., Mumbai (India) as at 31 December 2011. The departure of the Baader Bank AG representatives from the Managing Board of Parsoli Corporation Ltd. in 2009 means that there is no longer any significant influence on the company. The interest is therefore recognised under the item Equity investments.

V. CONSOLIDATION METHODS

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

Subsidiaries

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

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

The Baader Group reviews the appropriateness of consolidation decisions that have been made at least once a year at the end of each financial year. Accordingly, any organisational changes are immediately taken into account. This includes changes in ownership in addition to all changes to existing or newly concluded contractual obligations with an entity entered into by the Group.

The financial statements of the companies included in the Baader Group are prepared using uniform accounting policies.

The full consolidation of subsidiaries generally takes place in accordance with the principles set out in Sections 300 ff. HGB.

TABLE 8 ASSOCIATED COMPANIES IN € THOUSAND

Name / Registered office	Equity interest in %	Carrying value of interest	Equity capital	Total assets	Net profit for the year	Fair value of interest
BAM Berlin Asset Management GmbH, Berlin	30.00	105	306 [3]	413 [3]	151 [3]	– [2]
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	30.00	4,374	13,591 [1]	15,800 [1]	– 1,290 [1]	– [2]

1 Figures are based on the unaudited financial statements as at 31 December 2011.
The equity, total assets and net profit of the financial year ended 31 December 2011 were translated (€/OMR 0.49880).
2 No public market price available as at 31 December 2011.
3 Figures are based on the last confirmed financial statements available to us as at 31 December 2010.

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

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

Carrying value method

The consolidation is based on the carrying values reported in the individual financial statements. The proportional equity attributable to the consolidated subsidiary is offset against the carrying value of the investments of the Group companies in the subsidiary. Please see the section "Equity investments" for information on the calculation of the carrying value of investments.

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

Revaluation method

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

The amortisation of goodwill generally takes place over a scheduled useful life of 10 years, since historical observations have shown that a useful life of five years is significantly too short. Any negative goodwill is immediately reversed in profit and loss.

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

At the reporting date, no goodwill from the consolidation of subsidiaries existed.

When a subsidiary is consolidated for the first time on the reporting date, the items of the income statement of the subsidiary are fully assumed into the income statement of the Group. When a subsidiary is consolidated for the first time during the year, the items are assumed pro rata.

Because of limited options for exercising rights or for reasons of materiality, interests in subsidiaries not included in the consolidated financial statements (Section 296 (1 and 2) HGB) are generally recognised at amortised cost. Please see the section "Equity investments" for more information.

As at the reporting date, all subsidiaries were included in the consolidated financial statements. For reasons of materiality, one special purpose entity was not consolidated on 31 December 2011. Please see the section "Consolidated companies" for more information.

Associates

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

As at the reporting date no potential voting rights existed.

Other factors used in assessing significant influence include representation on management and supervisory boards of the investee company and significant transactions with the associate. The presence of such factors could indicate the existence of an associate even if the Group's interest includes less than 20% of the voting rights.

On the reporting date, only companies in which the Group holds more than 20% of the voting rights are considered associates.

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

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

No such impairments were necessary on the reporting date.

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

If the Group sells interests in an associate wholly or in part, the success of the sale is determined by comparing the proceeds from the sale and the equity value attributed to the interest being sold. If the Group loses significant influence over an associate with no change to its interest, the equity value is amortised using the cost method.

The Group's interests in associates were unchanged in the 2011 financial year. The Group also continued to have significant influence on its associates as at 31 December 2011.

VI. Notes to the statement of financial position

Foreign currency

On the reporting date, the Group had assets in foreign currency amounting to the equivalent of €42,924 thousand (previous year: €76,983 thousand). This involved the following items on the statement of financial position: → Table 9

As at 31 December 2011, liabilities denominated in foreign currency totalled €46,882 thousand (previous year: €86,548 thousand). This involved the following items on the statement of financial position: → Table 10

Income resulting from currency translation of €64 thousand and expenses of €97 thousand are reported in other income/expenses. In addition, expenses of €46 thousand are reported under the net profit of the trading portfolio.

Loans and advances to banks

Loans and advances to banks consist of bank balances of €35,571 thousand and other loans and advances of €49,457 thousand. It includes no loans and advances to companies in which a participating interest is held.

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities total €213,095 thousand and include no loans and advances to associates. → **Table 11**

Table 11 Debt securities and other fixed-income securities in € thousand

	31.12.2011
Bonds and notes	206,969 [1]
Coupon income	6,126
Debt securities and other fixed-income securities	**213,095**

1 Bonds and notes totalling €10,000 thousand are amortised at cost pursuant to Section 255 (4) Sentence 4 HGB rather than at market price. The valuation using theoretical prices pursuant to Section 255 (4) Sentence 2 is €9,924 thousand. Please see the section "Securities (excluding trading portfolio)" for more information.

In the following year, bonds and notes totalling €20,021 thousand will be due.

Maturity structure

The following maturity structure exists for the assets and liabilities reported in the statement of financial position: → **Table 12**

Table 12 Maturity structure for the assets and liabilities in € thousand

	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years
Other loans and advances to banks	10,537	1,318	0	8,000
Loans and advances to customers	14,636	2,567	3,901	0
Liabilities to banks with agreed term or period of notice	25,393	0	0	9,982
Liabilities to customers with agreed term or period of notice	2,034	12,304	98,170	95,000

A breakdown of the marketable securities into listed and unlisted securities: → **Table 13**

Table 13 Breakdown of the marketable securities in € thousand

	Non-marketable	Marketable		Marketable securities not valued at their lowest value
		Listed	Unlisted	
Bonds and notes	0	196,969	10,000	0
Equities / other non-fixed-income securities	693	9,607	0	0
Equity investments	4,802	1,206	120	0
Investments in Associates	0	0	13,688	0

Table 9 Assets in foreign currency in € thousand

Financial position	BRL	CAD	CHF	GBP	HKD	INR	JPY	NOK	SAR	USD
Loans and advances to banks	565	0	205	1,035	480	20	274	8	0	25,841
Loans and advances to customers	0	0	78	30	176	0	4	0	32	14,144
Trading portfolio	0	0	0	0	0	0	0	0	12	0
Other assets	0	0	20	0	0	0	0	0	0	0
Assets in foreign currency	**565**	**0**	**303**	**1,065**	**656**	**20**	**278**	**8**	**44**	**39,985**

Table 10 Liabilities denominated in foreign currency in € thousand

Financial position	BRL	CAD	CHF	GBP	HKD	INR	JPY	NOK	SAR	USD
Liabilities to banks	0	36	0	0	129	0	0	0	0	14,952
Liabilities to customers	552	0	234	1,181	525	0	260	8	0	28,685
Other liabilities	0	26	104	95	0	0	0	0	0	95
Liabilities in foreign currency	**552**	**62**	**338**	**1,276**	**654**	**0**	**260**	**8**	**0**	**43,732**

TABLE 14 DEVELOPMENT AND COMPOSITION OF THE INVESTMENT ASSETS IN € THOUSAND

	Cost				
	As at 01.01.2011	Additions	Disposals	Reclassifications	As at 31.12.2011
A. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets	44,231	9,039	26	4,523	57,766
2. Goodwill	22,560	0	0	0	22,560
3. Payments made on intangible assets	4,523	487	0	4,523	487
	71,314	**9,525**	**26**	**0**	**80,812**
B. Property, plant and equipment					
1. Land and buildings	23,873	0	0	0	23,873
2. Furniture, fixtures and office equipment	5,071	1,024	267	138	5,966
3. Payments made on property, plant and equipment and construction in progress	785	10,531	273	138	10,904
	29,728	**11,555**	**541**	**0**	**40,743**
C. Financial assets					
1. Equity investments	5,625	0	3	0	5,622
2. Associates	4,852	0	0	0	4,852
	10,476	**0**	**3**	**0**	**10,473**

Assets
The capitalised goodwill from the merged companies DBM Deutsche Börsenmakler GmbH and Baader Service Bank GmbH is being amortised over 10 years using the straight-line method.

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

All of the properties and buildings shown in the asset grid were used by the Baader Group as part of its own operations.

No self-made intangible assets were capitalised.

The development and composition of the investment assets can be seen in the following asset grid: → **TABLE 14**

Shareholdings
Shareholdings are shown under number 0.

Other assets
Other assets include: → **TABLE 15**

TABLE 15 OTHER ASSETS IN € THOUSAND

	31.12.2011
Corporate tax credits (discounted)	8,613
Income tax receivables	714
Other tax receivables	1,980
Receivables from brokerage fees and price differences	273
Reinsurance claims from life insurance policies	17
Other receivables	336
Other assets	**11,933**

Other assets include no receivables from members of the Board of Managing Directors and Supervisory Board or from Associates.

Prepaid expenses
Prepaid expenses totalling €40 thousand consist of goodwill from the issue of two promissory notes assumed on the asset side in accordance with Section 250 (3) HGB.

Liabilities to banks
Liabilities to banks serve mainly to finance the office building of Baader Bank AG in Unterschleißheim and to refinance the securities trading business. This item consists of a mortgage of €15,000 thousand to finance the office building.

Liabilities to customers
As at the reporting date, customer deposits payable on demand amounting to €109,102 thousand and liabilities to customers from promissory note loans assumed totalling €207,507 thousand existed.

Other liabilities
Other liabilities include: → **TABLE 16**

TABLE 16 OTHER LIABILITIES IN € THOUSAND

	31.12.2011
Trade payables	1,389
Tax liabilities	1,044
Miscellaneous liabilities	1,209
Other liabilities	**3,642**

Pension provisions
Pension obligations at 31 December 2011 stood at €10,283 thousand; they are calculated using the process described in the section "Liabilities and provisions". Bank accounts, securities accounts and reinsurance are available to cover these obligations. Interest expense of €417 thousand was recorded for the 2011 financial year. The actuarial calculations are based on the following parameters: → **TABLE 17**

TABLE 17 PARAMETERS FOR ACTUARIAL CALCULATIONS

	31.12.2011	31.12.2010
Interest rate	5.14%	5.15%
Changes in salaries	0.0% bzw. 3.0%	0.0% bzw. 3.0%
Pension adjustments	2.0%	2.0%

Additionally, the Klaus Heubeck biometric tables "Richttafeln" 2005G were used as the basis for calculating both the commercial financial statements and the statements used for tax purposes on 31 December 2011.

	Accumulated depreciation					Carrying amounts	
	As at 01.01.2011	Additions	Disposals	Reversals of impairments	As at 31.12.2011	As at 31.12.2011	As at 31.12.2010
	24,979	5,181	24	0	30,135	27,630	19,252
	6,353	2,256	0	0	8,609	13,951	16,207
	0	0	0	0	0	487	4,523
	31,332	**7,437**	**24**	**0**	**38,745**	**42,068**	**39,982**
	7,008	854	0	0	7,863	16,010	16,865
	3,600	553	248	0	3,905	2,061	1,471
	0	0	0	0	0	10,904	785
	10,609	**1,407**	**248**	**0**	**11,767**	**28,976**	**19,120**
	4,062	0	0	0	4,062	1,560	1,563
	0	430	0	57	372	4,479	4,852
	4,062	**430**	**0**	**57**	**4,434**	**6,039**	**6,415**

Cover assets

→ **Table 18**

Table 18 Cover assets in € thousand

	31.12.2011	31.12.2010
Cost	12,520	12,040
Fair value	12,353	12,236
Debts repaid	9,462	9,236

The bank deposits, reinsurance policies and securities accounts qualifying as cover assets are netted against the pension obligations. In addition, a difference from offsetting assets totalling €2,891 thousand is reported on the asset side. This results overall in the presentation of pension provisions totalling €821 thousand.

Other provisions

Other provisions consist of the following: → **Table 19**

Table 19 Other provisions in € thousand

	31.12.2011
Provisions for personnel expenses	4,971
Legal, audit and consultancy costs	967
Contributions	261
Administrative expense	845
Miscellaneous provisions	750
Other provisions	**7,794**

Fund for general banking risks

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

In accordance with Section 340e (4) No. 2 HGB, the special item amounting to €5,900 thousand was dissolved on 31 December 2011. This is presented in the income statement under the item "Withdrawals from the fund for general banking risks".

Trading portfolio

Assets held for trading and liabilities from trading activities broke down as follows on 31 December 2011: → **Table 20**

Table 20 Assets held for trading and liabilities in € thousand

Assets held for trading	**31.12.2011**
Derivative financial instruments	8
Loans and advances	0
Debt securities and other fixed-income securities	59,823
Equities / other non-fixed-income securities	57,851
Other assets	0
Risk discount	–30
Assets held for trading on the balance sheet	**117,652**
Liabilities from trading activities	**31.12.2011**
Derivative financial instruments	162
Liabilities	1,745
Risk premium	2
Liabilities from trading activities on the balance sheet	**1,909**

The criteria for the inclusion of financial instruments in the trading portfolio were not changed in the 2011 financial year.

Valuation units

No valuation units according to Section 254 HGB were formed in the 2011 financial year.

Derivative financial instruments

Futures

At the reporting date of 31 December 2011, Baader Bank AG held the following categories of derivative financial instruments in the trading portfolio:

– Index-related transactions,
– Interest rate-related transactions

These transactions involved futures.

The procedure for the accounting and valuation of the assets and liabilities of the trading portfolio is described in the section "Trading portfolio". At the reporting date, all derivative financial instruments were recognised at the fair value corresponding to the market value.

Forward transactions

At the reporting date, outstanding forward contracts existed solely in the context of forward exchange contracts within the meaning of Section 36 No. 1 RechKredV. → **Table 21**

Table 21 Forward transactions in TBRL

Maturity	Amount
8 November 2011 to 10 February 2012	– 11,550
23 December 2011 to 30 January 2012	– 13,750
8 November 2011 to 10 February 2012	11,550
23 December 2011 to 30 January 2012	13,750

The transactions listed consist solely of customer-initiated forward contracts.

The chart below depicts the extent and type of each category of derivative financial instruments valued at fair value (market value), including the significant conditions that could influence the amount, timing and certainty of future cash flows: → **Table 22 / 23**

Table 22 Assets held for trading in €

Portfolio	Description	Category	Maturity	Market price
Eurex FH HVB	EuroStoxx 50 Option	Eurex equity index option	20 January 2012	1.50

Table 23 Liabilities from trading activities in €

Portfolio	Description	Category	Maturity	Market price
Eurex FB	Future EuroStoxx	Eurex equity index future	16 March 2012	2,308.00
Eurex FB	Future Dax	Eurex equity index future	16 March 2012	5,900.00
Eurex SV	5-year Bobl Future	Fixed Income Future	16 March 2012	125.11

Interests in investment funds

Information on interests or investment shares in German investment funds within the meaning of Section 1 of the Investment Act (InvG) or comparable foreign investment shares within the meaning of Section 2 (9) of the Investment Act of more than 10%: → **Table 24**

Table 24 Interests in investment funds in €

WKN (German securities identification number)	Instrument	Category	Investment objective	Distribution
A0Q8HC	SHERPA ABSOLUTE RETURN AMI INHABER-ANTEILE P(A)	Directive-compliant special investment fund as defined in Sections 46 InvG ff.; mutual fund	Long-short equity strategy based on European indices and equities;	none
A0HGZ3	CONQUEST BEHAV. FIN. AKT. AMI INHABER-ANTEILE P	Directive-compliant special investment fund as defined in Sections 46 InvG ff.; mutual fund	Long-short equity strategy based on European indices and equities;	none

Deferred taxes

Deferred taxes are calculated on value differences between commercial and tax law in their approach to loss carryforwards, taxable goodwill, cover assets, capitalised order books, pension provisions, provisions for anticipated losses, and in the discounting of other provisions. A 29.24% tax rate is applied. With the exercise of the option provided for in Section 274 (1) HGB, the resulting surplus is not presented in the balance sheet.

Equity of the Baader Group

Subscribed capital and capital reserve

The subscribed capital (share capital) as at 31 December 2011 amounted to €45,909 thousand, comprising 45,908,682 no-par value bearer shares.

The resolutions from 10 July 2002 regarding Authorised Capital I and Authorised Capital II were revoked by the General Meeting of Shareholders on 26 June 2007. New Authorised Capital 2007 was created. With the consent of the Supervisory Board the Board of Managing Directors was authorised accordingly to raise the share capital by up to €22,954 thousand by 25 June 2012 via the issue of new bearer shares on one or more occasions in return for cash and/or non-cash contributions. As a rule the shareholders will be granted a subscription right. However, with the approval of the Supervisory Board the Board of Managing Directors may

a) exclude fractional amounts from the subscription right; ;

b) rule out the subscription right of shareholders in order to issue new shares for cash contributions at an issue price that is not significantly lower than the quoted market price of shares already listed at the time the issue price is finalised (Section 186 (3) Sentence 4 AktG), whereby this exclusion of subscription rights may only affect shares whose imputed value does not exceed 10% of the share capital;

c) rule out the subscription right of shareholders in order to issue shares for non-cash contributions to acquire companies or equity interests in companies or parts of companies or assets – including by means of share swaps – and in the event of business combinations (Authorised Capital 2007).

The General Meeting of Shareholders held on 19 July 2006 resolved to raise contingent capital by up to a nominal amount of €1,200 thousand. This contingent capital increase will only be implemented by issuing up to 1,200,000 new no-par value bearer shares with dividend rights from the beginning of the financial year of their issue, insofar as the holders of options granted under the 1999 Stock Option Plan of Baader Bank AG based on authorisation given on 18 June 1999 exercise their options (Contingent Capital 1999).

The General Meeting of Shareholders held on 19 July 2006 resolved to raise contingent capital again by up to €600 thousand. This contingent capital increase will only be implemented by issuing up to 600,000 new no-par value bearer shares with dividend rights from the beginning of the financial year of their issue, insofar as the holders of options granted under the 2004 Stock Option Plan of Baader Bank AG based on authorisation given on 14 July 2004 exercise their options (Contingent Capital 2004).

The share capital is also raised on a contingent basis by up to a nominal amount of €1,600 thousand by a resolution of the General Meeting of Shareholders on 26 June 2007. This contingent capital increase will only be implemented by issuing up to 1,600,000 new no-par value bearer shares with dividend rights from the beginning of the financial year of their issue, insofar as the holders of options granted under the 2006 Stock Option Plan of Baader Bank AG based on authorisation given on 19 July 2006 exercise their options (Contingent Capital 2007).

A resolution of the General Meeting of Shareholders held on 26 June 2007 raised the share capital of the Bank up to €10,000 thousand on a contingent basis via the issue of up to 10,000,000 new no-par value bearer shares (Contingent Capital 2005). The contingent capital is designed to grant rights to holders or creditors of convertible bonds and/or warrants from partial bonds, issued on the basis of the resolutions from the General Meeting of Shareholders on 29 June 2005 and from 26 June 2007 to 25 June 2012 by Baader Bank AG or by a company in which Baader Bank AG holds a direct or indirect majority interest. The new shares are issued at the conversion or option price determined each time. The contingent capital increase will only take place to the extent these rights are used. The new shares carry dividend rights from the beginning of the financial year in which they are created

Contracts	Market value	Carrying value	Risk factors	Cash flows
500 Stück	7,500.00	10,195.00	Fluctuations in the cash flow result primarily from changes in value of the Euro Stoxx 50 index (10 euros per index point);	- Daily: the daily settlement price is established via Eurex. The Black/Scholes-76 model is used to calculate the daily settlement price for equity index options (including weekly options). If necessary, expected dividends, current interest rates and other distributions are taken into account. - Cash settlement on the first exchange trading day after the final settlement day.

Contracts	Market value	Carrying value	Risk factors	Cash flows
–50 Number	–1,154,000.00	–1,103,882.50	Fluctuations in the cash flow result primarily from changes in value of the Euro Stoxx 50 index (10 euros per index point);	- Daily: cash settlement on the first exchange trading day after the final settlement day.
–15 Number	–2,212,500.00	–2,163,479.25	Fluctuations in the cash flow result primarily from changes in value of the DAX index (25 euros per index point);	- Daily: cash settlement on the first exchange trading day after the final settlement day.
–40 Number	–5,004,400.00	–4,941,890.00	Fluctuations in the cash flow result primarily from changes in value of medium-term German bonds (multiplier of 1000);	- Daily: settlement price (volume-weighted average of all transactions at 5:14 pm, if more than five transactions were made). - Fulfilment by delivery.

Volume	Book price	Market price	Market value	Carrying value
40,000 Number	100.07	94.21	3,768,400.00	4,002,776.20
10,000 Number	9.96	10.01	100,100.00	99,600.00

from the exercise of conversion rights or options. The Board of Managing Directors is authorised to determine 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.

A resolution of the General Meeting of Shareholders on 29 June 2010 revoked the resolutions from 3 July 2009 in accordance with Section 71 (1) Nos. 7 and 8 AktG, and issued authorisations until 28 June 2015 in accordance with Section 71 (1) Nos. 7 and 8 AktG as follows:

a) To buy and sell own shares for the purposes of securities trading at prices that do not exceed or fall short of the average closing price for the shares in floor trading on the Frankfurt Stock Exchange by more than 10% on the three preceding trading days. The stock of shares acquired for such purposes may not exceed 5% of the Bank's share capital
b) In accordance with Section 71 (1) No. 8 AktG the Bank is authorised to acquire its own shares, in particular to be able to offer such to third parties as part of the acquisition of companies, parts of companies or equity interests or assets – including by means of share swaps – and in the event of business combinations
c) To offer shares for subscription to beneficiaries from the 1999, 2004 and 2006 Stock Option Plans of Baader Bank AG in accordance with the authorisations of the General Meetings of Shareholders held on 18 June 1999, 14 July 2004 and 19 July 2006, or to withdraw said shares

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

At the reporting date, 581,765 treasury shares were held.

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

Retained profit
→ Table 25

Table 25 Retained profit in € thousand

	31.12.2011
Net income before minority shareholders	880
Minority interest in net income	– 215
Total consolidated earnings	**664**
Retained earnings brought forward	125
Withdrawals from retained earnings	1,891
Transfer to retained earnings	– 293
2011 net earnings	**2,388**

Treasury shares
In the reporting year no treasury shares held by persons eligible for the stock option plans of the Baader Group were drawn. In the reporting period, 62,601 treasury shares were acquired. Treasury share holdings represent 1.24% of the share capital. The share capital held in the treasury shares amounts to €582 thousand.

In the financial year, shareholders acquired no shares for account of the Baader Group. → Table 26

Table 26 Treasury shares

Holdings 31.12.2010	Additions (Number)	Ø-price in €	Disposals (Number)	Ø-price in €	Holdings 31.12.2011
519,164	62,601	1.77	0	0.00	581,765

The average price of the treasury shares held at the reporting date was €2.68.

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

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

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

Other obligations
In addition, irrevocable open loan commitments to customers totalling €1,010 thousand existed. The item includes open loan commitments to members of the Board of Managing Directors. The open loan commitments to members of the Board of Managing Directors total €300 thousand, €3 thousand of which has been used in the form of a credit guarantee.

VII. Transactions not included in the balance sheet

Information in accordance with Section 285 No. 3 HGB
Financial obligations derived from rental contracts for office space and car parking spaces amount to €7,921 thousand with remaining terms of between one and 109 months.

In addition there are obligations from vehicle leases and lease contracts for operating and office equipment amounting to €3,440 thousand, with remaining terms of between two and 53 months.

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

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

As at 31 December 2011, there were purchase commitments amounting to €16.1 million gross which related exclusively to the 2012 financial year.

No risks exist given the current type and extent of the transactions.

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

VIII. Notes to the income statement

Other operating income
Other operating income mainly includes income from non-cash benefits (company cars) (€437 thousand), rental income (€13 thousand), out-of-period income (€752 thousand) and income from the reversal of provisions (€373 thousand).

Out-of-period income consists primarily of payment reimbursements from BaFin amounting to €687 thousand.

Amortisation and depreciation on intangible assets and property, plant and equipment
No unscheduled amortisation is included under amortisation. Please see the asset grid for the breakdown.

Other operating expenses
Other operating expenses mainly include out-of-period expenses (€409 thousand), special payments in compensation to securities trading companies (€28 thousand) and expenses from the disposal of assets (€22 thousand).

Out-of-period expenses consist primarily of expenses allocated to net fee and commission income.

Taxes on income
Taxes reported for the 2011 financial year comprise income taxes for the past financial year amounting to €531 thousand, tax refunds and tax arrears totalling €25 thousand net and income from accrued interest on corporate tax credits totalling €507 thousand. The resulting income tax totals €0.

The full amount of income taxes due is based on profit from ordinary activities.

IX. Additional information

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

Employees
In the 2011 financial year, an average of 407.25 staff was employed (previous year: 365). 29 of these employees were executives.

Total remuneration of the Board of Managing Directors and the Supervisory Board
The members of the Board of Managing Directors received total remuneration of €1,680 thousand for their activities during the financial year.

The members of the Supervisory Board received total remuneration of €189 thousand for their activities during the financial year.

Audit fees
The audit fees for the 2011 financial year break down as follows: → Table 27

Table 27 Audit fees in € thousand

Services	2011
Annual audit services	559 [1]
Other certification services	54
Tax advisory services	99 [2]
Other services	7
Total fees	**719**

1 Annual audit services totalling €11 thousand relate to the 2010 financial year. In addition, annual audit services totalling €11 thousand do not relate to the auditor of the consolidated financial statements.
2 Tax advisory services totalling €24 thousand relate to the 2010 financial year.

Executive bodies at Baader Bank AG

Board of Managing Directors

Uto Baader, Munich (Chairman)
Occupation: Economist

Dieter Brichmann, Penzberg
Occupation: Businessman

Dieter Silmen, Baldham
Occupation: Banker

Nico Baader, Gräfelfing
Occupation: Banker

Supervisory Board

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

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

Karl-Ludwig Kamprath, Munich
Occupation: Chairman of the Board of Managing Directors at Kreissparkasse München-Starnberg, retired

Helmut Schreyer, München
Occupation: Banker

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

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

Mandates in accordance with Section 340a (4) No. 1 HGB
As at 31 December 2011, the following memberships of statutorily required supervisory boards of major German and foreign companies were held: → Table 28

Table 28 Mandates in accordance with Section 340a (4) No. 1 HGB

Mandate holder	Mandate company / institution	Mandate
Uto Baader	Bayerische Börse AG, Munich	Member of the Supervisory Board
	Corona Equity Partner AG, Munich	Member of the Supervisory Board
	Gulf Baader Capital Markets S.A.O.C., Muscat (Oman)	Deputy Chairman of the Managing Board
	Parsoli Infrastructure PVT Ltd., Ahmedabad (India)	Member of the Managing Board
	STEICO SE, Feldkirchen	Deputy Chairman of the Managing Board
Dieter Brichmann	Baader Management AG, Unterschleißheim	Chairman of the Supervisory Board
	Baader & Heins Capital Management AG, Unterschleißheim	Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Bad Homburg	Chairman of the Supervisory Board
	N.M. Fleischhacker AG, Frankfurt am Main	Chairman of the Supervisory Board
Dieter Silmen	N.M. Fleischhacker AG, Frankfurt am Main	Member of the Supervisory Board
	Baader Management AG, Unterschleißheim	Member of the Supervisory Board
Nico Baader	Baader & Heins Capital Management AG Unterschleißheim	Deputy Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Bad Homburg	Member of the Supervisory Board
	Gulf Baader Capital Markets S.A.O.C., Muscat (Oman)	Member of the Managing Board
Christine Schiedermaier	Baader & Heins Capital Management AG, Unterschleißheim	Member of the Supervisory Board
	N.M. Fleischhacker AG, Frankfurt am Main	Member of the Supervisory Board

TABLE 29 SHAREHOLDINGS OF THE BAADER GROUP WITH MORE THAN 5% IN € THOUSAND

Name / Registered office	Equity interest in %	Most recent interim/ annual financial statements	Equity (total)	Net profit for the year
Parsoli Corporation Ltd., Mumbai (India)	21.93	No current data were available at 31 December 2011.		
U.C.A. AG, Munich	13.81	31 December 2010	12,921	–415
Conquest Investment Advisory AG, Feldkirchen	13.30	31 December 2010	143	19
Fonds Direkt AG, Bad Homburg	9.64	31 December 2010	1,578	257
Stillking Film Holdings Ltd., St. Helier (Jersey) [1]	6.50	31 December 2010	8,407	1,404

1 The equity and net profit of the financial year ended 31 December 2010 were translated (€/USD 1.3362).

Waiver of disclosure in accordance with Section 264 (3) HGB in conjunction with Section 340a (2) Sentence 4 HGB

N.M. Fleischhacker AG, Frankfurt am Main is a financial services institution within the meaning of Section 1 (1a) KWG (German Banking Act) and is included as a subsidiary in the consolidated financial statements of Baader Bank AG.

The company cumulatively meets all the conditions of Section 264 (3) HGB and is thus, in connection with Section 340a (2) Sentence 4 HGB, exempt from disclosing its annual financial statements. The resolution passed by the General Meeting of Shareholders in accordance with Section 264 (3) No. 1 HGB was published in the electronic version of the Bundesanzeiger (German Federal Gazette).

X. LIST OF SHAREHOLDINGS OF THE BAADER GROUP

The Baader Group directly holds more than 5% of the following companies, which were not subsidiaries or associates as at 31 December 2011: → **TABLE 29**

Unterschleißheim, 14 March 2012

Baader Bank AG
Board of Managing Directors

Uto Baader Nico Baader

Dieter Brichmann Dieter Silmen

Auditor's Report

We have audited the consolidated financial statements of Baader Bank AG, Unterschleißheim – comprising the consolidated statement of financial position, consolidated income statement, the notes, cash flow statement and statement of changes in equity – as well as the Group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the Group management report in accordance with the German Commercial Code is the responsibility of the Bank's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Bremen, 14 March 2012

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Jasper)	(Clostermann)
Auditor	Auditor

Imprint

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