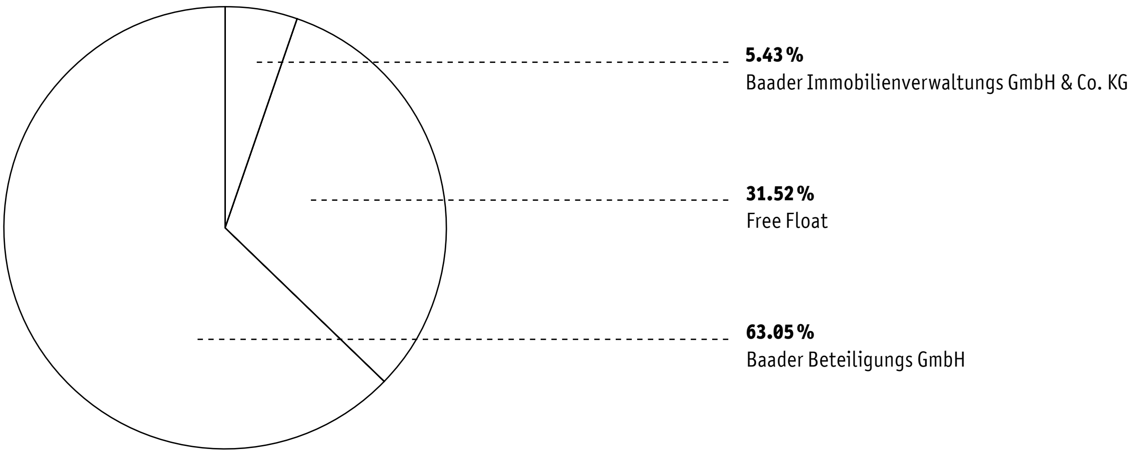
BAADER

2012 Consolidated Financial Statements of Baader Bank Aktiengesellschaft

Key data

Consolidated Income Statement		2012	2011	Change in %
Net interest and current income	€ mn	6.50	6.85	– 5.1
Net income from commissions	€ mn	39.19	31.22	25.5
Net profit from trading portfolio	€ mn	35.51	46.27	– 23.3
Administrative expenses	€ mn	93.23	89.76	3.9
Net income	€ mn	8.80	0.67	> 100.0
Consolidated statement of financial position				
Equity	€ mn	111.62	105.03	6.3
Total assets	€ mn	516.14	535.82	– 3.7
Financial ratios				
Employees (as of 31.12.)		430	414	3.9
Order books (as of 31.12.)	Number	669,451	589,179	13.6
Baader Bank Share price				
Open price (02.01.)	€	1.85	3.07	– 39.8
High price	€	2.29	3.45	– 33.6
Low price	€	1.71	1.65	3.5
Close price (28.12.)	€	1.95	1.73	12.5
Market capitalisation (28.12.)	€ mn	89.52	79.42	12.7
Transaction volume (daily average)	Unit	5,519	4,038	36.7

Shareholder structure



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1 Business and general conditions

1.1 Operating activities
The financial statements of the Baader Group for the 2012 financial year include five consolidated subsidiaries in addition to the parent institution Baader Bank AG (Baader Bank). The subsidiaries are financially, commercially and organisationally incorporated into Baader Bank. The head office of the independent, owner-managed group of institutions is situated in Unterschleissheim, near Munich. At the end of 2012, the Baader Group employed a total of 430 people. The development of the Baader Group's business essentially depends on Baader Bank. Baader Bank holds a full banking licence and is a member of the Deposit Protection Fund of the Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken).

The Baader Group regards itself as one of Germany's leading investment banks and as a market leader in the trading of financial instruments.

In market making, Baader Bank offers its customers long-standing expertise and high-quality services for pricing, trading and settlement of financial instruments on the global capital markets. With its innovative technology, it supports exchange-based and OTC trading of over 700,000 securities, making it Germany's leading securities specialist.

In investment banking, Baader Bank offers institutional investors a highly efficient trading and distribution unit for equities, bonds, and futures and options. A team of experienced senior analysts analyses and monitors German and Austrian companies on a regular basis.

As a focused "corporate finance boutique", Baader Bank develops independent solutions across the entire corporate finance spectrum for SMEs from the German-speaking region active in the capital market. It supports companies in the performance of equity and debt capital market transactions such as IPOs, corporate actions, bond issues or the structuring and placement of promissory notes. It also acts as a partner in large capital market transactions. Moreover, in its role as a corporate broker, Baader Bank provides a comprehensive range of services for enhancing investor dialogue and improving secondary market liquidity.

The scope of Baader Bank's business is further complemented by the range of products and services offered by its subsidiaries. These include brokering promissory notes and money market investments and managing client funds in absolute return strategies. Its extensive portfolio makes the Baader Group a strong product and service partner in the financial and capital markets.

1.2 The market in 2012 – monetary policy the driving force
The performance of the asset classes in 2012 showed a year of two halves: in the first half the capital market was dominated by economic concerns, particularly the euro crisis.The debate over the correct solution to the eurozone's problems and the stability of monetary union intensified. In the financial markets, the possibility of a eurozone break-up began to be discussed openly. Fears of default, bank insolvencies and economic slump led to dramatic market downturns worldwide. Despite their positive, special economic status, even the emerging markets could not escape contagion from the euro crisis.

By the summer, the DAX had lost all the gains achieved in the early part of the year. At the same time, the US benchmark index S&P 500 rose on America's reputation as a "safe haven" for equity investors. The euro was hit by the crisis, falling against the US dollar from over 1.34 in February to just over 1.20 in July. Spreads of Italian and Spanish government bonds doubled relative to German Bunds. In the fixed-income segment, German government bonds became sought-after as safe investments. By June their yield had fallen to 0.92%, from 1.72% in March. Two-year Bunds actually commanded a holding premium for the first time in financial history. In other words, yields turned negative.

By contrast with the first half, the second half of 2012 saw a dramatic reversal in the financial markets. The main easing effect was achieved by the European Central Bank (ECB). With its commitment to stabilising the eurozone with unlimited bond purchases if need be, it averted the risk of collapse for individual countries or even the entire eurozone, at least in the short term. Although, in the opinion of many market participants, the ECB went against the principles of the Maastricht Treaty, thus marking a break with previous Bundesbank policy, this dirigiste monetary policy was universally welcomed by the capital markets in view of the apparent stabilisation of the eurozone. With investors looking for convenient alternatives in the bonds asset category, even lower-grade corporate bonds performed very well towards the end of the year.

From that point onwards the equity markets benefited significantly from the easing of the euro crisis produced by the ECB's monetary policy and from the unprecedented levels of liquidity in the financial markets. Italian and Spanish equity indices saw a dramatic turnaround, climbing by 32% and 38% respectively from their summer low-points by the end of 2012. The euro also rallied considerably, standing at nearly 1.32 to the US dollar by year-end.

Last but not least, the calming of the euro crisis meant that attention returned to fundamental data. The Chinese economy stabilised and in the USA the Federal Reserve's expansionary monetary policy was at last reflected in positive economic news. Only the heated Congressional debate over a solution to the debt crisis (the "fiscal cliff") inhibited improvement in economic sentiment towards the end of the year. German equity indices, with their emphasis on cyclical and individual export-oriented securities, benefited in particular from the stabilisation of the global economy. German companies were undoubtedly helped in this respect by improved labour market flexibility and restructuring measures implemented by companies themselves, allowing them to benefit not only from positive macroeconomic conditions but also lower costs. With a whole-year performance of nearly 34%, the MDAX proved even more successful than the DAX, which rose by just over 29%.

1.3 Market position of Baader Bank
The Leading Market Maker

As a market maker on exchanges in Berlin, Düsseldorf, Frankfurt, Munich and Stuttgart, Baader Bank continued to build on its leading position during 2012. In partnership with market operators in those centres, the Bank continued to develop the attractiveness of existing market models and optimised the technical infrastructure. Exacting requirements in terms of organisation and infrastructure led to a further significant rise in costs, particularly as a result of the higher standards applied on the Frankfurt Stock Exchange following the introduction of the Xetra specialist model.

Given that equity prices were higher, stock market turnover was disappointing. The spot markets of the Deutsche Börse saw an overall decrease in trading volumes of 23% compared with the previous year. The Frankfurt Stock Exchange with its new specialist Xetra segment recorded a decline of 27.7%. Trading on the Scoach exchange, specialising in securitised derivatives, fell by just under 18%. The drop in activity combined with higher costs led to falling margins and significantly lower income.

Baader Bank introduced numerous measures and initiatives to counter this trend. Investors were given access to the Polish equity market by including securities of the Polish benchmark index WIG 20 in the Berlin, Frankfurt, Munich and Stuttgart OTC markets. Shares from the mining, energy, financial, telecommunications and other sectors are traded.

In contrast to equities, stock market trading in fixed-income securities was buoyant. The "Bondboard" platform developed by Baader Bank established itself as an important information medium in this asset class and one which investors use a great deal.

The Bank also greatly expanded over-the-counter trading in equities, bonds, funds and exchange-traded products begun in 2011 and now covers almost the entire product spectrum in this area. The Bank's turnover in this segment increased by 50% during the year. Key drivers of this growth were the expansion of trading to include limit orders and the commencement of trading relationships with other banks.

Investment Banking – A Comprehensive Range of Services

The structural upheavals affecting investment banking in Germany continued during 2012. Many institutions abandoned this business segment, reduced the range of products they offer or plan to focus on a smaller number of large clients in future. At the same time, investors have a growing need for specialist institutions with local expertise. For Baader Bank, which has developed and expanded its range of investment banking products and services in recent years, this has opened up attractive strategic opportunities.

There was a welcome increase in turnover for equities business with institutional investors. The number of investors has grown significantly. In view of its focus and specialisation in German and Austrian equities, the Bank is increasingly regarded as one of the best local brokers for stocks from those countries. The Bank employs a total of twelve senior analysts who are responsible for individual stock analysis, technical market analysis and global investment strategy. During the course of the year, the existing sales team was expanded to include staff who focus on clients from France, the USA and the United Kingdom.

Bond trading with institutional investors was also expanded significantly. Baader Bank offers a marketplace covering almost all bond categories (covered bonds, corporate bonds, high-yield bonds, emerging-market securities and government bonds). Demand for high-yield corporate bonds and emerging-market bonds was particularly good in the continuing low-interest-rate environment. The expansion of services for institutional end-investors begun in 2012 also started to bear fruit.

Baader Bank took second place for another year in the German equity capital transactions market. A total of 13 corporate actions were carried out for the Bank's clients. It has now completed approximately 200 successful transactions and earned a high reputation thanks to its long-standing experience and expertise in this business segment. The Bank now covers the whole range of products and services it needs to offer expert help to corporate clients in raising equity and third-party capital and hence to be "The Bank for the Capital Market".

With the Baader Investment Conference, the Bank has created an attractive platform where institutional investors and corporate clients can share ideas. The first conference held from 25-27 September 2012 at BMW Welt in Munich was attended by 600 representatives of listed companies and institutional investors. In addition to group presentations, nearly 1,000 individual meetings were organised. The excellent response from companies and investors encourages Baader Bank in its mission to be the best local broker for German and Austrian equities. The investment clientele is to be further expanded in 2013. During 2012 the Bank also organised a total of 160 roadshow days and supported well over 1,100 investors, focusing primarily on investors from Germany, Austria, Switzerland, Italy and the United Kingdom.

Expansion in Unterschleissheim – Commitment to Growth

The Bank's strong growth in recent years made it necessary to expand its premises and develop adequate meeting and conference facilities. In January 2013, staff moved into an extension of the Bank's headquarters in Unterschleissheim. Expanding the premises to nearly twice its previous size creates sufficient space for future growth. At the same time, staff of Baader & Heins Capital Management AG previously accommodated in other buildings are now moving back to the headquarters.

A Successful Year for Subsidiaries

Baader & Heins Capital Management AG, Unterschleissheim, achieved a good result in 2012. In a volatile market environment, the company benefited from the continuing high level of liquid assets held by institutional investors and their search for attractive investment opportunities in the money markets. Promissory notes also remained very popular in the current phase of low interest rates, owing to their accounting advantages for certain groups of investors. Fee and commission income was generated through the placement of promissory notes and securities with banks and non-banks as well as through sales in the money market.

At Conservative Concept Portfolio Management AG, Bad Homburg, the good performance achieved by the company's products was reflected by corresponding growth. Total client assets under management rose to more than €790 million.

In 2011, N.M. Fleischhacker AG, Unterschleissheim, transferred its specialist mandates on the Frankfurt Stock Exchange to Baader Bank for future use. With effect from 30 September 2012, trading activities were discontinued altogether and the regulatory licences were returned to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The company will be merged with the parent institution during 2013.

2 Results of operations

The results of Baader Bank's operations (including earnings components/financial performance indicators) for the 2012 financial year compared with 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 (€13,909 thousand) and corresponding interest expenses from the issue of own promissory notes (€8,319 thousand) and refinancing of the Group's headquarters in Unterschleissheim (€923 thousand).

Current income increased by €591 thousand over the previous year. This increase was mainly due to higher dividend income on the portfolio of equities and other non-fixed-income securities, which rose to €1,555 thousand in the 2012 financial year.

Net fee and commission income increased by €7,968 thousand or 25.52% in the reporting year. In 2012, the decline in brokerage and transaction income amounting to €5,633 thousand was more than made up for by the increase in client commissions and order routing totalling €10,052 thousand. Furthermore, income from brokerage of promissory notes at the subsidiary Baader & Heins AG increased by 11.55%. CCPM AG also contributed to the improved result through higher commission income from performance fees.

Net income from the trading portfolio fell by €10,760 thousand from the previous year. The drop is largely attributable to an extremely volatile environment with significantly lower stock market turnover in the last financial year, together with the change in the stock exchanges' market models, and primarily affects the equity market making and funds and derivatives business segments.

Table 1 Results of operations

	2012 € thousand	2011 € thousand	Change € thousand	Change %
Net interest income	4,934	5,875	– 941	– 16.02
Current income	1,570	979	591	60.37
Net fee and commission income	39,190	31,222	7,968	25.52
Net profit from the trading portfolio	35,513	46,273	– 10,760	– 23.25
Administrative expense	– 93,227	– 89,758	– 3,469	3.86
Partial operating profit	**– 12,020**	**– 5,409**	**– 6,611**	**> 100.00**
Other expenses (–) and income (+) (including risk provisions)	20,355	504	19,851	> 100.00
Income from dissolution of the fund for general banking risks	2,800	5,900	– 3,100	– 52.54
Operating result	**11,135**	**995**	**10,140**	**> 100.00**
Net tax result	– 1,852	– 115	– 1,737	> 100.00
Third-party share of net income	– 473	– 215	– 258	> 100.00
Net income for the year	**8,810**	**665**	**8,145**	**> 100.00**

Table 2 Net assets

Assets	2012 € thousand	2011 € thousand	Change € thousand	Change %
Cash and cash equivalents	62,133	90,059	–27,926	–44.95
Loans and advances to customers	34,950	21,104	13,846	39.62
Debt securities and other fixed-income securities	245,177	213,095	32,082	13.09
Equities and other non-fixed-income securities	11,109	500	10,609	95.50
Trading portfolio	59,750	117,652	–57,902	–96.91
Equity investments and interests in affiliated companies	5,709	6,039	–330	–5.78
Intangible assets and property, plant and equipment	83,197	71,043	12,154	14.61
Other assets	8,883	11,933	–3,050	–34.34
Prepaid expenses and accrued income	1,121	1,504	–383	–34.17
Positive difference from offsetting	4,108	2,891	1,217	29.63
Balance sheet total	**516,137**	**535,820**	**–19,683**	**–3.81**
Equity and liabilities				
Liabilities to banks	65,194	69,685	–4,491	–6.89
Liabilities to customers	297,071	316,602	–19,531	–6.57
Trading portfolio	1,619	1,909	–290	–17.91
Other liabilities	3,919	3,642	277	7.07
Provisions	9,410	8,851	559	5.94
Fund for general banking risks	27,300	30,100	–2,800	–10.26
Shareholders' equity	111,624	105,031	6,593	5.91
Balance sheet total	**516,137**	**535,820**	**–19,683**	**–3.81**

Administrative expenses comprise general administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment. Personnel expenses were kept virtually constant despite an increase in the number of employees. This was due to the variable remuneration system, which allows the Bank to control its costs in the short term whenever business conditions become difficult. Other administrative expenses increased by €3,107 thousand or 9.84% over the previous year. The largest expense increases relate to fees, compulsory contributions and legal costs (€1,911 thousand), marketing costs (€1,146 thousand), costs of building use (€303 thousand) and expenses for information and communication (€168 thousand). On the other hand, IT expenses declined (€385 thousand).

Depreciation and amortisation fell by €656 thousand compared with the previous year and, in addition to depreciation on the administrative building, primarily concerns depreciation and amortisation on purchased order books, goodwill and software.

The improvement in other income (including risk provisions) over the previous year (€19,851 thousand) is primarily due to the net valuation gain on securities in the liquidity reserve (€18,507 thousand).

The item also includes non-cash benefits from company cars (€451 thousand), income from the reversal of provisions (€156 thousand) and income and expenses relating to other periods (€–211 thousand).

In the 2012 financial year, a reversal of €2,800 thousand was made from the fund for general banking risks in accordance with Section 340e (4) No. 2 of the HGB.

The positive operating result of €11,135 thousand was due in large part to the net valuation gain of the liquidity reserve, which benefited in the reporting year from reversals of impairment losses and gains realised on disposal.

The net tax result essentially comprises income taxes for the past financial year amounting to €1,909 thousand and accrued interest income on corporate tax credits (€165 thousand).

As at 31 December 2012, the total net profit reported for the year was €8,810 thousand.

For the reasons described above, the partial operating result was down by €6,611 overall, but again it is important to bear in mind the cyclical nature of Baader Bank's trading operations. It should also be noted that substantial earnings growth was recorded in the new investment banking business segment in 2012. This leads us to consider the earnings trend to be sustainable and secure.

3 Net assets

As at 31 December 2012, the net asset and capital structure of Baader Bank compared with the previous year was as follows: → Table 2

Cash and cash equivalents fell by €27,926 thousand compared with the previous year to €62,133 thousand. This drop was mainly due to portfolio expansion in the banking book relating to bonds and the maturity of a term deposit in the sum of €10,000 thousand.

Loans and advances to customers increased by €13,846 thousand compared with the previous year.

Debt securities and other fixed-income securities rose by €32,082 thousand compared with the previous year to €245,177. Of this rise, €18,674 thousand is attributable to revaluations on the treasury portfolio. Bond holdings were also increased.

The equities and other non-fixed-income securities balance increased by €10,609 thousand as at the reporting date, largely as a result of additional purchases, which are assigned to the liquidity reserve.

The decline in the trading portfolio by €57,902 thousand is mainly due to papers in the treasury portfolio which matured in 2012 or the sale of those papers.

As at 31 December 2012, the securities portfolio contained bonds and notes from issuers in the "GIIPS" countries (Greece, Italy, Ireland, Portugal, Spain) in the following amounts: → Table 3

Table 3 Bonds and notes from issuers in the "GIIPS" countries in € thousand

	Other issuers	Public issuers
Greece	0	12
Italy	2,142	2,069
Ireland	2,592	4,081
Portugal	0	0
Spain	11,600	11,832
GIIPS countries 31.12.2012	**16,334**	**17,995**

The Greek government bonds in the portfolio were valued at market prices and, despite continuing uncertainty over restructuring in Greece, because of their low volume 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 affiliated companies decreased by €330 thousand from the previous year to €5,709, partly due to a write-down on the interest in N. M. Fleischhacker AG (€1,441 thousand).

The interests in Gulf Baader Capital Markets S.A.O.C., Muscat (Oman) are included in the consolidated financial statements as an associate, using the at-equity method. They are therefore presented in the accounts at the proportional equity value. The proportional earnings attributed to the Group as at 31 December 2012 came to €–105 thousand.

The interests in Berlin Asset Management GmbH (BAM) were included in the consolidated financial statements as an associate for the last time as at 31 December 2011. All the shares were sold in the 2012 financial year. The company is therefore no longer part of the Group.

The increase in intangible assets and property, plant and equipment by €12,154 thousand to €83,197 thousand is largely attributable to investments made during the financial year amounting to €20,842 thousand and depreciation and amortisation amounting to €8,187 thousand. Investments in property, plant and equipment of €17,130 thousand relate to advance payments for the expansion of the company's headquarters. Of the investments in intangible assets, a sum of €1,968 thousand relates to the expansion of implemented trading systems. Depreciation on property, plant and equipment was €1,481 thousand , and amortisation on intangible assets was €6,706 thousand (order books €2,542 thousand; goodwill €2,256 thousand; software €1,822 thousand).

Other assets fell by €3,050 thousand to €8,883 thousand. Of this amount, €1,306 thousand relates to the annual reduction in corporation tax credits and €1,815 thousand to refunds of tax overpayments received. At 31 December 2012, other assets were as follows: → **Table 4**

Table 4 Other assets in € thousand

	31.12.2012
Corporation tax credits (discounted)	7,307
Sales tax receivables	424
Other tax receivables	157
Receivables from brokerage fees and price differences	239
Reinsurance claims from life insurance policies	18
Other receivables	738
Other assets	**8,883**

Significant changes on the liabilities side consist primarily of a reduction in liabilities to banks by €4,491 thousand to €65,194 thousand, which is mainly attributable to lower margin requirements (€11,605 thousand) and the release of overnight deposits (€15,000 thousand). This was offset by an increase in refinancing for the expansion of the Group's headquarters in the amount of €15,812 thousand.

In addition, liabilities to customers fell from €316,602 thousand to €297,071 thousand, essentially due to the decline in customer deposits and own promissory notes.

In accordance with Section 340e (4) No. 2 of the HGB, the fund for general banking risks amounting to €2,800 thousand was dissolved in the 2012 financial year.

The change in equity capital by €6,593 is attributable to the net income for the 2012 reporting year (€8,810 thousand), dividend distributions (€1,730 thousand) and the acquisition of treasury shares (€512 thousand). Baader Bank's equity ratio was 21.63% on 31 December 2012. The overall ratio for the Group as notified pursuant to the German Solvency Regulation (Solvabilitätsverordnung – SolvV) was 13.39%. Baader Bank is therefore in a good position to meet the future equity capital requirements under Basel III.

The above changes are mainly the result of the reduction in total assets by 3.81% to €516,137 thousand.

Baader Bank's asset position remains stable overall.

4 Financial position

At the reporting date the Bank had cash reserves and short-term loans and advances to banks and customers of €97,083 thousand and available-for-sale marketable securities of €300,234 thousand, against short-term liabilities to banks and customers amounting to €107,430 thousand. This results in a net liquidity surplus on the balance sheet of €289,887 thousand (previous year: €283,901 thousand).

Baader Bank's liquidity ratio was 6.62 on 31 December 2012. 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 may not exceed the level of cash and cash equivalents. This implies that the liquidity ratio must not fall below 1.00.

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

In 2011, N.M. Fleischhacker AG transferred its specialist mandates on the Frankfurt Stock Exchange to Baader Bank for future use. With effect from 30 September 2012, trading activities were discontinued altogether and regulatory licences were returned to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The company will be merged with the parent institution during 2013.

6 Non-financial performance indicators

6.1 Employees

In the reporting year the number of staff employed by the Baader Group increased from 414 to 430 as at the reporting date. There are 118 female employees and 312 male employees within the Group from a total of 21 countries.

The Baader Group places particular emphasis on staff training, and a high level of qualifications. In this context, HR work in 2012 focused on supporting specialists and junior managers.

The range of additional social benefits for staff members enhances the appeal of Baader Bank as an employer. For example, Baader Bank grants all members of staff voluntary financial support of €10 thousand when they have a child, which resulted in the payment of €150 thousand in 2012.

With its own provident fund, Baader Unterstützungskasse e.V., the Group has an independent social institution that can guarantee 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 activities 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 head office in Unterschleissheim was built in accordance with state-of-the-art environmental principles, especially with regard to water, heat and air-conditioning, and is managed accordingly.

7 Risk report

7.1 Risk management objectives and risk-bearing capacity

The continuing difficulties posed by the market environment and increasingly complex risks arising from this situation present ever greater challenges for the Bank's risk management system. The aim of the Baader Group's risk management system is to identify newly emerging risks systematically and promptly, and to capture existing risks and their possible consequences. This allows the Baader Group to maintain an awareness of risk in managing its business. This means that quantifiable risks are entered into after full consideration, taking into account the Group's risk-bearing capacity, while risks that could threaten its existence are categorically excluded.

To ensure that the Group always satisfies this principle, Group management is provided with a regular overview of the nature of all significant risks and the guarantee of risk-bearing capacity at Group level. This means that particular attention is paid to risk-bearing capacity, especially when defining the business and risk strategy.

The Baader Group's risk-bearing capacity is reviewed at least quarterly by Baader Bank's Risk Control department, which is responsible for monitoring at Group level. In the review, available risk cover is compared with the risk capital requirement. Depending on the business and risk strategy, Group management then decides how much risk capital should be made available to cover unexpected losses. The risk capital provided is allocated to the various types of risk and represents the maximum limit for losses in respect of the given type of risk.

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 make this necessary.

The amount of risk capital and its allocation to the individual institutions' risk types is decided by the individual institutions at the end of the year, in accordance with the Baader Group's risk policy. It is then made available to the parent institution's Risk Control department. Risk Control reconciles this amount with the Baader Group's figures. This ensures that risk capital provided by the individual institutions and its allocation to risk types are consistent with the decision of Group management. If any inconsistencies arise, the individual institutions are required to make the appropriate adjustments.

In summary, the policies and measures outlined above show that the Baader Group's risk-bearing capacity was not in danger at any time in the 2012 financial year, even in a stress scenario. This provides an excellent starting point for 2013.

7.2 Business and risk strategy

During Group management's annual strategy meeting, the business strategy and the goals for the Baader Group's main business activities are defined. Strategic considerations take into account external factors, the assumptions underlying those factors 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 principal objective of the Baader Group's risk policy strategy 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 of Managing Directors and to Risk Control at Baader Bank. Risk Control at the parent institution then reviews the strategies for consistency with the Baader Group's business strategy. 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 Structures and processes in the internal control system

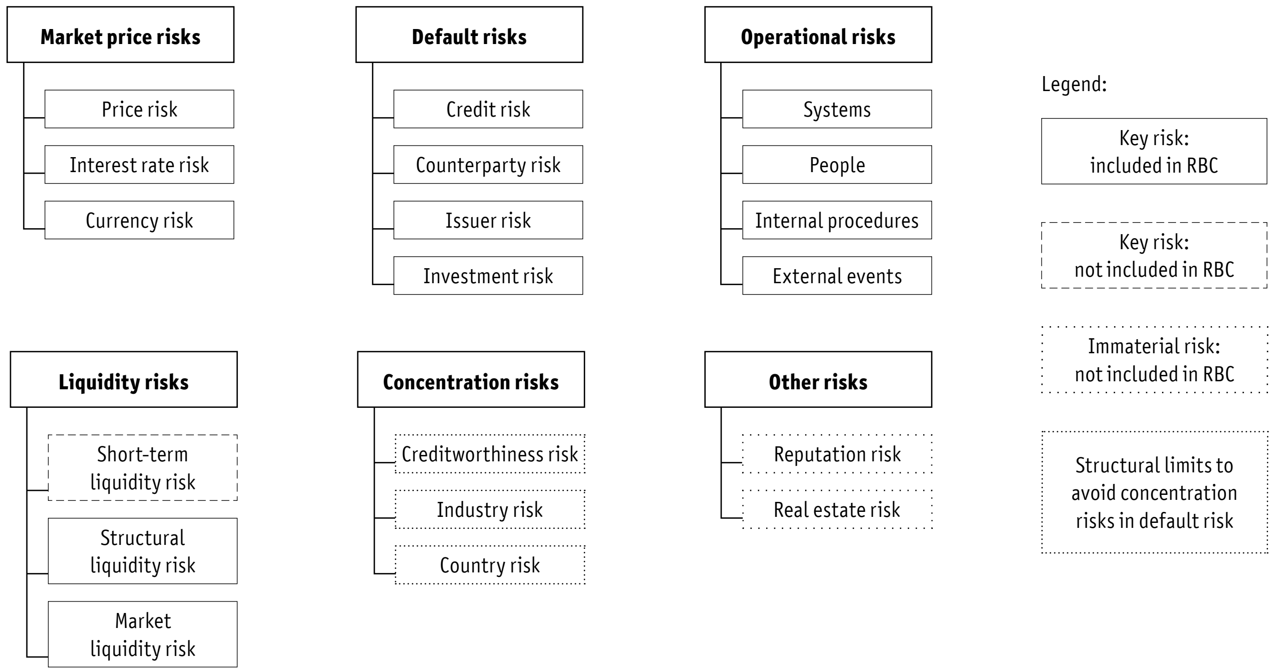
The internal control system mandated by the Minimum Requirements for Risk Management (MaRisk) is divided into structural and process organisation, risk management and risk control processes and stress tests. An integral part of the structural and process organisation is the separation of functions. This ensures that activities which are incompatible with each other are carried out by different employees. In the Baader Group, separation of functions is guaranteed up to and including Group management level between the Trading/Market area, Risk Control and Settlement & Control.

Moreover, the Baader Group has set up appropriate risk management and control 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:

- **Identification** of new risks is taken into account as part of the "Activities in new products or new markets" process. Here, the business segments concerned examine planned activities and identify relevant risk content. Existing activities are reviewed on an ongoing basis.
- The risk **assessment** is carried out based on detailed analyses in the Risk Control department of the parent institution, which develops a concept to manage and monitor these risks together with the Trading/Market area, before presenting it to Group management. Identified risks are generally quantified using a value-at-risk concept and any unexpected losses are compared with the risk cover available. This involves a regular examination of the Baader Group's risk-bearing capacity.
- The fact that risks are added the limit system on an ongoing basis enables Trading areas to **manage** these risks and Risk Control to **monitor** them.
- Group management is responsible for proper organisation of the business and its ongoing development. This responsibility includes all essential elements of risk management, including establishing risk policy. To ensure that Group management is able to meet this responsibility, the parent institution has a complex risk control reporting system which ensures that the **communication** requirements under MaRisk are met; this takes the form of daily reporting to and prompt notification of Group management in the event that limits are exceeded.

The processes described 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 changing conditions in good time. The technical features of the Baader Group's risk monitoring and management systems are adequate with regard to the risk management system. Moreover, the Group takes care at all times to ensure that staff are appropriately qualified. Internal Audit systematically monitors the risk management process at least once annually.

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



7.4 Presentation of material types of risk

The following types of risk are considered material by the Baader Group and are covered by risk capital: default risks, market price risks, operational risks and liquidity risks. These are presented below: → **Chart 1**

There were no changes compared with the 2011 financial year.

7.4.1 Default risks

In the case of default risks, a distinction is made between credit risks, counterparty risks, issuer risks and investment risks An overall limit per borrower unit is determined taking into account large loan limits based on credit rating reviews. Utilisation of these limits is monitored and reported to Group management by the Risk Control department of the parent institution. 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 of the German Banking Act (Kreditwesengesetz – KWG), private and corporate customers are granted Lombard and Lombard-like loans against collateral. This collateral generally consists of listed securities whose collateral value is set at an extremely conservative level, or bank guarantees.

The table below shows customer lending commitments as at 31 December 2012 in € millions: → **Table 5**

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

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all of its obligations. A distinction is made between replacement risk in the event of default by the counterparty and resulting non-performance of the concluded transactions on the one hand, and advance payment risk that can arise from transactions not settled concurrently as delivery-versus-payment transactions on the other. The Baader Group, and Baader Bank in particular, only trades in derivatives on derivatives exchanges. However, because Baader Bank is not a clearing member of these exchanges, transactions between Baader Bank and the clearing member concerned 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 under the purchase agreement, an advance payment risk arises given that payment and 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.

Issuer risk means 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 issuer concerned thus represents a corresponding default risk.

Equity investments refers to investments pursuant to Section 19 (1) Sentence 2 No. 7 and also No. 8 of the KWG (affiliated companies). Equity investments are typically allocated to the banking book. The equity investment business – apart from strategic equity investments – has been suspended. In the case of equity investments, a risk results from a downgrade in the creditworthiness or default of the issuer concerned, which results in a corresponding impairment.

Appropriate 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 Control at Baader Bank. 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.

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 so as to avoid multiple offsetting.

Table 5 Customer lending commitments as at 31 December 2012 in € millions

	Total lending commitments	Drawdowns	Overdrafts	Total drawdowns	Unutilised lending commitments	Collateral (measured)	Risk provision
Private customers	10.64	7.83	4.07	10.67	2.81	7.56	3.30
Corporate customers	5.60	5.14	7.26	12.35	0.46	17.84	0
Banks	2.00	0	0	0	2.00	0	0
Total	**18.24**	**12.97**	**11.33**	**23.02**	**5.27**	**24.40**	**3.30**

The positions are shown in the table below with reference to the said concentration risks as at 31 December 2012 compared with year-end 2011:
→ **Tables 6, 7 and 8**

Table 6 Positions by Credit rating Categories

	Market value 2012		Market value 2011	
Credit rating category	**€ million**	**%**	**€ million**	**%**
Credit rating category 1	9.46	2.50	35.60	9.64
Credit rating category 2	95.19	25.16	100.94	27.33
Credit rating category 3	235.18	62.15	174.32	47.19
Credit rating category 4	38.56	10.19	49.16	13.31
Credit rating category 5	0.00	0.00	1.36	0.37
Credit rating category 6	0.00	0.00	5.75	1.56
Credit rating category 7	0.00	0.00	2.22	0.60

Table 7 Positions by Sectors

	Market value 2012		Market value 2011	
Sector	**€ million**	**%**	**€ million**	**%**
Foreign government bonds	24.77	6.55	36.38	9.85
Automotive industry	27.06	7.15	7.99	2.16
Banks / savings banks / fin. institutions	162.81	43.02	231.19	62.60
Energy	24.19	6.39	25.19	6.82
Construction industry	22.67	5.99	16.40	4.44
Healthcare / Pharmaceuticals	16.14	4.26	4.28	1.16
Retail	18.50	4.89	5.43	1.47
Capital goods	13.57	3.59	6.37	1.73
Consumer goods	8.98	2.37	0.00	0.00
Public sector	0.00	0.00	0.02	0.00
Raw materials & chemicals	15.33	4.05	7.54	2.04
Technology	3.17	0.84	0.00	0.00
Telecommunications & media	22.85	6.04	8.68	2.35
Tourism	0.00	0.00	0.00	0.00
Transport	13.28	3.51	4.33	1.17
Insurance	5.09	1.35	15.54	4.21

Table 8 Positions by Countries

	Market value 2012		Market value 2011	
Country	**€ million**	**%**	**€ million**	**%**
Belgium	0.04	0.01	0.09	0.03
Germany	135.54	35.82	87.67	23.73
Denmark	20.41	5.39	0.00	0.00
Finland	8.98	2.37	0.00	0.00
France	11.90	3.15	17.18	4.65
United Kingdom	0.05	0.01	17.77	4.81
India	0.02	0.00	0.02	0.01
Ireland	6.85	1.81	49.11	13.30
Italy	4.32	1.14	21.89	5.93
Canada	4.22	1.12	4.33	1.17
Croatia	5.29	1.40	5.54	1.50
Luxembourg	47.34	12.51	14.27	3.86
Netherlands	53.68	14.19	42.35	11.47
Oman	4.55	1.20	4.76	1.29
Austria	13.31	3.52	13.52	3.66
Poland	1.20	0.32	0.00	0.00
Switzerland	0.99	0.26	0.56	0.15
Spain	23.71	6.27	53.61	14.51
Hungary	0.00	0.00	5.65	1.53
USA	35.99	9.51	31.03	8.40

The Risk Control 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 Control and their implementation is monitored accordingly.

Stress tests are carried out for default risk on a quarterly basis, which include 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.

A sub-project relating to default risk, aimed at adding all default risks to the limit and replacing the Excel-based limit monitoring system, was completed in December 2012. In view of the direct addition of transactions to the limit, the Trading/Market area is now able to recognise the effect of a transaction on the whole limit system immediately, and to take immediate steps in response to altered circumstances.

7.4.2 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 changing levels of volatility. At the end of the year the Baader Group's trading book and banking book (liquidity reserve) contained the following risk positions, with market values in € million: → **Table 9**

Table 9 Risk positions in € million market values

Spot market		**Forward market**	
Equities	79.87	Options	0.00
Bonds	239.30	Futures	– 10.85
Securitised derivatives	0.88	Swaps	0.00
Funds, index-linked and fund-linked certificates	23.24		

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 (normal distribution: generally a 1-11 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. However, interest-rate risk and foreign-exchange risk in 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 the Baader Group's trading book and banking book (liquidity reserve),in € million: → **Table 10**

Table 10 VaR figures in € million

Value-at-Risk of trading segments	**2012**	**2011**	**2010**	**2009**	**2008**
Year-end VaR	8.92	8.47	2.62	1.48	2.34
Minimum VaR	8.32	2.37	1.30	1.15	0.88
Maximum VaR	11.75	11.04	3.96	3.60	2.54
Average VaR	9.63	5.91	2.25	1.91	1.35

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 market value based on actual price changes If the number of "outliers" from the backtesting exceeds the limit defined as critical, the parent institution's Risk Control department makes corresponding adjustments to the VaR model. The model is also reviewed on the basis of "dirty backtesting". Here, the actual daily earnings are compared with the value-at-risk figures in the trading segments.

Baader Bank's Risk Control department 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 parent institution's Risk Control department parent institution and their implementation is monitored accordingly.

Stress tests are carried out for market price risk on a quarterly basis. This includes an 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.

7.4.3 Operational risks

Operational risk is the risk of loss which results if internal control procedures, people or systems are inadequate or fail, or from external events. It also includes legal risks, but strategic and reputation risks are excluded.

Baader Bank's Risk Control department 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 survey results are first presented to the Baader Group's Security Committee, which proposes measures to Group management. Where appropriate, Group management instructs 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 2012 financial year, losses totalling €291 thousand were reported. The highest individual loss amounted to €55 thousand and can be classified under the Basel II category of "Execution, Delivery and Process Management".

Unexpected losses from operational risks are quantified quarterly on the basis of losses recorded historically in the Baader Group. The procedure uses the loss distribution approach, whereby 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 loss amounts have a log-normal distribution, the number of losses follows a Poisson process and losses are independently and identically distributed. The aggregate loss distribution is estimated using 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 parent institution's Risk Control department carries out daily monitoring 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.

Quarterly stress tests are also carried out for operational risk. The procedure for quantifying losses using stress tests works in the same way as the procedure for determining unexpected losses. However, the 99.9% quantile is used in the stress scenario. The results of the stress tests are reported to Group management in the MaRisk report and are taken into consideration in the review of risk-bearing capacity.

As at the end of 2012, two significant legal disputes involving material financial risks are known about. For both disputes an appropriate risk provision has been created, which will adequately cover the expected financial losses. Even if the amount in dispute is awarded wholly to the other party, the financial impact on the Bank's risk-bearing capacity will not be significant.

7.4.4 Liquidity risks

The object of managing liquidity risk is to ensure that payment obligations can be met at any given time. A distinction is made between market liquidity risk, short-term liquidity risk and structural liquidity risk.

Securities have different levels of market liquidity, with assets that have limited liquidity giving rise to a liquidity risk. Low market liquidity in individual trading products means that transactions in these products limited or impossible, both when opening and closing positions, because of the low level or absence of market liquidity. To counter this risk, the parent institution's Risk Control department prepares assessments at regular intervals and communicates them to the corresponding Group manager. These assessments serve as the basis for deciding 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 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 Bank's ability to meet its payment obligations. The Treasury department is responsible for ensuring that payments are made in good time. Securities trading is closely coordinated with the Treasury department. This allows Treasury to adequately coordinate daily cash flows. In addition, Treasury prepares and monitors a daily liquidity status report showing the current liquidity situation. Furthermore, 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 maturity-matched bonds eligible as collateral at the ECB, which in turn are deposited at the Bundesbank as refinancing facilities under 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 for 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 tends to become more expensive. Possible refinancing losses are quantified through the preparation of liquidity progress reports and the calculation of potential liquidity shortfalls. Refinancing under current market conditions is compared with refinancing in the unexpected case every quarter. In the unexpected case, both significantly dearer refinancing and unexpected outflows are assumed. The resulting difference represents the refinancing loss in the unexpected case; this difference is taken into account in determining the Baader Group's risk-bearing capacity and, if necessary, covered with risk capital.

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

In addition, quarterly stress tests are performed for liquidity risks. The procedure for quantifying losses based using stress tests works in the same way as the procedure for determining unexpected losses. Stress test results are reported to Group management in the MaRisk report and are taken into consideration in the review of risk-bearing capacity.

7.5 Summary of the risk situation

Though the market environment remained difficult, the Baader Group's risk position was stable at all times during the past financial year. The Baader Group's available risk cover is more than sufficient to cover losses from unexpected risks and even losses in stress situations. This provides a permanent guarantee that the regulatory minimum capital requirements under SolvV will not have to be put at risk. It should be noted, moreover, that when the risk coverage potential 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 Baader Group's risk situation is still regarded as non-critical.

8 Forecast report

Outlook for the market in 2013

The Baader Group expects an overall upturn in the global economy, helped to a significant degree by emerging-market countries with average growth rates of 5% in real terms and China with 7.5%. Germany will continue to benefit from its export strength. Although its economy is only expected to expand by 0.7%, this nevertheless makes Germany the fastest-growing euro country.

The central banks will continue to define the general conditions in 2013 with their relaxed monetary policies, stabilising government bond markets in the short term and ensuring low yields. However, negative real yields are expected in Germany and the USA across nearly all maturities. The massive expansion of market liquidity is, for the time being, a historically valid argument for equities. Moreover, financial investors' appetite for risk is likely to increase further, in view of the current stabilisation of the eurozone and the strengthening global economy.

Furthermore, the environment is one in which equities, as securitised physical capital, are well-suited to hedge against inflationary tendencies. During the first half of the year, high investment demand should lead to rising turnover in equities, commodities and precious metals. A gradually stabilising economic outlook should accelerate transaction volume in the third and fourth quarters.

Nevertheless, the risks for 2013 should not be underestimated – the new year carries political dangers and the euro crisis is certainly not over yet.

Development of the business segments of the Baader Group

Baader Bank's market making activity should be significantly boosted by higher securities turnover. The expansion of OTC trading and the further consolidation expected within the sector are also expected to have a positive impact. At the end of 2012, only twelve institutions were still operating as specialists on the Frankfurt Stock Exchange. The number is expected to be further reduced to a few large and efficient institutions. In the international equities segment, Baader Bank plans to expand the range of tradable securities to include other attractive stocks. From 1 March, the Stuttgart Stock Exchange extended its opening hours to 22:00 hrs. Whether this will have any effect on Baader Bank's results remains to be seen.

A significant expansion in over-the-counter trading of equities, bonds, funds and exchange-traded products is planned and has partly been realised. Baader Bank has already concluded fixed agreements with certain new clients for the 2013 financial year.

In investment banking, Baader Bank will benefit from two developments – the growing significance of capital market financing for companies and demand among institutional investors for specialist brokers with local expertise.

The higher valuation ratios achieved due to rising stock market prices should lead to an appreciable increase interest among companies in equity transactions and IPOs. The Bank is able to present medium-sized transactions independently or with partners, giving companies optimum access to capital markets. In the case of large-volume transactions involving German and Austrian equities, the fact that Baader Bank is a local broker makes it the ideal partner for global investment banks.

In business with institutional investors, equity turnover is expected to increase. It often takes several years for large institutional investors to decide to use a new dealing partner. Baader Bank's expertise in the core markets of Germany and Austria is being utilised by a growing number of investors, which will have a positive impact on the Bank's turnover and results. A similar trend is forecast for the bond business.

The planned acquisition of the Swiss broker Helvea will represent an important milestone for the business with institutional investors. Baader Bank has agreed the amicable acquisition of Helvea Holding SA, headquartered in Geneva, with the management and a majority of shareholders, and plans to expand the institutional equity business in this way. Helvea is Switzerland's largest independent equity broker, focusing on Swiss equities, and has branches in Geneva, Zurich, London, New York and Montreal. An agreement to acquire the whole of Helvea was signed at the end of November 2012. This is in line with Baader Bank's goal of complementing its existing range of services. With their regional focus (Germany and Austria in the case of Baader Bank, Switzerland in the case of Helvea) combined with their respective client bases, the two institutions complement each other well, forming an efficient broker covering the whole German-speaking region. Following the merger, the clients of both institutions will benefit from a wider regional focus on equities from Germany, Austria and Switzerland.

In future, the analyst team will cover approximately 220 stocks from the German-speaking region. With its international branches, Helvea is one of the most powerful market participants in the segment of Swiss equities and adds several important locations to the Baader Bank network. The acquisition should be completed by the end of the first quarter of 2013 and is subject to, amongst other things, approval by the regulatory authorities.

Development of the subsidiary Baader & Heins Capital Management AG is also promising – the product range will be expanded so as to focus increasingly on the brokerage of corporate promissory notes. We are moreover optimistic as to the prospects for Conservative Concept Portfolio Management AG. The volume of assets under management is to be increased above all through the involvement of selected institutional investors.

Based on these assumptions, for the forecast period (2013, 2014), as measured by average pre-tax earnings (three-year average), the targeted and forecast growth is also expected to result in a positive trend for average annual profit before tax.

Unterschleißheim, 13 March 2013

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 defined 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 the Supervisory Board of and consulted with it on business policy, fundamental future management issues, the financial position and strategic developments, the risk position and risk management as well as key business transactions. This took place both in conversations and in written form, and in a timely manner. Deviations in the progress 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 launch 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 business data, changes in Group earnings and employee numbers, including 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 developments in and the impacts of the debt crisis.

The Supervisory Board convened six 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 Investment Banking business segment, risks in the treasury portfolio and the acquisition of strategic equity investments. Further topics included Phase II of the headquarters construction project, emergency management and remuneration systems for the Board of Managing Directors and employees. The positioning of Baader Bank AG, its financial performance and that of its subsidiaries, key business events and current changes in the stock market, particularly the Frankfurt Stock Exchange, were also discussed. The compliance officer presented his half-yearly detailed report to the Chairman of the Supervisory Board.

A detailed discussion of Baader Bank's business and risk strategy and its enterprise planning also took place at the meeting held on 20.12.2012.

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 of Managing Directors meetings were made available in a timely manner.

The annual financial statements and management report of Baader Bank AG for the year ended 31 December 2012 together with the consolidated annual financial statements and the consolidated management report for the year then ended were audited in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) by the auditors appointed by the General Meeting of Shareholders, Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen. An unqualified audit opinion was expressed. The consolidated financial statements and the consolidated management report were prepared in accordance with the provisions of the HGB, most recently amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute – RechKredV). The auditor conducted the audit in line with the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW) in Germany.

All members of the Supervisory Board were sent the annual financial statement documents and auditor's report together with the Board of Managing Directors' proposal 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 consolidated 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 approved the auditor's findings. Following the conclusion of its examination the Supervisory Board raised no objections.

In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Board of Managing Directors prepared a dependent company report. The auditor, Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, audited the Board of Managing Directors' dependent company report 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,
2. payments by the Bank in connection with the legal transactions referred to in the report were not unduly high and
3. the measures mentioned in the report do not give rise to an assessment substantially different from that of the Board of Managing Directors."

The Supervisory Board approved the 2012 annual and consolidated annual financial statements in its meeting today. The 2012 annual financial statements are thus adopted. The Supervisory Board concurs with the Board of Managing Directors' proposal to pay a dividend from net earnings of €0.05 per dividend-bearing share and carry the remaining amount forward.

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

Unterschleißheim, 22 March 2013

The Supervisory Board

Dr. Horst Schiessl
Chairman

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Consolidated balance sheet
as at 31.12.2012

Assets in €		**31.12.2012**		**31.12.2011**
1. Cash reserves				
a) Cash-in-hand	1,787.68		1,043.07	
b) Deposits at central banks	1,370,740.47	**1,372,528.15**	5,029,689.76	5,030,732.83
including:				
at Deutsche Bundesbank € 1,370,740.47				
2. Loans and advances to banks				
a) Payable on demand	51,634,423.63		65,248,959.10	
b) Other loans and advances	9,126,063.70	**60,760,487.33**	19,779,241.87	85,028,200.97
3. Loans and advances to customers		**34,949,761.92**		21,103,849.23
including:				
secured by property liens € 750,227.24				
municipal loans € 0.00				
4. Bonds and other fixed-income securities				
a) Bonds and other debt securities				
aa) from public issuers	23,855,157.55		35,461,045.89	
including:				
eligible as collateral at Deutsche Bundesbank € 18,527,690.00				
ab) from other issuers	221,322,149.09	**245,177,306.64**	177,633,971.66	213,095,017.55
including:				
eligible as collateral at Deutsche Bundesbank € 91,365,071.80				
5. Equities / other non-fixed-income securities		**11,109,010.65**		500,000.00
5a. Trading portfolio		**59,749,677.63**		117,651,799.84
6. Equity investments		**1,440,083.31**		1,560,083.27
including:				
in banks € 0.00				
in financial services institutions € 231,337.00				
7. Investments in Associates		**4,268,743.53**		4,479,148.69
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	24,048,025.96		27,630,335.67	
b) Goodwill	11,695,018.00		13,951,033.00	
c) Advance payments made	1,607,044.13	**37,350,088.09**	486,531.50	42,067,900.17
9. Property, plant and equipment		**45,847,040.11**		28,975,665.18
10. Other assets		**8,882,541.17**		11,932,729.18
11. Prepaid expenses and accrued income		**1,121,439.54**		1,504,191.83
12. Positive difference from offsetting		**4,108,204.37**		2,891,178.26
Total assets		**516,136,912.44**		**535,820,497.00**

Equity and liabilities in €			**31.12.2012**		**31.12.2011**
1. Liabilities to banks					
a) Payable on demand		7,265,670.92		34,310,739.73	
b) With agreed term or period of notice		57,928,406.80	**65,194,077.72**	35,374,845.87	69,685,585.60
2. Liabilities to customers					
a) Other liabilities					
aa) Payable on demand		100,625,967.99		109,094,857.12	
ab) With agreed term or period of notice		196,444,709.34	**297,070,677.33**	207,507,334.98	316,602,192.10
3. Trading portfolio			**1,619,373.58**		1,909,056.37
4. Other liabilities			**3,919,208.36**		3,641,879.14
5. Provisions					
a) Provisions for pensions and similar commitments		859,976.08		821,229.54	
b) Tax provisions		441,210.89		235,624.13	
c) Other provisions		8,108,250.99	**9,409,437.96**	7,794,277.06	8,851,130.73
6. Fund for general banking risks			**27,300,000.00**		30,100,000.00
7. Shareholders' equity					
a) Issued capital					
aa) Subscribed capital	45,908,682.00			45,908,682.00	
ab) Nominal amount of own shares	−859,658.00	45,049,024.00		−581,765.00	
b) Capital reserve		31,431,265.61		31,431,265.61	
c) Retained earnings					
ca) Other retained earnings	24,657,870.87			23,829,815.56	
cb) Currency translation reserve	197,371.13	24,855,242.00		189,780.66	
d) Minority interests		1,850,031.30		1,865,061.28	
e) Retained profit		8,438,574.58	**111,624,137.49**	2,387,812.95	105,030,653.06
Total equity and liabilities			**516,136,912.44**		**535,820,497.00**
Contingent liabilities					
a) Liabilities from guarantees			**7,583.00**		7,583.00
Other obligations					
a) Irrevocable loan commitments			**866,587.96**		1,010,065.41

Consolidated income statement

FOR THE PERIOD FROM 1 JANUARY 2012 TO 31 DECEMBER 2012

in €			31.12.2012		31.12.2011
1. Interest income from					
a) Lending and money market transactions	1,256,379.73			2,371,074.37	
b) Fixed-income securities and government securities	13,909,461.14	15,165,840.87		14,039,556.61	
2. Interest expense		−10,231,746.88	**4,934,093.99**	−10,535,354.49	5,875,276.49
3. Current income from					
a) Equities and other non-fixed-income securities		1,555,271.20		964,304.55	
b) Equity investments		14,458.50	**1,569,729.70**	14,632.50	978,937.05
4. Fee and commission income		54,825,614.20		49,035,665.08	
5. Fee and commission expense		−15,635,260.21	**39,190,353.99**	−17,813,732.51	31,221,932.57
6. Net profit from the trading portfolio			**35,513,580.48**		46,272,850.88
7. Other operating income			**1,420,373.74**		1,848,155.79
8. General administrative expense					
a) Personnel expense					
aa) Wages and salaries	−44,668,743.34			−44,809,270.38	
ab) Social security contributions and expenses for pension provision and for support	−5,674,219.23	−50,342,962.57		−4,515,306.47	
including:					
for pension provision € −847,013.97					
b) Other administrative expense		−34,696,855.78	**−85,039,818.35**	−31,589,670.26	−80,914,247.11
9. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment			**−8,187,631.71**		−8,843,981.37
10. Other operating expenses			**−870,427.32**		−851,194.26
11. Write-offs and write-downs on loans and advances and certain securities as well as additions to loan loss provisions			**0.00**		−174,715.71
Amount carried forward			**−11,469,745.48**		−4,586,985.67

in €		31.12.2012		31.12.2011
Amount carried forward		**–11,469,745.48**		–4,586,985.67
12. Income from the revaluation of loans and advances and certain securities as well as reversals of loan loss provisions		**20,029,721.95**		0.00
13. Income from dissolution of the fund for general banking risks		**2,800,000.00**		5,900,000.00
14. Write-offs and write-downs on equity investments, interests in afilliated companies and securities treated as investments		**–119,602.76**		0.00
15. Income from the revaluation of equity investments, interests in dependent companies and securities treated as investments		**0.00**		11,084.89
16. Loss from investments in Associates		**–105,405.17**		–328,896.86
17. Profit from ordinary activities		**11,134,968.54**		995,202.36
18.Taxes on income		**–1,744,371.66**		452.39
19. Other taxes, unless reported under item 10		**–107,291.48**		–115,732.52
20. Net income for the year		**9,283,305.40**		879,922.23
21. Minority interest in net income		**–472,988.85**		–215,553.31
22. Retained earnings brought forward		**1,030,181.15**		125,072.51
23. Withdrawals from retained earnings				
a) from other retained earnings	617,303.98	**617,303.98**	1,891,253.02	1,891,253.02
24. Transfer to retained earnings				
a) to other retained earnings	–2,019,227.10	**–2,019,227.10**	–292,881.50	–292,881.50
25. Retained profit		**8,438,574.58**		**2,387,812.95**

Statement of changes in equity

AS AT 31.12.2011 AND 31.12.2012

2011 financial year			**Parent company**	
	Subscribed capital		**Consolidated earnings**	
in € thousand	**Common shares**	**Capital reserve**	**Retained earnings**	**Retained profit**
As at 1 January 2011	**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
Non-operating changes in earnings	0	0	– 1,598	1,598
As at 31 December 2011	**45,909**	**31,431**	**23,830**	**2,388**

2012 financial year			**Parent company**	
	Subscribed capital		**Consolidated earnings**	
in € thousand	**Common shares**	**Capital reserve**	**Retained earnings**	**Retained profit**
As at 1 January 2012	**45,909**	**31,431**	**23,830**	**2,388**
Issuance of shares	0	0	0	0
Purchase/withdrawal of treasury shares	0	0	– 234	0
Dividends paid	0	0	0	– 1,357
Other changes	0	0	– 340	0
Consolidated net profit for the year	0	0	0	8,810
Other consolidated earnings	0	0	0	0
Total consolidated earnings	0	0	0	8,810
Non-operating changes in earnings	0	0	1,402	– 1,402
As at 31 December 2012	**45,909**	**31,431**	**24,658**	**8,439**

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**

Treasury shares	Shareholders' equity	Equity difference from currency translation	Minority shareholders Minority equity	Consolidated equity
–582	**102,976**	**190**	**1,865**	**105,031**
0	0	0	0	0
–278	–512	0	0	–512
0	–1,357	0	–373	–1,730
0	–340	0	–115	–455
0	8,810	0	473	9,283
0	0	7	0	7
0	8,810	7	473	9,210
0	0	0	0	0
–860	**109,577**	**197**	**1,850**	**111,624**

Cash flow statement

in € thousand	2012	2011
1. Net profit for the period (incl. net profit attributable to minority interests)	**9,283**	**880**
Non-cash items and reconciliation to the cash flow of ordinary activities contained in net profit for the period:		
2. Depreciation and amortisation, write-downs and reversals of impairments on loans and advances and assets	10,353	9,670
3. Changes in provisions	558	– 3,952
4. Other non-cash expenses	– 5,507	– 6,521
5. Profit and loss from the sale of assets	501	10
6. Other adjustments (net)	– 9,758	– 5,160
7. Sub-total	**5,430**	**– 5,073**
Changes to assets and liabilities from operating activities:		
8. Loans and advances		
8a. to banks	15,048	70,023
8b. to customers	– 14,759	10,576
9. Securities (excluding securities held as non-current assets)	17,033	28,415
10. Other operating assets	2,268	– 596
11. Liabilities		
11a. to banks	– 19,473	– 6,300
11b. to customers	– 21,021	– 73,180
12. Liabilities from trading activities	– 290	– 1,029
13. Other operating liabilities	274	– 1,867
14. Interest and dividends received	19,738	16,651
15. Interest paid	– 10,113	– 9,525
16. Income taxes paid	133	– 1,493
17. Cash flow from operating activities	**– 5,732**	**26,172**
18. Proceeds from disposals of		
18a. financial assets	55	14
18b. property, plant and equipment and intangible assets	0	0
19. Payments for investments in		
19a. property, plant and equipment	– 18,812	– 11,282
19b. intangible assets	– 2,030	– 9,525
20. Payments for the acquisition of consolidated companies and other business units	– 455	– 216
21. Cash flow from investment activities	**– 21,242**	**– 21,009**
22. Payments to business owners and minority shareholders		
22a. Dividend payments	– 1,730	– 5,447
22b. Other payments	– 512	– 111
23. Changes in assets from other capital (net)	16,324	9,098
24. Cash flow from financing activities	**14,081**	**3,540**
25. Net change in cash and cash equivalents (The sum of 17, 21 and 24)	**– 12,893**	**8,703**
26. Effect of changes in exchange rates, scope of consolidated companies and measurement on cash and cash equivalents	7	39
27. Cash and cash equivalents at start of period	**21,631**	**12,889**
28. Cash and cash equivalents at end of period	**8,745**	**21,631**

Notes to the consolidated financial statements

I. Basis

The consolidated financial statements of Baader Bank AG for the 2012 financial year were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), most recently amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – 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 (Bundesministerium der Justiz – BMJ) in accordance with Section 342 (2) of the HGB.

In addition to the consolidated balance sheet and the consolidated income statement, the consolidated financial statements also include a statement of changes in equity, a cash flow statement and notes. The option pursuant to Section 297 (1) Sentence 2 HGB was not exercised and segment information is not reported.

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

The reporting date is 31 December 2012 and the financial year is the calendar year.

II. Accounting policies

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

In the interests of improved clarity, all information relating to items in the balance sheet, income statement and notes which is required in accordance with the statutory provisions, as well as all information whose inclusion in the balance sheet, the income statement or the notes is optional, is included in the Notes. Individual items that are summarised in the balance sheet and the income statement are broken down in the Notes.

The following accounting policies were applied:

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 adequate write-downs where necessary.

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

Securities that are intended to service business operations on an ongoing basis are recognised as financial assets under the modified lower of cost or market principle pursuant to Section 253 (1 and 3) of the HGB at amortised cost. Any impairments which are expected to be permanent are taken into account. If necessary, revaluations are made in accordance with the reversal requirement (Section 253 (5) of the HGB). Use is made of offsetting permitted in accordance with Section 340c (2) of the HGB.

The measurement option pursuant to Section 340e (1) Sentence 3 of the HGB in conjunction with Section 253 (3) Sentence 4 of the HGB is not used. On the reporting date, the Baader Group had non-current securities in its portfolio with a carrying value of €10,000 thousand. These are reported under debt securities and other fixed-income securities.

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

Fair value in accordance with Section 255 (4) generally corresponds to 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 affiliated companies. If no active market for derivative financial instruments exists, 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 set out in Section 255 (4) Sentence 4 of the HGB.

Trading portfolio
Financial instruments in the trading portfolio are initially measured at cost. Subsequent measurement is carried out in accordance with Section 340e (3) of the HGB at fair value less a risk discount for financial assets or plus a risk premium for financial liabilities. Information about the calculation of fair value is presented in the “Securities (excluding trading portfolio)” section.

The starting point for calculating 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. Baader Bank AG uses the Monte Carlo simulation approach to calculate the market price risk (VAR). A confidence level of 99% is assumed for the calculation and up to 100 observation days are taken into account. As at 31 December 2012, based on a quarterly parameter review, the calculation assumes that individual portfolios are held for a period between six hours and eleven days. The parameters were revised as at 31 December 2012, which led to an increase in risk discount amounting to €528 thousand.

Value at risk is calculated at the end of every month for all own-account trading portfolios. In addition to value at risk, risk contributions are added to the risk discount for issuance and customer trading portfolios.

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

Reclassification between the categories of liquidity reserves and assets treated as investments takes place if 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.

By a resolution passed on 18 January 2012, Baader Bank AG’s Board of Managing Directors stated its intention that, based on strategic considerations, a bond previously held within the liquidity reserve would be held to its maturity in 2030, and reclassified it into the "assets treated as investments" category. The reclassification took place at the carrying value presented in the annual financial statements as at 31 December 2011 in the amount of €10,000 thousand. The position was not disposed of in full or part during the 2012 financial year, and no volume-based reallocation took place. By matching refinancing to the maturity, Baader Bank AG is in fact able to hold the position to final maturity.

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

– Option premiums paid as part of 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 obligations 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, 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. See also the "Securities (excluding trading portfolio)" section for more information.

Intangible assets and property, plant and equipment
The Baader Group reports its standard computer software under intangible assets. 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 are measured at cost net of straight-line depreciation. Low-value assets with a cost of up to €150.00 (net) are recognised immediately in the income statement under expenses. In addition, low-value assets with a cost of up to €1,000.00 are recognised in an annual compound item and depreciated over five years using the straight-line method.

Advance payments made on intangible assets and property, plant and equipment are recognised at their nominal amount and written down to the appropriate value where necessary.

Other assets
Other assets are recognised at their nominal amount net of any amortisation, depreciation or write-downs.

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. As at the reporting date, the Deutsche Bundesbank had set this interest rate at 5.04 %.

Where the amount of pension obligations is determined by the fair value of securities held as non-current assets or the fair value of a reinsurance claim, they are recognised at the fair value of those securities or the fair value of the reinsurance claim, provided it exceeds a guaranteed minimum amount. Assets that are used exclusively to meet pension obligations are netted against these pursuant to Section 246 (2) Sentence 2 of the HGB.

Other provisions are measured at the amount which would be required to settle the obligation, which is determined in line with Section 253 (1) of the HGB and in accordance with the principles of a prudent commercial assessment. If the expected remaining term of a provision is more than one year, the provision is discounted using the interest rate published by the Deutsche Bundesbank at that time.

Fund for general banking risks
The fund for general banking risks includes amounts deemed necessary, based on a prudent commercial assessment, to cover special risks. Separate allocations are also made to the fund out of net income from the trading portfolio, pursuant to Section 340e (4) of the HGB. On the reporting date, in accordance with Section 340e (4) No. 2 of the HGB, the balance within the fund for general banking risks was equivalent to 50% of the average annual net income from the trading portfolio for the last five years.

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

Assets denominated in foreign currency and which are treated as investments are generally recognised at their historical cost, unless they are specifically hedged in the same currency. Other assets and liabilities and outstanding cash transactions that are denominated in foreign currency are translated at the average spot rate on the reporting date. Forward exchange transactions are translated at the forward rate on the reporting date.

On the reporting date, non-current assets denominated in foreign currency totalled €8 thousand, which was translated at the average spot rate on the reporting date. These assets relate solely to non-current assets held by Conservative Concept AG, Zug (Switzerland). As at 31 December 2012, there were no other assets denominated in foreign currency and treated as investments.

The treatment of the results from foreign currency translation depends on whether they arise from foreign currency transactions in the trading portfolio and whether or not the transactions are specifically hedged. If the results arise from the trading portfolio or if the transactions are specifically hedged, both the expenses and income from the currency translation are recognised in the income statement. The same holds true for foreign currency items without specific hedges which have a remaining maturity of up to one year. In contrast, for foreign currency items which are not specifically hedged and which have a remaining maturity of more than one year, only the expenses from the currency translation are recognised in the income statement, in accordance with the imparity principle.

As at the reporting date, there were no foreign currency items which were not specifically hedged and which had a remaining maturity of more than one year.

III. Changes in accounting policies
There were no changes in accounting policies in the 2012 financial year.

IV. Consolidated companies
In addition to Baader Bank AG as the parent company, the consolidated financial statements for the year ended 31 December 2012 comprise five subsidiaries (previous year: five 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 and one is headquartered abroad.

The following companies were included in the consolidated financial statements as at 31 December 2012, and were consolidated in full: → Table 11

Under purchase agreements of 12 April 2012 and 12 September 2012, Baader Bank AG acquired a further 7,250 no-par value shares in Conservative Concept Portfolio Management AG, Bad Homburg. Its interest in the company thereby increased by 5.18% to 66.07%.

Baader Bank AG holds an investment in Baader Unterstützungskasse e. V., Unterschleissheim, which is a special-purpose vehicle as defined in Section 290 (2) No. 4 of the HGB. In principle, this company must be included in the consolidated financial statements. For reasons of materiality, it was not consolidated on 31 December 2012, as permitted by Section 296 (2) Sentence 1 of the HGB.

The following associated companies were included in the consolidated financial statements as at 31 December 2012: → Table 12

Under a sale agreement of 9 February 2012, Baader Bank AG sold all its shares in BAM Berlin Asset Management GmbH, Berlin. The company is therefore no longer included as an associate in the consolidated financial statements as at 31 December 2012.

Baader Bank AG continued to hold a 21.93% interest in Parsoli Corporation Ltd., Mumbai (India) as at 31 December 2012. The departure of Baader Bank AG's representatives from Parsoli Corporation Ltd's Managing Board in 2009 means that Baader Bank AG can no longer be presumed to exert 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 from the parent company, Baader Bank AG, and the subsidiaries, and present the individual Group companies as a single 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 previous consolidation decisions at least at the end of every financial year to ensure they are still appropriate. Any organisational changes are therefore immediately taken into account. Besides changes in ownership, these also include any changes to the Group's existing contractual obligations and any new obligations entered into.

The accounting policies used in the preparation of the financial statements for the companies included in the Baader Group are applied consistently across the Group.

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

Article 66 (3) Sentence 4 of the Introductory Act of the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) provides for the option of using the carrying value method for capital consolidation of subsidiaries (acquired before 31 December 2009), depending on the method of acquisition. In addition, for subsidiaries acquired from 1 January 2010 onwards, Section 301 (1) of the 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

Consolidation is based on the carrying values reported in the individual financial statements. The proportion of equity attributable to the consolidated subsidiary is offset against the carrying value of the investment which the Group companies hold in the subsidiary. Information about the calculation of the carrying value of investments is presented in the "Equity investments" section.

The difference between the proportional equity and the carrying value of the investments is allocated to the hidden reserves and hidden charges attributable to the subsidiary's assets and liabilities 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 of the 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 of 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 acquisition cost and the difference represents goodwill or negative goodwill.

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 released to the income statement.

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.

If a subsidiary is consolidated for the first time on the reporting date, the balances in the subsidiary's income statement are fully incorporated into the Group income statement. If a subsidiary is consolidated for the first time during the course of the year, the balances are incorporated on a pro rata basis.

Table 11 Fully consolidated companies 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	44	44	–1	31 December 2003
N.M. Fleischhacker AG, Unterschleißheim	100.00	5,000	6,377	8,455	0 [1]	1 January 2009
Baader & Heins Capital Management AG, Unterschleißheim	75.00	50	3,714	5,612	1,189	1 January 2005
Conservative Concept Portfolio Management AG, Bad Homburg	66.07	140	2,553	3,747	602	1 October 2006
Conservative Concept AG, Zug (Switzerland) [2]	100.00 [3]	62	986	1,027	–92	1 October 2006

1 The result for the financial year to 31 December 2012 is reported 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 to 31 December 2012 have been translated (€/CHF 1.2072).

Table 12 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
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	30.00	4,218	12,365 [1]	16,170 [1]	–415 [1]	– [2]

1 Figures are based on the unaudited financial statements as at 31 December 2012. The equity, total assets and net profit for the financial year ended 31 December 2012 have been translated (€/OMR 0.50810).
2 No public market price available as at 31 December 2012.

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) of the HGB) are generally recognised at amortised cost. See also the "Equity investments" section 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 2012. Refer to 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 concerning financial and operational policy. As a rule, significant influence is presumed if 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 is taken into account.

As at the reporting date no potential voting rights existed.

Examples of other factors used in assessing significant influence include representation on the management and supervisory boards of the company in which the investment is held, and significant transactions with the company. The presence of such factors could indicate the existence of an associate even if the Group's interest involves 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 were deemed to be associates.

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

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

No such impairments were necessary on the reporting date.

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

If the Group sells all or part of its interest in an associate, the profit on disposal is determined by comparing the sales proceeds with the equity value attributed to the interest being sold. If the Group loses significant influence over an associate but there is no change in the interest held by the Group, the equity value is amortised using the cost method.

The Group's interests in associates changed in the 2012 financial year. More information is available in the separate "Consolidated companies" section. The Group also continued to have significant influence on its associates as at 31 December 2012.

VI. Notes to the balance sheet

Foreign currency
On the reporting date, the Group had assets denominated in foreign currency amounting to the equivalent of €54,416 thousand (previous year: €42,924 thousand). Liabilities denominated in foreign currency totalled €38,231 thousand (previous year €46,882 thousand). This involved the following balance sheet items: → **Table 13**

Income resulting from currency translation amounted to €1,238 thousand and is reported under net profit from the trading portfolio.

Table 13 Assets and Liabilities denominated in foreign currencies in € thousand

Currency	Loans and advances to banks	Loans and advances to customers	Equities and other non-fixed-income securities	Other assets	Liabilities to banks	Liabilities to customers	Other liabilities
AUD	100	0	0	0	12	88	0
BRL	365	35	0	0	0	289	0
CAD	99	60	0	0	84	57	1
CHF	328	3	0	0	0	281	122
GBP	559	71	0	4	96	442	11
HKD	611	20	0	0	0	629	0
INR	19	0	0	0	0	0	0
JPY	853	23	0	0	0	875	0
MYR	102	22	0	0	0	75	0
NOK	29	10	0	0	38	0	0
OMR	117	229	1,648	0	0	0	0
PLN	0	0	0	0	0	117	0
SEK	71	31	0	0	93	5	0
SGD	56	0	0	0	0	53	0
TRY	206	3	0	0	0	198	0
USD	27,032	21,613	0	0	2,947	31,119	503
ZAR	97	0	0	0	0	96	0
	30,644	**22,120**	**1,648**	**4**	**3,270**	**34,324**	**637**

TABLE 15 MATURITIES OF 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	455	571	100	8,000
Loans and advances to customers	30,357	3,289	1,304	0
Liabilities to banks with an agreed term or notice period	5,758	194	24,170	27,806
Liabilities to customers with an agreed term or notice period	0	12,945	96,000	87,500

TABLE 16 MARKETABLE SECURITIES INTO LISTED AND UNLISTED SECURITIES IN € THOUSAND

	Non-marketable	Marketable		Marketable securities not valued at their lowest value
		Listed	Unlisted	
Bonds and other debt securities	0	235,022	10,155	0
Equities and other non-fixed-income securities	0	11,109	0	0
Investments in Associates	4,269	0	0	0

Loans and advances to banks

Loans and advances to banks consist of bank deposits of €19,021 thousand and other loans and advances of €41,739 thousand. They do not include any 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 totalled €245,177 thousand and do not include any loans and advances to affiliated companies. → **TABLE 14**

TABLE 14 DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES IN € THOUSAND

	31.12.2012	31.12.2011
Bonds and other debt securities	239,458	206,767
Accrued coupon income	5,719	6,114
Debt securities and other fixed-income securities	**245,177**	**212,881**

As at 31 December 2012, the Baader Group's debt securities and other fixed-income securities included a bond that is assigned to the category of "assets treated as investments". No market price was available at 31 December 2012. The theoretical price at the reporting date was €10,102 thousand. It is measured at cost in the amount of €10,000 thousand in accordance with Section 253 (3) Sentence 3 of the HGB (under the modified lower of cost or market principle). No long-term impairment is expected in view of the issuer's creditworthiness and the intention to hold the bond to maturity. The positions have been placed in a portfolio which is separate from marketable securities valued according to the lower of cost or market principle.

In the coming year, bonds and other debt securities totalling €7,063 thousand will fall due.

Maturity structure

The maturities of the assets and liabilities reported in the balance sheet are as follows: → **TABLE 15**

Breakdown of marketable securities into listed and unlisted securities

→ **TABLE 16**

Non-current assets

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 table of assets were used by the Baader Group as part of its own operations.

No internally generated intangible assets have been capitalised.

Table 17 Table of assets in € thousand

	Cost of acquisition or production				
	As at 01.01.2012	Additions	Disposals	Reclassifications	As at 31.12.2012
A. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets	57,766	669	96	203	58,542
2. Goodwill	22,560	0	0	0	22,560
3. Payments made on intangible assets	487	1,323	0	-203	1,607
	80,812	**1,992**	**96**	**0**	**82,709**
B. Property, plant and equipment					
1. Land and buildings	23,873	2	0	0	23,875
2. Furniture, fixtures and office equipment	5,966	520	216	0	6,271
3. Payments made on property, plant and equipment and assets under construction and construction in progress	10,904	17,874	0	0	28,778
	40,743	**18,396**	**216**	**0**	**58,923**
C. Financial assets					
1. Equity investments	5,622	0	30	0	5,592
2. Associates	4,852	0	105	0	4,747
3. Securities held as non-current assets	0	0	0	10,000	10,000
	10,473	**0**	**135**	**10,000**	**20,338**

The composition of and movements in non-current assets are shown in the following table of assets: → **Table 17**

Shareholdings

Shareholdings are shown under figure X.

Other assets

Other assets include: → **Table 18**

Table 18 Other assets in € thousand

	31.12.2012	31.12.2011
Corporation tax credits (discounted)	7,307	8,613
Sales tax receivables	424	714
Other tax receivables	157	1,980
Receivables from brokerage fees and price differences	239	273
Reinsurance claims from life insurance policies	18	17
Other receivables	738	336
Other assets	**8,883**	**11,933**

No receivables due from members of the Board of Managing Directors, the Supervisory Board or affiliated companies are included within other assets.

Prepaid expenses

Prepaid expenses totalling €42 thousand relate to differences arising from the issue of two promissory notes in accordance with Section 250 (3) of the HGB.

Liabilities to banks

Liabilities to banks serve mainly to finance the office building in Unterschleissheim and to refinance the securities trading business. They also include liabilities from promissory note loans raised totalling €11,865 thousand.

Liabilities to customers

At the reporting date, there were customer deposits payable on demand amounting to €100,626 thousand and liabilities to customers from promissory note loans raised totalling €196,445 thousand.

Other liabilities

Other liabilities include: → **Table 19**

Table 19 Other liabilities in € thousand

	31.12.2012	31.12.2011
Trade payables	1,491	1,389
Tax liabilities	979	1,044
Miscellaneous liabilities	1,449	1,209
Other liabilities	**3,919**	**3,642**

Pension provisions

Pension obligations at 31 December 2012 stood at €11,531 thousand and are calculated using the process described in the "Liabilities and provisions" section. Bank accounts, securities accounts and reinsurance are available to cover these obligations. An interest expense of €434 thousand was recorded for the 2012 financial year (previous year: €417 thousand). The actuarial calculations are based on the following parameters: → **Table 20**

Table 20 Parameters for actuarial calculations in %

	31.12.2012	31.12.2011
Interest rate	5.04 and 5.07	5.14
Changes in salaries	0.0 to 3.0	0.0 to 3.0
Pension adjustments	2.0	2.0

In addition, the Klaus Heubeck "Richttafeln" 2005G tables were used as the basis for the calculations in both the commercial financial statements and the statements used for tax purposes as at 31 December 2012.

Accumulated depreciation / amortisation					Carrying amounts	
As at 01.01.2012	Additions	Disposals	Reversals of impairments	As at 31.12.2012	As at 31.12.2012	As at 31.12.2011
30,135	4,450	92	0	34,494	24,048	27,630
8,609	2,256	0	0	10,865	11,695	13,951
0	0	0	0	0	1,607	487
38,745	**6,706**	**92**	**0**	**45,359**	**37,350**	**42,068**
7,863	915	0	0	8,777	15,097	16,010
3,905	567	173	0	4,299	1,972	2,061
0	0	0	0	0	28,778	10,904
11,767	**1,481**	**173**	**0**	**13,076**	**45,847**	**28,976**
4,062	120	30	0	4,152	1,440	1,560
372	105	0	0	478	4,269	4,479
0	0	0	0	0	10,000	0
4,434	**225**	**30**	**0**	**4,629**	**15,709**	**6,039**

Cover assets
→ **Table 21**
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 €4,108 thousand is reported within assets. Overall, this means that total pension provisions stood at €860 thousand.

Table 21 Cover assets in € thousand

	31.12.2012	31.12.2011
Cost	12,694	12,520
Fair value	14,779	12,353
Debts repaid	10,671	9,462

Other provisions
Other provisions consist of the following: → **Table 22**

Table 22 Other provisions in € thousand

	31.12.2012	31.12.2011
Provisions for personnel expenses	5,699	4,971
Legal, audit and consultancy costs	584	967
Contributions	167	261
Administrative expense	888	845
Miscellaneous provisions	770	750
Other provisions	**8,108**	**7,794**

Fund for general banking risks
Under Section 340e (4) of the HGB, banks are required to create a special "Fund for general banking risks" item in accordance with Section 340g of the HGB. Ten per cent of the net income generated by the trading portfolio is to be allocated annually to this special item in order to cover the special risks arising from 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 of the HGB, the special item amounting to €2,800 thousand was dissolved on 31 December 2012. This is presented in the income statement under "Income from dissolution of the fund for general banking risks".

Trading portfolio
Assets held for trading and liabilities from trading activities were as follows on 31 December 2012: → **Table 23**

Table 23 Assets and liabilities from trading activities in € thousand

Assets held for trading	**31.12.2012**	**31.12.2011**
Derivative financial instruments	5	8
Loans and advances	0	0
Debt securities and other fixed-income securities	1,383	59,823
Equities and other non-fixed-income securities	58,976	57,851
Other assets	0	0
Risk discount	– 614	– 30
Assets held for trading on the balance sheet	**59,750**	**117,652**
Liabilities from trading activities	**31.12.2012**	**31.12.2011**
Derivative financial instruments	68	162
Liabilities	1,548	1,745
Risk premium	3	2
Liabilities from trading activities on the balance sheet	**1,619**	**1,909**

With effect from 6 December 2012, Baader Bank AG's Board of Managing Directors redefined the institution's internal criteria for allocating transactions to the trading book or banking book pursuant to Section 1a (4) Sentence 1 of the German Banking Act (Kreditwesengesetz – KWG). The criteria ensure a basic correspondence between allocation to the trading book or banking book under supervisory law and allocation to the trading portfolio or "non-trading portfolio" under commercial law.

The decisive factor for allocating a balance or transaction to the trading portfolio is its intended purpose. Balances and transactions are included in the trading portfolio if they have been realised by the Baader Group:

- in fulfilment of its role as lead broker, market maker or designated sponsor or
- in its own name and for the Baader Group's own account and
- in order to realise short-term gains for its own account and
- within the limit for trading risks and
- under its own decision-making authority and responsibility for results and
- in the context of the business strategies and objectives laid down for it by the Board of Managing Directors.

"Short-term" is essentially regarded as a holding period of up to 10 trading days.

The changes to the criteria did not lead to any reclassifications or have any impact on the Baader Group's net income for the year.

Valuation units
No valuation as defined by Section 254 of the HGB were created in the 2012 financial year.

Derivative financial instruments

Futures

At the reporting date of 31 December 2012, the Baader Group held the following categories of derivative financial instruments in the trading portfolio:

- Index-based transactions,
- Interest-rate-based transactions.

These transactions involved options and futures.

The procedure for recognising and valuing the assets and liabilities in the trading portfolio is described in the "Trading portfolio" section. At the reporting date, all derivative financial instruments were recognised at fair value, which corresponds to their market value.

Forward transactions

At the reporting date, there was only one outstanding forward contract, which is a forward exchange contract as defined by Section 36 No. 1 of the RechKredV. → **Table 24**

Table 24 Forward transactions in USD thousand

Maturity	Amount
28 December 2012 to 2 January 2013	– 19,000

The above transaction relates exclusively to a forward contract originated by a customer.

The chart below depicts the extent and type of each category of derivative financial instruments valued at fair value (market value), including significant conditions that could influence the amount, timing and certainty of future cash flows: → **Tables 25 and 26**

Table 25 Assets held for trading in €

Portfolio	Description	Category	Maturity	Market price
Eurex FH HVB	DAX® Option (ODAX)	Eurex equity index option	1 January 2013	48.20
Eurex FH HVB	DAX® Future (FDAX)	Eurex equity index option	1 March 2013	7,618.50
Eurex FH HVB	EURO STOXX 50® Index Future (FESX)	Eurex equity index option	1 March 2013	2,615.00

Table 26 Liabilities from trading activities in €

Portfolio	Description	Category	Maturity	Market price
Eurex FB	DAX® Future (FDAX)	Eurex equity index future	1 March 2013	7,618.50
Eurex SV	Euro-Bobl Future 5 years (FGBM)	Fixed income future	1 March 2013	127.79

Table 27 Interests in investment funds in €

Instrument	Investment objective	Volume	Market value	Carrying value	Difference compared with carrying value	Distribution
SHERPA ABSOLUTE RETURN AMI P(A) [1] (A0Q8HC)	Long-short equity strategy based on European indices and equities	40,000 Number	3,487	3,487	0	0

1 Directive-compliant special investment fund as defined in Sections 46 et seq. of the InvG; mutual fund

Interests in investment funds

As at 31 December 2012, the Baader Group held more than 10% of the following German investment funds within the meaning of Section 1 of the German Investment Act (Investmentgesetz – InvG) or comparable foreign investment units within the meaning of Section 2 (9) of the German Investment Act: → **Table 27**

Units of the investment fund were assigned to the trading portfolio in the amount of €2,929 thousand. In addition, units in the sum of €558 thousand were designated as cover assets and netted against pension obligations. The carrying amounts correspond to the market values of the units. For information regarding fair value measurement, see also the separate "Trading portfolio" and "Liabilities and provisions" sections.

Investment fund units can be redeemed on a daily basis.

Assets transferred as collateral

For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2012: → **Table 28**

Table 28 Assets transferred as collateral in € thousand

Period	Mortgages	Securities (liquidity reserve)	Bank deposits
Liabilities to banks	26.200	15.000	2.954

Deferred taxes

Deferred taxes arise from differences in the amounts calculated under commercial and tax law in their approach to carrying forward losses, taxable goodwill, cover assets, capitalised order books, pension provisions, provisions for anticipated losses, and in the discounting of other provisions. A tax rate of 29.26% is applied. In accordance with the option under Section 274 (1) of the HGB, the resulting surplus is not recognised on the balance sheet.

Baader Group equity

Subscribed capital and capital reserve

The subscribed capital (share capital) of Baader Bank AG as at 31 December 2012 amounted to €45,909 thousand, comprising 45,908,682 no-par value bearer shares.

1. Authorised capital

By a resolution of the General Meeting of Shareholders on 30 June 2011, the resolution of 26 June 2007 (Authorised Capital 2007/I) was revoked. Under the same resolution of 30 June 2011, new Authorised Capital 2011 was created.
The Board of Managing Directors was thereby authorised, with the consent of the Supervisory Board, to increase the Bank's share capital by up to €22,954 thousand by 29 June 2016 via the issue of new no-par-value bearer shares on one or more occasions in return for cash and/or non-cash considerations. In principle, the shareholders will be granted the right to subscribe for these shares. However, with the approval of the Supervisory Board, the Board of Managing Directors may:

a) exclude fractional amounts from the subscription right;
b) choose not to allow shareholders to subscribe, 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 of the AktG), whereby this exclusion of subscription rights may only affect shares whose imputed value does not exceed 10% of the share capital;

Contracts	Market value	Carrying value	Risk factors	Cash flows
20 Number	4,820.00	3,533.50	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (5 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
1 Number	190,462.50	192,025.55	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (25 euros per index point)	- Daily: reconciliation of movements - Cash settlement on the first exchange trading day after the final settlement day
5 Number	130,750.00	132,271.75	Fluctuations in the cash flow result primarily from changes in the value of the Euro Stoxx 50 index (10 euros per index point)	- Daily: reconciliation of movements - Cash settlement on the first exchange trading day after the final settlement day

Contracts	Market value	Carrying value	Risk factors	Cash flows
5 Number	952,312.50	953,497.25	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (25 euros per index point)	- Daily: reconciliation of movements - Cash settlement on the first exchange trading day after the final settlement day
80 Number	10,223,200.00	10,156,800.00	Fluctuations in the cash flow result primarily from changes in the value of medium-term German debt securities (multiplier of 1,000)	- Daily: settlement price (volume-weighted average of all transactions at 5:14 pm, if more than five transactions were made) - Fulfilment by delivery

c) rule out the subscription right of shareholders in order to issue shares for non-cash considerations 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 2011).

2. Contingent capital
By a resolution of the General Meeting of Shareholders on 29 June 2012, the resolutions of 19 July 2006 (Contingent Capital 2004) and 26 June 2007 (Contingent Capital 2005) were revoked. Under the same resolution of 29 June 2012, the Bank's share capital was increased by up to €20,754 thousand on a contingent basis via the issue of up to 20,754,431 new bearer shares (Contingent Capital 2012). The contingent capital is designed to grant rights to holders or creditors of convertible debt securities and/or warrants from partial debt securities, issued by 29 June 2016 on the basis of the resolution of the General Meeting of Shareholders of 30 June 2011, 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 on each occasion. The contingent capital increase will only take place to the extent that the holders of the convertible debt securities and/or warrants which the Bank issues by 28 June 2017, on the basis of the authorising resolution of 29 June 2012, make use of their conversion rights or options, or the holders of convertible debt securities who are obliged to convert their securities fulfil their conversion obligation and as long as treasury shares are not utilised to service these securities. The new shares carry dividend rights from the beginning of the financial year in which they are created through exercise of conversion rights or options or through fulfilment of conversion obligations. Subject to the approval of the Supervisory Board, the Board of Managing Directors is authorised to determine the further details of execution of the contingent capital increase. The Supervisory Board is authorised to amend article 4 of the Articles of Association in line with the respective utilisation of the contingent capital. This resolution of the General Meeting of Shareholders was entered in the Commercial Register by the registration court on 2 August 2012.

3. Buyback of own shares
By a resolution of the General Meeting of Shareholders on 29 June 2010, the resolutions of 3 July 2009 pursuant to Section 71 (1) Nos. 7 and 8 of the AktG were revoked and authorisations valid until 28 June 2015 pursuant to Section 71 (1) Nos. 7 and 8 of the AktG were issued as follows:

a) Authorisation 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 share capital of Baader Bank AG.
b) Authorisation to acquire shares of Baader Bank AG, in particular so as to be able to offer them to third parties in the context 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) Authorisation to offer shares to beneficiaries under Baader Bank AG's share option plans of 1999, 2004 and 2006 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 10% of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, and in order to pursue one or more of the stated goals. The authorisation is valid until 28 June 2015 and the shares are to 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 on the basis of this authorisation to holders of options under the 1999, 2004 and 2006 Share Option Plans approved by the General Meeting of Shareholders. Shareholders' right to subscribe to these own shares is excluded in so far as 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, 859,658 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 29**

Table 29 Retained profit in € thousand

	31.12.2012	31.12.2011
Net income before minority interests	9,283	880
Minority interest in net income	– 473	– 215
Total consolidated earnings	**8,810**	**665**
Retained earnings brought forward	1,030	125
Withdrawal from retained earnings	618	1,891
Transfer to retained earnings	– 2,019	– 293
Retained profit	**8,439**	**2,388**

Treasury shares

In the reporting year no treasury shares were allocated to persons eligible for Baader Group’s share option plans. In the reporting period, 277,893 treasury shares were acquired. Treasury share holdings represent 1.87% of the share capital. The share capital held in the treasury shares amounts to €860 thousand.

In the financial year, shareholders acquired no shares for the account of the Baader Group. → **Table 30**

Table 30 Treasury shares

Position 31.12.2011	Additions (Number)	Ø-price in €	Disposals (Number)	Ø-price in €	Position 31.12.2012
581,765	277,893	1.84	0	0.00	859,658

The average price of treasury shares held at the reporting date was €2.41.

Treasury shares were acquired for the purpose of offering these shares to beneficiaries under Baader Bank AG’s 1999, 2004 and 2006 Share Option Plans 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 €867 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, €14 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 of the HGB

The following financial obligations existed as at 31 December 2012: → **Table 31**

Table 31 Financial obligations in € thousand

	Remaining term (in months)	Financial obligation
Rental contracts for office space, utility spaces and car parking spaces	3 to 97	6,903
Vehicle leases and lease contracts for operating and office equipment	2 to 47	6,946
Other contracts for services	12 to 44	551

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

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

As at 31 December 2012, there were purchase commitments amounting to €4,494 thousand gross which related exclusively to the 2013 financial year.

The type and extent and transactions does not present a risk at present.

Information in accordance with Section 285 No. 3a of the 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 of the HGB.

VIII. Notes to the income statement

Other operating income

Other operating income mainly includes income relating to other periods (€480 thousand), income from non-cash benefits (company cars) (€451 thousand), income from the reversal of provisions (€156 thousand) and income from internet advertising (€96 thousand).

Income relating to other periods mainly consists of refunds of contributions from the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) amounting to €300 thousand.

Amortisation and impairments of intangible assets and property, plant and equipment

Amortisation includes unscheduled amortisation in the amount of €58 thousand. For the composition of the amortisation, refer to the table of assets.

Other operating expenses

The main components of other operating expenses are expenses relating to other periods (€691 thousand), special payments to the Securities Trading Companies Compensation Fund (€80 thousand) and expenses relating to the disposal of assets (€47 thousand).

Income relating to other periods is mainly composed of refunds of contributions from BaFin amounting to €300 thousand.

Taxes on income

Taxes reported for the 2012 financial year comprise income taxes for the past financial year amounting to €1,909 thousand and income from accrued interest on corporate tax credits totalling €165 thousand. The resulting tax on income amounts to €1,744 thousand.

The taxes on income relate entirely to the 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) of the AktG. A notice pursuant to Section 20 (4) of the AktG is available.

Employees
In the 2012 financial year, the average number of staff employed was (previous year: 407). Of these, 28 held executive positions.

Total remuneration of the Board of Managing Directors and Supervisory Board
The members of the Board of Managing Directors received total remuneration of €1,767 thousand for their activities during the financial year.

The members of the Supervisory Board received total remuneration of €216 thousand for their activities during the financial year.

Audit fees
Fees paid to the auditors in the 2012 financial year were as follows: → **Table 32**

Table 32 Audit fees in € thousand

Service	31.12.2012 net	31.12.2012 gross	31.12.2011 gross
Annual audit services	471	1) 558	559
Other certification services	69	2) 83	54
Tax advisory services	84	3) 100	99
Other services	38	45	7
Total fees	**662**	**786**	**719**

1 Annual audit services in the amount of €24 thousand relate to the 2011 financial year. In addition, annual audit services in the amount of €11 thousand do not relate to the auditor of the consolidated financial statements.
2 Other certification services totalling €10 thousand relate to the 2011 financial year.
3 3) Tax advisory services totalling €1 thousand relate to the 2011 financial year.

Executive bodies at Baader Bank AG

Board of Managing Directors

Uto Baader, Munich
Occupation: Economist, Chairman of the Board of Managing Directors of Baader Bank AG

Nico Baader, Gräfelfing
Occupation: Banker, Member of the Board of Managing Directors of Baader Bank AG

Dieter Brichmann, Penzberg
Occupation: Businessman, Member of the Board of Managing Directors of Baader Bank AG

Dieter Silmen, Baldham
Occupation: Banker, Member of the Board of Managing Directors of Baader Bank AG

Supervisory Board

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

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

Karl-Ludwig Kamprath, Munich
Occupation: Savings bank director (retired)

Helmut Schreyer, Munich
Occupation: Banker

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

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

Appointments in accordance with Section 340a (4) No. 1 of the HGB
As at 31 December 2012, the following persons were members of the statutory supervisory bodies of major German and foreign companies: → **Table 33**

Table 33 Appointments in accordance with Section 340a (4) No. 1 of the HGB

Appointee	Company/institution in which appointment held	Appointment
Uto Baader	Bayerische Börse AG, Munich	Member of the Supervisory Board
	Corona Equity Partner AG, Grünwald	Deputy Chairman of the Supervisory Board
	Gulf Baader Capital Markets S.A.O.C., Muscat (Oman)	Deputy Chairman of the Managing Board
	STEICO SE, Feldkirchen	Deputy Chairman of the Managing Board
Nico Baader	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
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
Dieter Silmen	Baader Management AG, Unterschleißheim	Member of the Supervisory Board
	Baader & Heins Capital Management AG, Unterschleißheim	Deputy Chairman of the Supervisory Board
	N.M. Fleischhacker AG, Unterschleißheim	Member of the Supervisory Board
Christine Schiedermaier	Baader & Heins Capital Management AG, Unterschleißheim	Member of the Supervisory Board
	N.M. Fleischhacker AG, Unterschleißheim	Member of the Supervisory Board

Table 34 Shareholdings with more than 5% in € thousand

Name / Registered office	Equity interest	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 2011	12,334	– 575
Conquest Investment Advisory AG, Feldkirchen	13.30	31 December 2010	143	19
Trading Systems Portfolio Management AG, Bad Homburg [1]	9.64	31 December 2011	1,465	36

1 Vormals Fonds Direkt AG, Bad Homburg.

Waiver of disclosure in accordance with Section 264 (3) of the HGB
N.M. Fleischhacker AG, Unterschleissheim, 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) of the HGB and is therefore exempt from disclosing its annual financial statements. The resolution passed by the General Meeting of Shareholders in accordance with Section 264 (3) No. 1 of the HGB is 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 shares of the following companies, which were not subsidiaries or associates as at 31 December 2012:
→ **Table 34**

Under a sale agreement dated 24 July 2012, Baader Bank AG sold all shares in Stillking Film Holdings Ltd., St. Helier (Jersey).

Unterschleißheim, 13 March 2013

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 Aktiengesellschaft, Unterschleissheim, comprising the consolidated balance sheet, 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 2012. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law 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 (Handelsgesetzbuch – HGB) using generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors (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 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. In determining the audit procedures, we take into account our knowledge of the Group's business activities and its economic and legal environment, together with our expectations of possible misstatements. 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 sample 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 consolidation, 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 assets, financial position and results of operations of the Group in accordance with generally accepted accounting principles. The Group management report is consistent with the consolidated financial statements, provides an accurate view of the Group's position overall, and accurately presents the opportunities and risks of future development.

Bremen, 14 March 2013

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Jasper)	(Clostermann)
Auditor	Auditor

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