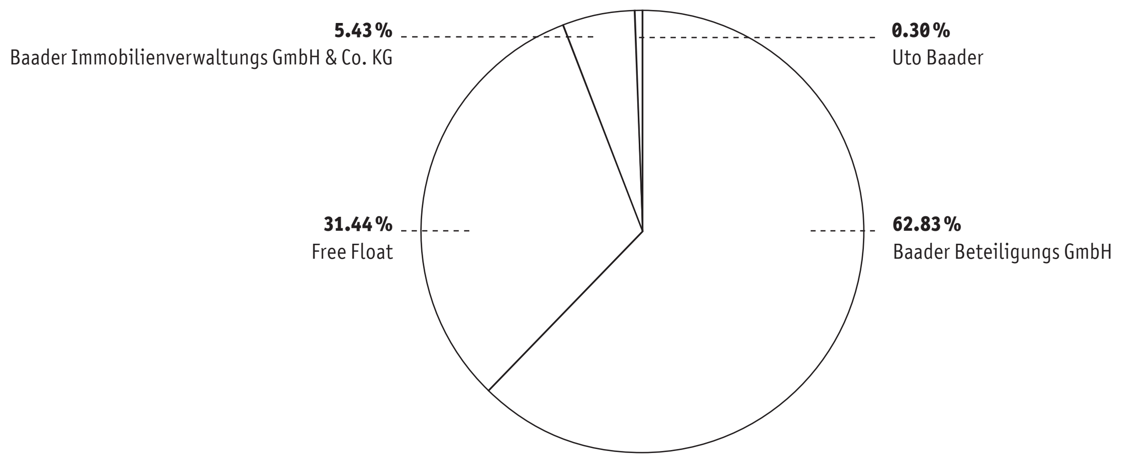
2014 Consolidated Financial Statements of Baader Bank Group

Key data

Consolidated Income Statement		2014	2013	Change in %
Net interest and current income	€ mn	3.23	6.20	– 47.9
Net income from commissions	€ mn	52.40	49.54	5.8
Net profit from trading portfolio	€ mn	43.70	42.61	2.6
Administrative expenses	€ mn	– 112.04	– 105.37	6.3
Net income	€ mn	– 1.52	– 0.18	> 100.0
Consolidated statement of financial position				
Equity capital	€ mn	132.00	135.30	– 2.4
Total assets	€ mn	663.29	617.87	7.4
Financial ratios				
Employees (as of 31.12.)		480	473	1.5
Order books (as of 31.12.)	Number	730,532	702,015	4.1
Baader Bank Share price				
Open price (02.01.)	€	2.45	1.97	24.4
High price	€	2.96	2.55	16.2
Low price	€	2.26	1.75	29.0
Close price (30.12.)	€	2.37	2.45	– 3.4
Market capitalisation (30.12.)	€ mn	121.70	112.48	8.2
Transaction volume (daily average)	Number	10,966	17,159	– 36.1

Shareholder structure



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1 Information about the Baader Bank Group

The financial statements of the Baader Bank Group for the 2014 financial year include seven consolidated subsidiaries in addition to the parent institution Baader Bank AG. The head office of the independent, owner-managed group is situated in Unterschleissheim, near Munich. At the end of 2014, the Baader Bank Group employed a total of 480 people. The development of the Group's business is essentially determined by 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 business of Baader Bank Group is divided into two core business divisions: Market Making and Investment Banking.

In **Market Making**, the Group offers its customers long-standing expertise and high-quality services for the pricing, trading and settlement of financial instruments on the global capital markets. With its innovative technology, it supports exchange-based and OTC trading in over 700,000 securities, making it one of Germany's leading securities specialists.

In **Investment Banking**, the Group specialises in German, Austrian and Swiss equities. It provides institutional investors with a highly efficient trading and distribution unit for equities, futures and options. A team of experienced senior analysts assesses companies from these German-speaking countries (the "DACH region").

The Baader Bank Group develops independent solutions across the entire corporate finance spectrum for small and medium-sized enterprises from this region that are active in the capital markets. It supports companies in the execution of equity and debt capital market transactions such as IPOs, corporate actions, bond issues and the structuring and placement of promissory note loans. Moreover, in its role as corporate broker, the Baader Bank Group provides a comprehensive range of services for enhancing investor dialogue and improving secondary market liquidity.

The Baader Bank Group's range is further complemented by the products and services offered by its **subsidiaries**. These include the brokerage of promissory note loans and money market investments, as well as managing client monies in hybrid funds and absolute return strategies.

2 Economic report

2.1 Overall economic and sector-specific environment

Capital markets 2014 – Economic policy driven by monetary policy

Trends in the global economy have been mixed over the past year. The US economy proved to be robust, whereas economic data from the eurozone were increasingly subdued. The background to this was the reluctance of most eurozone countries to reform economic policy, as well as economic hardship in Russia. As the economic engine of the eurozone, Germany was especially hard hit. Asian economies and emerging market countries suffered from the rising US dollar, which made it considerably more expensive for emerging countries to service debts partially denominated in US dollars. Although the drastic fall in oil prices increased the purchasing power of consumers and company margins in western industrialised nations, it also put exporting countries under pressure.

Financial markets were calmed by the steps taken to loosen monetary policy in the eurozone and Japan. After cutting its key interest rate to 0.05%, the ECB focused its monetary policy from the third quarter onwards on a buyback programme for asset-backed securities and covered bonds in order to provide impetus to an otherwise diminishing volume of bank lending in the eurozone. Due to a falling inflation rate, which towards year-end had practically sunk into deflationary territory, the ECB also began to set the stage for an upcoming announcement of an extensive buyback programme for government bonds.

This loose monetary policy led to a marked devaluation of the euro against key competitor currencies and to bond yields reaching record lows. This benefitted equity markets in the eurozone. However, there was insufficient improvement in fundamental data to support a noticeable stabilisation of share prices.

Against this background, and plagued by concerns regarding a potential Greek exit from the euro, equities in the eurozone (the Euro Stoxx 50 Index) rose only slightly, by 1.2%. The performance of the German equity indices DAX and MDAX, both with a predominance of companies sensitive to economic trends and exports, was also on the weak side, with small gains of 2.7% and 2.2% respectively.

At a sector level, utilities continued to suffer the consequences of Germany's energy transition policy, whilst banks were further hurt by fears of a haircut for Greek debt. Industrials and technology, both cyclical sectors, came under pressure, which from the spring onwards was reflected in declining business forecasts from the Ifo Institute for Economic Research. However, due to the substantial fall in oil prices as well as the weakening of the euro, a turnaround took place towards the end of the year.

Supported by the robust US economy, the US equity index S&P 500 – calculated on a euro basis – was the outperformer amongst the significant equity markets, with an increase of 26.9%. Helped by the devaluation of the euro, the emerging economy countries also saw a solid equity performance. Japanese equities benefitted from the Bank of Japan's campaign to support exports, despite the weakness of the yen.

German government bonds became beneficiaries of the speculation over the ECB's buyback of government bonds. Commodities and in particular Brent crude oil were burdened by a global excess in supply together with a structural expansion in supply from oil and gas fracking. Brent crude oil fell by around 38% on a euro basis. The price of gold also profited from the weakness of the euro, rising by around 12%.

2.2 Business development

Market position of The Baader Bank Group

Market Making business division

As a market maker on the exchanges in Bern, Dusseldorf, Frankfurt and Munich, Baader Bank continued to maintain its leading position during the 2014 financial year. In 2014 the Bank was chosen by the Austrian company BUWOG, the building materials supplier Braas Monier, the automotive parts supplier Stabilus and the real estate firm TLG IMMOBILIEN as well as the two new entrants to the exchange, Zalando and Rocket Internet, as the specialist for trade in their shares on the Frankfurt Stock Exchange. Baader Bank was also appointed as specialist by CA Immo and Rosenbauer in the Bank's first two specialist mandates on the Vienna Stock Exchange.

The Bank's mandate as lead broker for bonds traded on the Dusseldorf Stock Exchange expired at the end of 2014. The impact on bond trading volumes is very minor, since Baader Bank no longer trades less liquid spot market securities quoted exclusively in Dusseldorf. The teams in Dusseldorf, Frankfurt and Munich will continue to manage lead brokerage for bonds.

On the other hand, the contract for market making at the Stuttgart Stock Exchange was extended by a further five years to the end of 2020. In addition, Baader Bank has been awarded the contract to act as market maker for gettex, the new trading platform of the Munich Stock Exchange, which was launched in January 2015.

Despite a slight reduction in the number of shares traded on the German regional stock exchanges, net trading income increased. The results for the foreign equities sub-segment on the Stuttgart Stock Exchange were particularly strong. The record turnover reported in the prior year for this sub-segment was once again exceeded, with a year-on-year increase of 10.8%.

Market making in fixed-income securities suffered due to the low interest rates but was able to benefit from growing demand for foreign currency bonds. However, in spite of increasing volumes, the result fell just short of the prior year.

2014 was a difficult year for securitised derivatives. Characterised by a prolonged period of low volatility, turnover remained around the level of the previous year. Nonetheless, the Bank was able to maintain its leading market position in Frankfurt. At year-end volatility increased sharply; this had a positive impact on turnover.

In terms of market making in funds and ETFs, the 2014 order book turnover in exchange trading of mutual funds was consistent with the prior year level. Growth in this business area was driven in particular by the establishment of relationships with a number of affiliated partner banks in OTC trading.

Other OTC trading recorded equally positive growth during 2014. Baader Bank is now well represented in this area across all asset classes. In addition to the existing mandates, three further online banks were acquired as partners. Furthermore, two existing trading partnerships were expanded, one in the area of funds and another in the area of equities and funds. In total, the turnover in this area was increased by almost 79% versus 2013.

Investment Banking business division

Baader Bank's equities business continued to grow in 2014, not least due to the successful integration of Helvea Group, based in Switzerland. This acquisition has broadened the Group's customer base in the area of derivatives. The Baader-Helvea Equity Research team consists of more than 20 experienced senior analysts providing coverage of individual stocks and sectors, technical market assessments and global investment strategies. As part of a fundamental, technical and quantitative top-down approach, the Strategy Team formulates index targets, analyses relevant macro themes, defines economic scenarios and makes forecasts on market timing and European sector trends. The focus of individual stock analysis is on German, Austrian and Swiss companies. At the end of the year, 202 companies were covered by the Bank. Baader Bank's Corporates & Markets segment was able to significantly increase net fee and commission income.

The achievements of the Investment Banking business division were recognised by investors in the Thomson Reuters Extel Survey. In this survey Baader Bank was awarded first place for German Small & Mid Caps Trading and was ranked in first place for Austrian Equity Research, whilst Helvea came third in the Swiss Equity Sales & Research category. In the Starmine Awards, Baader Bank analysts won the most individual awards and thus achieved first place for German Equities.

In its capital market financing business, the Bank's roles included acting as Joint Global Coordinator in a €140 million capital increase for Westgrund AG. Baader Bank also placed a mandatory convertible bond for Westgrund. In October 2014 the Bank also launched a share repurchase programme to the amount of €1.6 billion for Rhön-Klinikum, acting as the company's Sole Advisor and Sole Buy Back Agent. The buyback took place by means of quoted, tradable tender rights, the first time such an approach has been used in Germany. This innovative buyback programme was successfully closed with an acceptance ratio of 98.4% of the repurchase volume. In addition, Baader Bank acted as Co-Financial Advisor and Listing Agent in the successful spin-off of the residential real estate company BUWOG from Immofinanz Group. The Bank participated as Co-Lead Manager in the pre-placement of the capital increase of the Austrian construction company Porr. Baader Bank was Sole Bookrunner for the capital increase of Medigene, demonstrating its expertise in the biotech sector. In December the Bank managed VIB Vermögen's €33.2 million mandatory convertible bond issue, acting as Joint Lead Manager and Joint Bookrunner. At the end of 2014 Baader Bank was appointed by WCM Beteiligungs- und Grundbesitz-AG to execute a cash capital increase in conjunction with a non-cash capital increase.

In total, equity transactions were executed for 24 companies in the DACH region during the financial year. This put Baader Bank in first place in terms of the number of transactions. The Bank also successfully implemented scrip dividend schemes for three companies.

In addition, the Bank won four further Designated Sponsor Mandates, taking its total number of mandates to 15.

In January 2014 the tenth Helvea Swiss Equities Conference took place. With over 300 representatives of Swiss companies and institutional investors from 14 countries, the tradition of this conference was successfully continued, whilst taking place for the first time jointly with Baader Bank. Meanwhile, the third Baader Bank Investment Conference, which took place in September 2014 in Munich, once again surpassed the success of both of the Bank's previous two conferences.

Asset Management & Services business segment

The Asset Management & Services business continued to develop successfully. During the course of 2014 assets under management grew by 29.4% to €2.2 billion and the number of mandates increased by 13 to 49. These consist primarily of an overlay mandate and various UCITS funds and special funds, where the portfolio management was outsourced to Baader Bank.

Review of business performance

Baader Bank withdrew from bond brokerage business, with the corresponding profit centre fully closed down as of 30 September 2014. In reaching this decision the Bank took into account market developments in interbank telephone brokering.

Net trading income increased slightly, attributable in particular to market making in equities and funds/ETFs. Net fee and commission income increased significantly in the Corporates & Markets segment, while other segments reported predominantly declining contributions, leading nonetheless to an increase overall.

In total, earnings after tax were negative, below the forecasts given in the 2013 management report. At Baader Bank AG this is primarily attributable to declining income in the bond brokerage business, leading to the decision to close down this business area. The closure costs had an appreciable negative impact on results.

Amongst the **subsidiaries** of the Group, during 2014 Baader & Heins Capital Management AG built on its market position as a broker of variable and fixed income securities, registered bonds and promissory note loans, independent of large banks, and further diversified its product portfolio through its 100% investment in Skalis Asset Management AG. Baader & Heins posted net fee and commission income at around the same level as the previous year and almost doubled its net profit for the year versus the record year of 2013. Skalis Asset Management AG, which focuses on hybrid funds, has positioned itself well in a challenging environment. Assets under management made pleasing progress during the year.

The acquisition of the Swiss company Helvea S.A. has made Baader Bank Group one of the largest regional brokers in German, Austrian and Swiss equities and has significantly strengthened its market position in this region. During 2014 Helvea was able to participate in a number of Baader Bank placements and thus has already generated additional turnover for the Group. In operational terms the integration of Helvea went smoothly, but the budgeted start-up costs incurred led to a net loss for the subsidiary in 2014.

Conservative Concept Portfolio Management AG (CCPM), a highly specialised provider of absolute return products, substantially increased its assets under management during 2014. CCPM was able to develop new fund products during the reporting year and has already brought one of these to market. Due to reduced net fee and commission income, a very small net loss was posted for the year.

TABLE 1 RESULTS OF OPERATIONS

	2014 € thousand	2013 € thousand	Change € thousand	Change %
Net interest income	1,318	4,515	– 3,197	– 70.81
Current income	1,909	1,680	229	13.63
Net fee and commission income	52,402	49,536	2,866	5.79
Net income from the trading portfolio	43,760	42,613	1,147	2.69
Administrative expenses	– 112,038	– 105,371	– 6,667	6.33
Other expenses (–) and income (+) (including risk provisions)	10,964	6,384	4,580	71.74
Income from amounts released from the fund for general banking risks	1,920	2,130	– 210	– 9.86
Operating profit	**235**	**1,487**	**– 1,252**	**– 84.20**
Net tax result	– 1,400	– 1,269	– 131	10.32
Third-party share of net income	– 354	– 400	46	– 11.50
Net consolidated profit/loss for the year	**– 1,519**	**– 182**	**– 1,337**	**> 100.00**

2.3 Results of operations and financial position

2.3.1 RESULTS OF OPERATIONS

The results of the Baader Bank Group's operations (including earnings components and financial performance indicators) for the 2014 financial year compared with the previous year were as follows: → **TABLE 1**

Net interest income is largely affected by interest income from the investment of liquid assets in fixed-income securities and money market products (€10,550 thousand) and corresponding interest expenses from the issue of own promissory note loans (€8,351 thousand) and refinancing of the Group's headquarters at Unterschleissheim (€1,003 thousand). With a decrease of 71%, or €3,197 thousand, net interest income is substantially lower than the previous year. This is primarily attributable to the current interest rate environment and to risk control measures. In addition, the Basel III requirements have led to the portfolio being restructured towards highly liquid but thus lower-yielding securities.

Current income increased by €229 thousand versus the previous year. This increase was mainly due to higher dividend income from the portfolio of equities and other variable-rate securities.

Net fee and commission income rose by €2,866 thousand, or 6%, in the reporting year. Baader Bank AG reported its strongest improvement in earnings in this area, by €4,238 thousand or 18%, which was largely attributable to the earnings contributions from capital market services and customer commission business.

Net income from the trading portfolio increased slightly, by €1,147 thousand or 3% compared to the previous year.

Administrative expenses, which rose by €6,667 thousand or 6% compared to the previous year, comprise personnel expenses, general administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment.

Personnel expenses increased by €5,753 thousand. Provisions of €2,029 thousand were made for the discontinuation of the institutional bond trading business segment as well as further restructuring measures in administration areas. Furthermore, variable remuneration components and social security contributions rose by €2,719 thousand.

Other administrative expenses remained close to the level of the previous year, with an increase of €971 thousand or 2%.

Depreciation and amortisation fell by €56 thousand or 1% and, in addition to depreciation on the administrative building, primarily comprised amortisation on purchased order books, goodwill and software.

The rise in other income (including risk provisions) of €4,580 thousand compared with the previous year to €10,964 thousand is mainly due to higher income from financial investments and gains on disposals of securities held in the liquidity reserve.

This item also includes income from the reversal of provisions (€930 thousand), non-cash benefits from company cars (€417 thousand), and income and expenses relating to other periods (€163 thousand).

€1,920 thousand was released in the 2014 financial year from the fund for general banking risks in accordance with Section 340e (4) No. 4 of the German Commercial Code (Handelsgesetzbuch – HGB).

The net tax result essentially comprises income taxes for the past financial year amounting to €1,400 thousand.

As at 31 December 2014, the total consolidated net loss reported for the year was €– 1,519 thousand.

2.3.2 FINANCIAL POSITION

At the reporting date the Bank had cash reserves and short-term loans and advances to banks and customers of €119,122 thousand and available-for-sale marketable securities of €295,430 thousand, against short-term liabilities to banks and customers amounting to €174,233 thousand. This results in a net liquidity surplus on the balance sheet of €240,319 thousand (previous year: €314,056 thousand).

As at 31 December 2014, Baader Bank AG's liquidity ratio stood at 2.53. The liquidity ratio in accordance with the German Liquidity Regulation (Liquiditätsverordnung – LiqV) represents the ratio of cash and cash equivalents to payment obligations with a maturity of up to one month. Baader Bank AG's payment obligations may not exceed the level of cash and cash equivalents. This implies that the liquidity ratio may not fall below 1.0.

At the reporting date, there were unused credit line agreements at a German bank amounting to €75,161 thousand. There were no special loan covenants.

Solvency was guaranteed throughout the entire reporting period and is also secured going forward by risk monitoring processes.

Table 2 Net assets

Assets	2014 € thousand	2013 € thousand	Change € thousand	Change %
Cash and cash equivalents	207,004	94,477	112,527	> 100.00
Loans and advances to customers	37,148	34,665	2,483	7.16
Debt securities and other fixed-income securities	205,483	288,849	– 83,366	– 28.86
Equities and other variable-rate securities	29,507	33,641	– 4,134	– 12.29
Trading portfolio	75,989	51,708	24,281	46.96
Equity investments and interests in associates	10,048	10,243	– 195	– 1.9
Intangible assets and property, plant and equipment	77,499	82,970	– 5,471	– 6.59
Other assets	11,046	10,864	182	1.68
Prepaid expenses and accrued income	3,118	2,347	771	32.85
Excess of plan assets over pension liabilities	6,451	8,101	– 1,650	– 20.37
Total assets	**663,293**	**617,865**	**45,428**	**7.35**
Liabilities				
Liabilities to banks	87,568	109,576	– 22,008	– 20.08
Liabilities to customers	416,754	352,653	64,101	18.18
Trading portfolio	8,684	4,754	3,930	82.67
Other liabilities	7,009	5,481	1,528	27.88
Accruals and deferred income	8	0	8	100.00
Provisions	11,272	10,018	1,254	12.52
Fund for general banking risks	23,250	25,170	– 1,920	– 7.63
Shareholders' equity	108,748	110,213	– 1,465	– 1.33
Total liabilities and equity	**663,293**	**617,865**	**45,428**	**7.35**

Table 3 Securities

	2014 € thousand	2013 € thousand	Change € thousand	Change %
Debt securities and other fixed-income securities	205,483	288,849	– 83,366	– 28.86
Equities and other variable-rate securities	29,507	33,641	– 4,134	– 12.29
Trading portfolio	75,989	51,708	24,281	46.96
Securities portfolio	**310,979**	**374,198**	**– 63,219**	**– 16.89**

2.3.3 Net assets

As at 31 December 2014, the net assets and capital structure of the Baader Bank Group compared with the previous year were as follows: → **Table 2**

As at 31 December 2014, the Baader Bank Group's total assets stood at €663,293 thousand, €45,428 thousand (7.35%) higher than the previous year.

Cash and cash equivalents

The increase of €112,527 thousand in cash and cash equivalents is due primarily to the allocation of funds to Eurex Clearing AG (GC pooling).

Securities

Items presented under the securities heading decreased by a total of €63,219 thousand. → **Table 3**

The decline in debt securities and other fixed-income securities is mainly attributable to the disposal of bonds. Newly acquired holdings were allocated in full to the liquidity reserve.

The equities and other variable-rate securities balance reported at the balance sheet date decreased by €4,134 thousand. During the financial year, newly acquired holdings amounting to €1,313 thousand were allocated to non-current securities.

The increase in the trading portfolio of €24,281 thousand as at the reporting date is primarily attributable to changes in market valuations and an expansion of trading activities.

As at 31 December 2014, the securities portfolio contained bonds and debt securities (at market values) from issuers in the "GIIPS" countries (Greece, Italy, Ireland, Portugal and Spain) in the following amounts: → **Table 4**

Equity investments and interests in associates

The carrying value of equity investments and interests in associates fell by €195 thousand during the financial year to €10,048 thousand. The change is a result of additions of €3,699 thousand, disposals of €716 thousand and write-downs of €3,236 thousand.

Intangible assets and property, plant and equipment

The fall of €5,471 thousand in intangible assets and property, plant and equipment to €77,499 thousand is due primarily to depreciation and amortisation of €9,920 thousand booked during the 2014 financial year, offset by investments of €4,470 thousand.

Investments in intangible assets consist primarily of computer software (€1,483 thousand) and goodwill (€732 thousand). Investments in property, plant and equipment relate mainly to work to extend the Group's headquarters (€471 thousand) as well as operating and office equipment (€1,202 thousand). Depreciation on property, plant and equipment was €2,770 thousand, and amortisation on intangible assets was €7,150 thousand (goodwill €2,515 thousand; order books €2,594 thousand; software €1,826 thousand).

Table 4 Bonds and debt securities from issuers in the "GIIPS" countries in € thousand

	Other issuers	Public issuers
Greece	0	7
Italy	0	0
Ireland	3,201	0
Portugal	0	0
Spain	86	0
GIIPS countries at 31.12.2014	**3,287**	**7**

Other assets

Other assets increased by €182 thousand to €11,046 thousand. Significant contributors to the increase were other tax receivables, up by €1,029 thousand, and other receivables, up by €933 thousand. At 31 December 2014, total other assets were as follows: → **Table 5**

Excess of plan assets over pension liabilities

The excess of plan assets over pension liabilities fell by €1,650 thousand to €6,451 thousand compared with the previous year. → **Table 6**

The decrease is largely attributable to the reduction in cover assets (at fair value), which fell to €17,133 thousand, and were made up as follows as at 31 December 2014: → **Table 7**

Liabilities to banks and customers

Liabilities to banks and customers rose by 9.11% during the 2014 financial year, reaching a total of €504,323 thousand. This represents an absolute increase of €42,094 thousand. Liabilities can be broken down as follows: → **Table 8**

Liabilities from trading activities

Liabilities from trading activities increased by €3,930 thousand to €8,684 thousand in comparison with the previous financial year. This change is mainly due to changes in the market value of interest-rate-related derivative financial instruments.

Other liabilities

Other liabilities were €1,528 thousand higher than in the previous year as a result of timing factors prevailing at the reporting date. They can be broken down as follows: → **Table 9**

Table 5 Other assets

	2014	2013		Change
	€ thousand	€ thousand	€ thousand	%
Corporation tax credits (discounted)	4.415	5.814	– 1.399	– 24.06
Amounts due from the German Federal Financial Supervisory Authority	1.346	1.346	0	0.00
Receivables from brokerage fees and price differences	1.186	1.157	29	2.51
Other tax receivables	2.175	1.146	1.029	89.79
Sales tax receivables	16	427	– 411	– 96.25
Reinsurance claims from life insurance policies	19	18	1	5.56
Other receivables	1.889	956	933	97.59
Other assets	**11.046**	**10.864**	**182**	**1.68**

Table 6 Excess of plan assets over pension liabilities

	2014	2013		Change
	€ thousand	€ thousand	€ thousand	%
Pension obligations	– 11,909	– 10,857	– 1,052	9.69
Cover assets (fair value)	17,133	17,791	– 658	– 3.70
Pension provisions	1,227	1,167	60	5.14
Excess of plan assets over pension liabilities	**6,451**	**8,101**	**– 1,650**	**– 20.37**

Table 7 Cover assets

	2014	2013		Change
	€ thousand	€ thousand	€ thousand	%
Loans and advances to banks, and equities and other variable-rate securities	14,500	15,396	– 896	– 5.82
Reinsurance cover	2,633	2,395	238	9.94
Cover assets (fair value)	**17,133**	**17,791**	**– 658**	**– 3.70**

Table 8 Liabilities to banks and customers

	2014	2013		Change
	€ thousand	€ thousand	€ thousand	%
Liabilities payable on demand	159,853	145,772	14,081	9.66
Borrowing from Eurex Clearing AG (GC pooling)	25,046	51,030	– 25,984	– 50.92
Promissory note loans/bank loans	250,881	256,631	– 5,750	– 2.24
Other liabilities	68,543	8,796	59,747	> 100.00
Liabilities to banks and customers	**504,323**	**462,229**	**42,094**	**9.11**

Table 9 Other liabilities

	2014	2013		Change
	€ thousand	€ thousand	€ thousand	%
Trade payables	2,925	2,372	553	23.31
Tax liabilities	1,902	1,383	519	37.53
Miscellaneous liabilities	2,182	1,726	456	26.42
Other liabilities	**7,009**	**5,481**	**1,528**	**27.88**

Table 10 Movements in the shareholders' equity

	2014 € thousand	2013 € thousand	Change € thousand	Change %
Issued capital	45.632	45.632	0	0
Capital reserves and retained earnings	59.746	61.323	– 1.577	– 2.57
Retained profit	1.374	1.116	258	23.12
Minority interests	1.996	2.142	– 146	– 6.82
Shareholders' equity	**108.748**	**110.213**	**– 1.465**	**– 1.33**

Fund for general banking risks and shareholders' equity
The fund for general banking risks includes amounts deemed necessary, based on a prudent commercial assessment, to cover special risks. Independently of this, separate allocations are also made to the fund out of net income from the trading portfolio, pursuant to Section 340e (4) of the HGB. As at 31 December 2014, Baader Bank Group's fund for general banking risks amounted to €23,250 thousand. Allocations to these reserves were made solely out of net income from the trading portfolio. In accordance with Section 340e (4) No. 4 of the HGB, an amount of €1,920 thousand was released from the fund for general banking risks in the 2014 financial year.

Movements in the shareholders' equity of Baader Bank Group were as follows: → **Table 10**

The change of €-1,465 thousand in shareholders' equity is largely due to the consolidated net loss before minority interests (€– 1,165 thousand), changes in the equity capital difference caused by currency translation (€657 thousand) and dividends paid (€– 956 thousand).

Baader Bank AG's balance sheet equity ratio was as follows: → **Table 11**

Table 11 Equity ratio in %

	2014	2013
Equity ratio	16.40	17.84
Modified equity ratio (including fund for general banking risks)	19.90	21.91

The rise in loans and advances to banks and of the trading portfolio on the assets side, as well as the increase in liabilities to customers, are the main factors driving the increase in total assets by 7.35% to €663,293 thousand. The Baader Bank Group's asset position remains stable overall.

2.4 Non-financial performance indicators

2.4.1 Employees

During the reporting year the number of staff employed by the Baader Bank Group increased from 473 in the previous year to 480 as at the reporting date. There are 129 female employees and 351 male employees in the Group, from a total of 19 countries.

The Baader Bank Group places particular emphasis on high qualifications and on providing its staff with further training. In view of this, human resources (HR) activities in 2014 once again focused on supporting specialists and junior managers, as well as on measures to improve the work-life balance of the Bank's employees.

The range of additional social benefits for staff members enhances the appeal of Baader Bank as an employer. For example, Baader Bank AG and the Helvea Group grant all members of staff voluntary financial support of €10,000 – or CHF 10,000 – when they have a baby, which in 2014 resulted in payments of €150,000 and CHF 10,000.

With its own provident fund, Baader Unterstützungskasse e. V., the Group has an independent social institution that can guarantee occupational pensions.

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

2.4.2 Environmental report

The activities of Baader Bank and its subsidiaries do not have any material impact on the environment. Within the Bank, great importance is placed on conserving resources when using production equipment, such as photocopiers, printers and other office equipment, and consumables. The head office in Unterschleissheim was constructed in accordance with state-of-the-art environmental principles, especially with regard to water, heating and air-conditioning, and is managed accordingly.

3 Subsequent events

No significant events occurred after the end of the Bank's financial year.

4 Risk report

4.1 Risk management in the Baader Bank Group

The business activities of Baader Bank Group are inherently risky due to their nature. Group management has therefore established a comprehensive risk management system. This is geared towards complying with the regulatory framework determined by the relevant provisions of national and international supervisory bodies, as well as with internal economic requirements.

4.1.1 Objectives of risk management

The overriding objective of risk management at Baader Bank Group is to guarantee its risk-bearing capacity at all times, thereby ensuring that the Group can continue to operate. Consequently, the conscious assumption, active management and continuous monitoring of risks constitute the core elements of business and risk management of Baader Bank Group. Risks are identified, assessed and monitored in the course of our business activities. It is only by taking this approach that it is possible to manage the Group's business activities while maintaining risk awareness. This means deliberately assuming quantifiable risks after careful consideration, and in light of the Group's risk-bearing capacity, while categorically excluding risks that could threaten its existence.

To ensure that the Group satisfies this principle, Group management is provided with a daily overview of the nature of all significant risks and the Baader Bank Group's risk-bearing capacity, as part of comprehensive risk reporting. Particular attention is paid to risk-bearing capacity when defining the business and risk strategy.

4.1.2 Risk-bearing capacity

Risk-bearing capacity is regularly reviewed by the Risk Control department of Baader Bank AG, the parent company. This department is responsible for risk control at Group level. The review involves comparing available risk cover potential (RCP) with risk capital requirements. A going concern approach, examining a particular period of time, is used to determine the risk cover potential and manage risk-bearing capacity. Under this approach, the equity capital requirements set out under banking supervisory law in accordance with the Capital Requirements Regulation (CRR)/Capital Requirements Directive (CRD IV) - Regulation (EU) No. 575/2013 and Directive 2013/36/EU of 26 June 2013 may not be used for risk cover purposes. The aim of the going concern approach is therefore to ensure that business activities can continue, while also fulfilling the secondary requirement of ensuring that the minimum capital requirements are met at all times, even if the risks under consideration should crystallise.

The primary and secondary risk cover potential of Baader Bank Group consists of forecast profit (primary RCP) and components of equity capital reported in the balance sheet (secondary RCP). This is therefore referred to as an income-statement and balance-sheet-oriented approach. The forecast profit (expected pre-tax profit, i.e. profit from ordinary activities) thus represents the amount that is forecast for the coming financial year as part of internal budgetary planning, taking into consideration the expected market environment. A distinction is made here between the pre-tax profit expected under normal circumstances (according to the planning assumptions used for a normal case scenario) and that expected in the worst case scenario (using worst case planning assumptions). Although the forecast profit is fundamentally an uncertain future amount, a normal scenario is used as the starting point at the beginning of a financial year. Subsequently, Group management takes into account the actual figures to date of the current financial year to decide if it is necessary to switch to the worst case plan, should the current business performance make such a step necessary. This would lead to an extraordinary review of risk-bearing capacity.

The available risk cover potential is compared with the potential risks ("risk potential") identified. Since expected losses are already taken into account in the forecast results, only unexpected losses are quantified when determining the risk potential.

The Baader Bank Group's total risk is limited by the available risk cover potential. As a rule, Group management only makes a portion of the risk cover potential available as "risk capital", in order to ensure that risk-bearing capacity is guaranteed at all times. This is then allocated to individual risk types and respective business areas using a top-down approach, and acts in a restrictive capacity as a risk limit. This means that a system of risk limits is in place to systematically restrict the extent of any losses that arise. Risk cover potential, risk potential and risk capital are reviewed at least once a quarter so as to incorporate into the model any differences between the income statement forecast and the actual values to date. Extraordinary adjustments are also made immediately to take account of any major losses that occur.

The diagram below shows the Baader Bank Group's risk-bearing capacity as at 31 December 2014: → **Graphic 1**

The calculation of risk-bearing capacity at Baader Bank Group is geared towards ensuring that even in the event of hypothetical crises (known as stress scenarios), capital employed (tertiary risk cover potential) does not need to be used. Accordingly, Risk Control compares the greatest losses incurred from the stress scenarios simulated for all relevant risk types – the "worst case losses" – with the available risk cover potential. In contrast to the normal case scenario, in stress scenarios the expected pre-tax profit for the worst case scenario is used for the primary risk coverage. For secondary risk coverage, unlike the normal case scenario, the fund for general banking risks is regarded as risk cover potential. According to the German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) AT 4.1, the results of the stress test should "not automatically lead to coverage by risk cover potential"; however, the results must be critically evaluated and any necessary actions determined. As at 31 December 2014, the risk-bearing capacity of Baader Bank Group was ensured even under stress scenarios.

In addition to the going concern approach, the Baader Bank Group is also required to prepare the calculation on the basis of the liquidation, or gone concern, approach. In contrast to the going concern approach, under the liquidity approach the equity capital requirements set out under banking supervisory law are also used as risk cover potential. This approach focuses on protecting creditors in the event of a hypothetical liquidation. The objective is to ensure that sufficient assets are still held to settle claims from creditors, even if risks should crystallise.

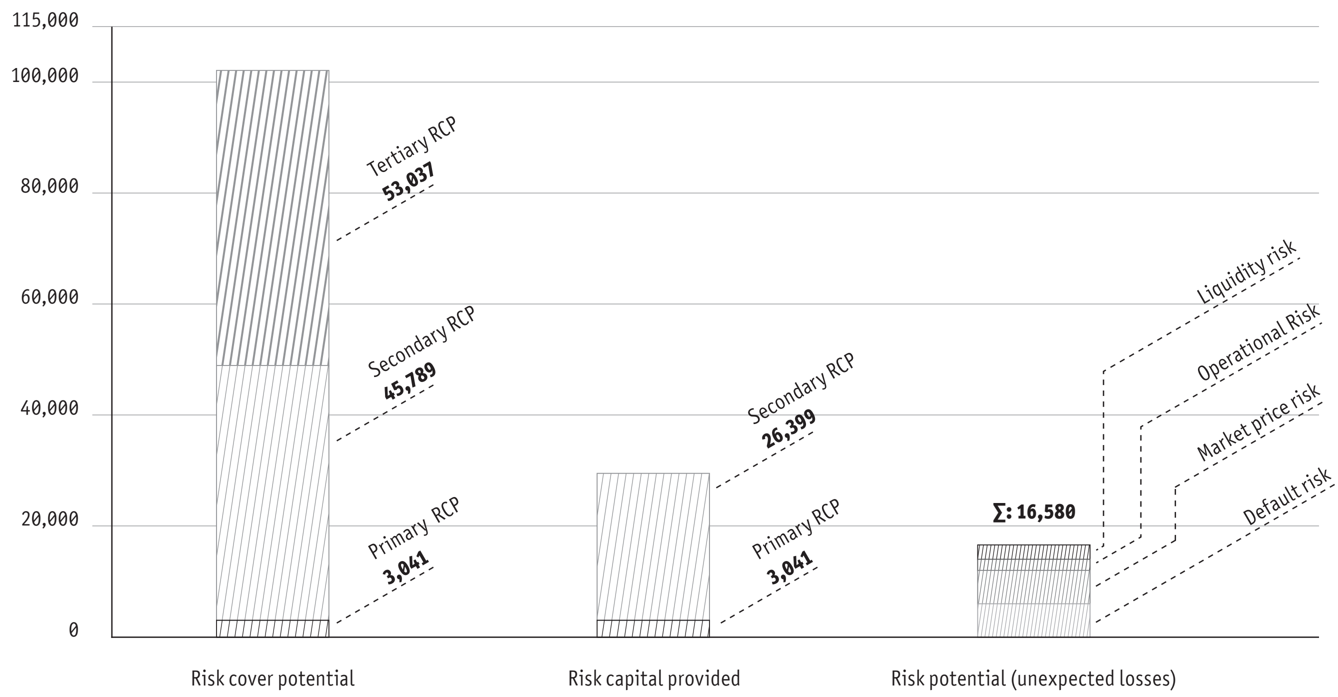
In summary, it can be concluded that the Baader Bank Group's risk-bearing capacity was not jeopardised at any time during the 2014 financial year. As at 31 December 2014, the ability of the Group to continue to operate was assured even if the simulated stress scenario with the highest financial loss were to occur.

4.1.3 Risk inventory and risk strategy

The business strategy and goals for the Baader Bank Group's key business activities are defined at the Group management's annual strategy meeting. Strategic considerations include external factors, the assumptions underlying these factors, and internal factors such as risk-bearing capacity, results of operations and liquidity.

Based on the business strategy and taking into account internal and external factors, Group management establishes a risk strategy for the coming year that is consistent with the business strategy. In order to do this, it is necessary to carry out a risk inventory, taking the business strategy into consideration. The risk inventory at Baader Bank Group is performed by Baader Bank AG's Risk Control department at least once a year. A risk inventory can also be performed on an ad hoc basis as required, for example due to changes in the materiality of risks or due to commencing business activities in new products or new markets. To ensure that Risk Control is made aware of such changes without delay, the Group's internal instruction system states that Risk Control must be involved in all new products, new market processes and projects, and must be informed promptly of any changes in the strategic focus of the Bank, the ownership structure or market expectations, for example.

Graphic 1 Baader Bank Group's risk-bearing capacity as at 31 December 2014 in € thousand



Graphic 2 Material risk types

Baader Bank Group

Material risk types - included in risk-bearing capacity (AT 4.1 No 1)

Market price risk
- ✓ Equity price risk
- ✓ Interest rate risk
- ✓ Currency risk

Default risk
- ✓ Credit risk
- ✓ Counterparty risk
- ✓ Issuer risk (including migration risk)
- ✓ Shareholding risk

Operational risk
- ✓ People & systems
- ✓ External events (incl. algorithmic trading)
- ✓ Internal procedures
- ✓ Legal risk

Liquidity risk
- ✓ Structural liquidity risk
- ✓ Market liquidity risk (AT 4.1 No. 5)

Material risk types - not included in risk-bearing capacity (AT 4.1 No. 4)

Short-term liquidity risk *, regulatory risk *

Business risk **

Structural limits established to prevent concentration risks (AT 2.2 No. 1)

Credit rating risk | Sector risk | Country risk

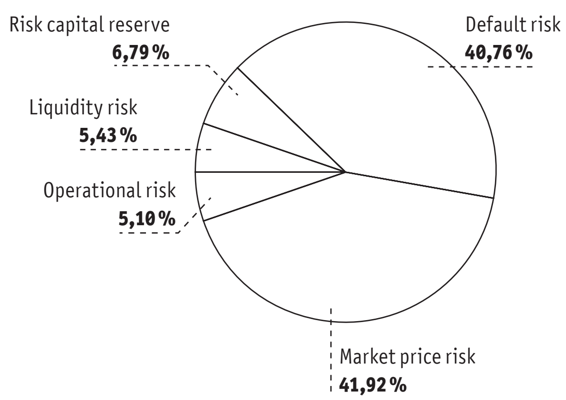
Immaterial risks types: Reputational risk, property risk, model risk (AT 2.2 No. 2)

* Quantification not meaningful due to nature of risk type; emphasis in this area is on qualitative management.
** Quantified as part of worst case scenario business planning; thus considered indirectly as part of risk-bearing capacity.

Changes identified in the risk profile are taken into consideration immediately and reported to Group management. The following risks were identified as material risk types during the past financial year: → **Graphic 2**

The risk strategy established as a result of this process is broken down into sub-strategies according to the material risk types. The principal objective of the risk policy strategy is to ensure that the Baader Bank Group's risk-bearing capacity is guaranteed at all times. Accordingly, a specific amount of the risk capital is made available by Group management for all material risk types; this amount represents the limit for losses in connection with a given type of risk. The risk capital made available by Group management for 2014 is allocated to the individual types of risk as follows: → **Graphic 3**

Graphic 3 Individual types of risk



4.1.4 Risk management structures and processes

The Baader Bank Group's risk management system involves the identification, assessment, management, monitoring and communication of material risks, in accordance with the requirements of MaRisk (AT 4.3.2 No. 1). These processes are as follows:

- All risky transactions and resulting positions are recorded immediately in portfolio management systems, thus enabling the **identification** of new risks. As part of the "Activities in new products or on new markets" process, Risk Control is also informed on a timely basis of any potential changes in the existing risk profile. As part of this process, planned activities are reviewed and the risks associated with them are identified. Existing activities are reviewed on an ongoing basis. Furthermore, Baader Bank AG's Risk Control department carries out a risk inventory for the Baader Bank Group and its individual institutions at least once a year.

- The risk **assessment** is based on detailed analyses prepared by Risk Control, which develops a proposal for managing and monitoring these risks, and provides it to Group management. Identified risks are generally quantified using a value-at-risk approach and are compared with the risk capital. This is always performed on the basis of a rolling 12-month horizon. This procedure is explained in detail for each type of risk in the section on Baader Bank Group risks.

- Risks are **managed** using a system of limits to mitigate the relevant material risks. The limits are established quarterly by Group management, based on the risk-bearing capacity. Limits may also be adjusted outside of this process if the Baader Bank Group's business activities and/or results make this necessary. The limits are loss limits, i. e. if a loss occurs, the limit is reduced by that amount. Profits have no effect on the limits, however. The system of limits therefore restricts potential losses, while also setting an upper limit for them. The management of the respective risk types at Baader Bank Group is organised as follows: → **Table 12**

Table 12 Management of the respective risk types at Baader Bank Group

Type of risk	Responsibility for risk management
Market price risk	Profit centre manager or person responsible for the position (position manager)
Default risk	Treasury department
Operational risk	All areas
Liquidity risk	Treasury department and Executive Boards of subsidiaries

- Adding risks on an ongoing basis to the multi-level limit system enables Risk Control to **monitor** risk appropriately. If a limit is breached, this is immediately detected by Risk Control, which makes appropriate recommendations to the position manager on actions to be taken such as reducing positions or making limit transfers. The position manager then decides on the action to be taken and informs the relevant market area and Risk Control. Subsequently, Risk Control monitors execution of the agreed action, and in the event that the measure is not implemented, initiates an escalation process. As a supplementary measure, Risk Control has established an early warning system for monitoring purposes.

– 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 the risk policy. To ensure that Group management is able to fulfil this responsibility, a comprehensive Risk Control reporting system is in place, which ensures that the **communication** requirements under MaRisk are met. This takes the form of daily reporting, as well as ad hoc reporting in the event that limits are exceeded, to Group management.

In addition, Risk Control carries out **stress tests** for all material risk types at least once a quarter. As part of the stress tests, Risk Control defines various possible scenarios, which are highly unlikely but plausible, and examines their impact on the existing portfolio. The scenario leading to the greatest loss is designated as the worst case scenario. The results of the stress tests are presented to Group management in the monthly MaRisk report, and when necessary discussed with them. The results of the stress tests are also taken into consideration in the review of risk-bearing capacity. As at 31 December 2014, the worst case scenario of Baader Bank Group resulted in a hypothetical loss of €22.17 million.

The processes described ensure that material risks are identified at an early stage, fully captured, and managed and monitored in an appropriate manner. Furthermore, the processes are regularly reviewed and adapted to changing circumstances on a timely basis. The methods and procedures employed are also subject to a regular validation process, which examines whether the procedures and the underlying assumptions are appropriate, and identifies whether any changes are necessary.

The technical features of the risk monitoring and management systems are appropriate for the overall risk management framework. Moreover, the Group takes care at all times to ensure that staff are appropriately qualified. Internal Audit reviews the risk management process at least once every year.

4.1.5 Significant changes compared with the previous year

In 2014 a slight reduction in the risk potential for all material risk types was recorded in comparison to the previous year. This is attributable in part to individual improvements in the risk management and control processes, as described further below:

Concentration risks

Since 3 March 2014, bank guarantees have no longer been taken into account in the concentration structural limits for sectors, credit rating categories and countries for the trading business. Instead they are now monitored as cluster risks in a separate category "concentration risks arising from lending business".

Rating procedures

In March 2014 a revision of the internal rating model for insurance companies was completed. Under the revised model, the probability of default is now calculated using linear regression, as is the case in the internal rating procedure for banks. The procedure was validated on the basis of data on default events from the external rating agency Standard & Poor's.

In June 2014 the process for setting limits for default risks was amended. No new business is transacted with borrower units rated internally at credit rating category 5 (corresponding to a rating range at Standard & Poor's of B+ to B–) or below. Limits for borrower units in this credit rating category thus only exist if the credit rating of existing exposures deteriorates, and serve exclusively to limit the exposure.

In August 2014 the internal rating procedure for companies was revised. Prior to this, a scoring model was used to determine the credit rating category. The scoring model has now been replaced with the use of a regression method. As well as calculating the default probability with a higher level of accuracy, the new procedure increases the level of automation, as financial data is now imported directly from a database into the rating application.

Limit setting

In December 2014, the risk policy of Baader Bank was adjusted with respect to the granting of default risk limits as a result of a decision made by the Credit Committee. This introduced an upper limit that is based on the balance sheet equity of the respective borrower unit.

4.2 Risks in the Baader Bank Group

During the past financial year, market price risk, default risk, operational risk and liquidity risk were once again identified as material risk types. New additions to the risks considered material were regulatory risk and business risk. These risk types are discussed and assessed in detail below, and quantified on a net basis, taking into account any risk-reducing effects. The steps taken to mitigate risk are also explained.

4.2.1 Market price risk

In general, market price risks are understood to be all risks that result from the change in the market price of a financial instrument over a specified period of time. Depending on the parameter that changes, this may be equity price risk, interest rate risk or currency risk. Equity price risk designates the risk that arises from changes in the price of equities; interest rate risk is the risk that the present value of a financial instrument that is sensitive to interest rates might be reduced as a result of changes in market rates of interest; and currency risk (also known as exchange rate risk) refers to the risk of a loss arising due to movements in exchange rates that have a negative impact on the position held.

In principle, the market price risks described are restricted to proprietary trading activities and do not arise from brokerage business. As a result, the portfolios of Market Making, the Executive Board and Treasury are particularly susceptible to this risk. At the end of the year, the following risk positions were held in the trading portfolio and in securities of the liquidity reserve, measured at market value and presented in € million: → **Table 13**

Equity price risks are measured in the Baader Bank Group central trading system using a value-at-risk (VaR) model based on Monte Carlo simulations. The VaR is calculated with a chosen confidence level of 99% for the expected holding period. However, interest rate risk in the banking book and currency risk are determined on the basis of historical simulations. Here the VaR is also calculated as the 99% quantile of the various changes in value. As at 31 December 2014, the value at risk for the trading portfolio and the securities in the liquidity reserve amounted to €6.91 million, with a limit utilisation of 69.70%.

The risk model used to determine value at risk represents an approximation to reality. In reality, extreme events could be observed somewhat more frequently than might be expected based on the assumption of a normal distribution. The quality of the VaR model is constantly reviewed as part of a clean backtesting process using the ratio of VaR figures to changes in a given position's market value based on actual price changes. If the number of "outliers" from backtesting exceeds the limit defined as critical, the Risk Control department makes corresponding adjustments to the VaR model. This achieves a better representation of the actual losses through the value-at-risk analysis, and thus over time further reduces the number of outliers. Overall, the value-at-risk model is deemed to be adequate.

An extensive system of limits has been established in Baader Bank Group to mitigate the impact of market price risk. In this system, all positions entered into by the profit centres are allocated to the relevant limits on an ongoing basis. Within each business area, it is up to the board member responsible for trading to allocate the limit across the individual profit centres.

Table 13 Risk positions at market value in € million

Spot market	2014	2013
Equities	29.72	49.58
Bonds	211.08	279.46
Securitised derivatives	1.13	1.17
Funds, index-linked and fund-linked certificates	43.08	26.20

Forward market	2014	2013
Options	0.00	0.00
Futures	– 25.86	– 7.42
Swaps	0.00	0.00

Table 14 Customer lending commitments as at 31 December 2014 in € million

	Total lending commitments		Drawdown		Overdrafts (unsecured)		Collateral (measured)		Risk provision	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Private customers	15.68	12.58	10.00	9.45	0.79	0.86	9.29	7.22	1.10	1.87
Corporate customers	17.37	16.78	15.64	10.85	1.13	7.28	17.25	13.75	0	0
Banks	0	0	0	0.10	0	0	0	0	0	0
Total	**33.05**	**29.36**	**25.64**	**20.40**	**1.92**	**8.14**	**26.54**	**20.97**	**1.10**	**1.87**

Limit overruns are immediately flagged in the monitoring system. Risk Control then reports this overrun to the relevant board member without delay, as well as to Group management in the daily reporting. The action to be taken is communicated to Risk Control and its implementation is monitored.

The average level of market price risk at Baader Bank Group fell considerably over the past financial year. This is primarily the result of portfolios being smaller on average. The risk capital made available for market price risks was sufficient to cover potential unexpected losses at all times. Consequently, Risk Control has assessed the risk potential arising from market price risks as non-critical.

4.2.2 Default risk

Default risk refers in general to the risk that a borrower or counterparty cannot repay, or repay in full, the amount owed because of insolvency-related default. Default risk also includes migration risk, i.e. the risk of a deterioration in the creditworthiness of the debtor.

Two limits are used as a basis for mitigating and monitoring exposure to default risks: the risk capital made available by Group management is used as a limit for overall default risk (the default risk limit), and limits are set for individual borrower unit exposures. If a market area intends to incur a default risk in connection with a borrower unit that is not yet known to the Group, it must present a written proposal to Risk Control. Risk Control determines a credit rating category using an internal rating procedure, prepares a recommendation and submits it for decision-making to the board members responsible for trading and monitoring. In order to mitigate cluster risk for a borrower unit, a corresponding limit for the borrower concerned is issued, taking into account the internal credit rating category, the type of loan and the applicable large loan ceiling in accordance with the German Large Exposure Regulation (Groß- und Millionenkreditverordnung – GroMiKV). Exposures in connection with all transactions involving credit risk are allocated to the limit for the borrower unit on an ongoing basis within the monitoring system. Risk Control monitors the extent to which these limits are utilised and reports this to Group management once a day. If a limit is exceeded during the course of any given trading day (whether this relates to the default risk limit or to the individual limit for a borrower unit), Risk Control reports this immediately to the board members responsible for markets and monitoring. The action to be taken is communicated to Risk Control and its implementation is monitored.

Every internal credit rating category is allocated to an external rating category, and hence to a corresponding probability of default (PD) for expected losses. Based on the internal rating-based approach (IRBA) as set out in Regulation (EU) No. 575/2013 (Article 142 et seq.), IRBA risk weightings for unexpected losses are determined in accordance with the Bank's internal procedures for each of these credit rating categories. On the basis of this risk weighting, the unexpected loss for each borrower unit can be calculated, which is comparable with a value at risk. In this process, a loss ratio of 100% (loss given default, or LGD) is always assumed in the event of a default by the borrower unit concerned.

The total risk across all borrower units is derived from the sum of all individual risks. Correlations between the borrower units are not taken into account here. The resulting total risk must not exceed the risk capital made available by Group management for default risks. This overall default risk limit is set as part of a quarterly analysis to fix risk limits and risk-bearing capacity.

When considering default risk, Baader Bank Group makes a distinction between credit risk, counterparty risk, issuer risk and shareholding risk (or equity investment risk).

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 determined using a conservative measurement procedure, or of bank guarantees.

The table below shows customer lending commitments as at 31 December 2014 in € million: → **Table 14**

As at 31 December 2014, the risk for lending business stood at €0.07 million, which resulted from unsecured overdrafts on the reporting date.

Specific loss provisions are created for all loans where an assessment of the customer's ability to repay the loan determines that they are non-performing. Loans are considered to be non-performing if it is unlikely to be possible to collect all interest and repayments due from the customer in line with the contractually agreed credit terms. As at the reporting date of 31 December 2014, the risk provision for all customer loans stood at €1.10 million.

Furthermore, as part of the lending business the Treasury department makes money market investments at banks. As at 31 December 2014, the total risk for loans and advances to banks was €2.27 million.

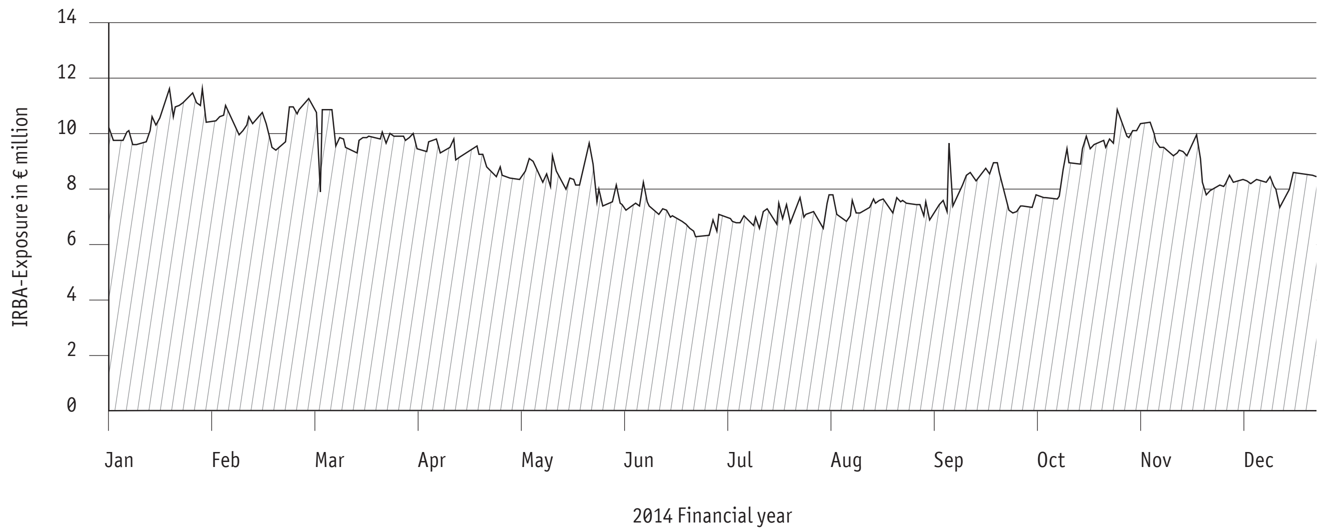
A counterparty risk can arise when trades are settled, whereby a trading partner may fail to fulfil all of its obligations. A distinction is made here between replacement risk and advance payment risk. Replacement risk is the risk of default by the counterparty concerned, leading to non-performance of the transactions concluded. Under MaRisk, stock exchange transactions and spot transactions where an amount equivalent to the transaction value has been acquired or is to be acquired on a delivery-versus-payment basis, or for which suitable cover is available, are excluded for the purposes of counterparty risk. As a result, only OTC derivative transactions are affected. The Baader Bank Group only trades in derivatives on derivatives exchanges. However, as the Bank is not a clearing member of these exchanges, transactions between Baader Bank and the clearing member concerned must be settled. These are therefore classified as OTC transactions. Accordingly, a default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk. As at 31 December 2014, the replacement risk in connection with both proprietary portfolios of derivatives held for hedging purposes in market making and customer portfolios of derivatives was €0.12 million.

Where transactions are not settled concurrently as delivery-versus-payment transactions, the risk incurred is advance payment risk. When brokering promissory note loans, where Baader Bank takes on the role of counterparty under the purchase agreement, an advance payment risk arises because in these transactions payment and transfer of the instrument documentation (the certificate), including the declaration of assignment, do not take place at the same time. This risk exists only vis-à-vis the seller of the promissory note loan and lasts for the period between the payment and the transfer of the instrument. As at 31 December 2014, there was no advance payment risk for Baader Bank Group.

Issuer risk means the risk of a downgrade in the creditworthiness of an issuer, or default of an issuer. A loss from an issuer risk results in an impairment of the securities of this issuer. The credit rating of the issuer concerned thus represents a corresponding default risk. As at 31 December 2014, the issuer risk, particularly in connection with Treasury positions, stood at €5.89 million.

The term 'shareholding' or 'equity investments' refers to equity investments pursuant to Section 19 (1) Sentence 1 No. 7 and No. 8 of the KWG (affiliated companies). Equity investments are normally allocated to the banking book. In the case of equity investments, a default risk arises from a long-term downgrade in the creditworthiness of the company in which an interest is held, or a default by that company, and results in a corresponding impairment. As at 31 December 2014, the shareholding risk (or equity investment risk) stood at €0.36 million.

Graphic 5 Changes in default risk



There were no default risks associated with off-balance-sheet transactions.

Default risk also involves monitoring concentration risks arising from credit risk, sector risk and country risk to identify and monitor possible risk concentrations (cluster risks) for the Baader Bank Group. However, no risk capital is allocated to cover these risks separately, so as to avoid double counting.

The default risk positions with reference to the specified concentration risks as at 31 December 2014, compared with the previous year-end, are shown in the table below: → **Table 15**

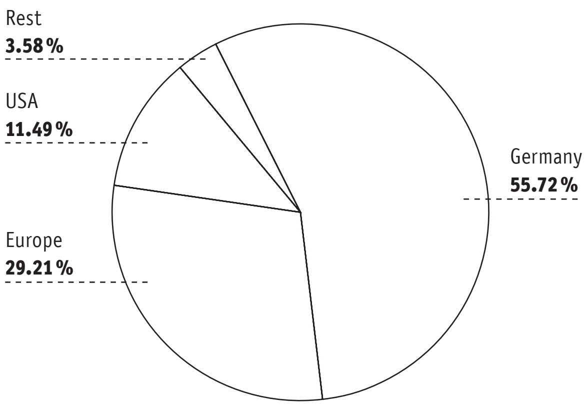
Table 15 Positions by Credit rating Categories

Credit rating category	2014 Market value € million	%	2013 Market value € million	%
Credit rating category 1	62.38	14.66	22.30	5.18
Credit rating category 2	148.93	35.00	115.44	26.83
Credit rating category 3	162.51	38.19	235.74	54.80
Credit rating category 4	51.70	12.15	55.01	12.79
Credit rating category 5	0.00	0.00	1.71	0.40

As at 31 December 2014, there was no exposure in credit rating category 5 or below.

In terms of distribution by sector, as was the case in the previous year, the largest share related to "Banks, savings banks and financial institutions" (57.70%; previous year: 41.36%). The main reason for this is the short-term investment of free liquidity funds at banks as well as the collateral deposited for derivative transactions with the respective clearing members. In addition, in the past financial year there was a substantial reduction in the portfolio of government bonds held (1.09%; previous year: 4.29%). A breakdown by country at 31 December 2014 is shown below: → **Graphic 4**

Graphic 4 Breakdown by country at 31 December 2014



Country risk arises primarily in connection with bond holdings in the Treasury portfolio, and for the most part consists of German borrower units. The domicile of the respective parent company is the determining factor for the purposes of country risk. Exposure in the GIIPS countries was once again substantially reduced versus the previous year, from 6.52% as at 31 December 2013 to 2.26%.

The chart below shows additional information in relation to changes in default risk during the 2014 financial year: → **Graphic 5**

As at 31 December 2014, the value at risk for total default risk amounted to €8.71 million, with a limit utilisation of 79.19%.

The Baader Bank Group's exposure to default risk remained at a very moderate level during 2014. Exposure in the GIIPS countries was once again significantly reduced. A substantial improvement in the creditworthiness of borrowers was also achieved. As a result, Risk Control deems the current default risk to be reasonable.

4.2.3 Operational risk

Operational risk is the risk of loss which results if internal control procedures, people or systems are inadequate or fail, or due to the occurrence of external events. It also includes legal risks.

Baader Bank Group's Security Plan (Baader-Bank-Sicherheitskonzept or "BSK") is based on three pillars: disaster management; IT security protection; and issues and control frameworks related to operational risk. The BSK Security Committee acts as the body for all organisational and other matters related to security. Through regular meetings, the committee deals with and advises on issues relating to the operational risk control framework, disaster management and IT security as well as other topics relevant to security. The Security Committee has the right to make proposals and recommendations to Group management in relation to issues relevant for decision-making arising in relation to these internal control frameworks. The members of the BSK Security Committee are the Head of the Committee, an Operational Risk Officer, an IT Security Officer, a Disaster Officer and the respective Heads of the Business Organisation and HR, IT, Back Office and Risk & Regulatory Reporting departments.

The evaluation of risk potential, i.e. the identification and assessment of operational risks across the Group, is carried out each year by Baader Bank AG's Risk Control department. This is done using questionnaires to be completed by operational risk managers, or in the form of special self-assessments. The results of these questionnaires are presented to the BSK Security Committee for discussion. The Security Committee examines the steps proposed by Risk Control and considers whether any other measures are necessary, before making its recommendation to Group management. Group management makes the ultimate decision as to whether or not any such steps will be carried out and, where necessary, instructs the Security Committee to implement them. The results from the questionnaires are presented to Group management and the Supervisory Board of Baader Bank AG in a quarterly MaRisk report.

In addition to participating in the surveys on risk potential, the operational risk managers are responsible for reporting any losses sustained as a result of operational risks. An application is available for this purpose, in which any losses incurred of €1,000 or more must be recorded. For these purposes, "loss" is defined as a financial loss that has a direct connection to operational risk; this also includes unrealised losses.

The causes of significant loss events are immediately analysed. Risk Control is therefore responsible for referring loss events to the Head of the Security Committee if one of the following criteria is met:

- Loss events where the amount of the loss is equal to at least €50,000; or
- Loss events that share the same cause, if they occur at least ten times in a quarter; or
- Loss events that share the same cause and for which the total loss is equal to at least €100,000 in a quarter.

Any resulting actions are also reported on a quarterly basis in the MaRisk report. Losses totalling €0.36 million were reported in the 2014 financial year. The highest individual loss amounted to €0.05 million and can be classified under the Basel II category of "Execution, delivery and process management".

In addition, as at the end of 2014, the Bank is aware of three significant legal disputes involving material financial risks. Even if the amount in dispute were awarded wholly to the other party, the financial impact on risk-bearing capacity would not be material.

Unexpected losses from operational risks are quantified each quarter on the basis of losses recorded historically in the Baader Bank Group. The procedure is based on 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, that the number of losses follows a Poisson process and that losses are independently and identically distributed. The aggregate loss distribution is estimated using statistical software based on the Monte Carlo simulation. For unexpected losses, the 99% quantile is used to determine the amount that must be covered by risk capital. As at 31 December 2014, the value at risk amounted to €1.09 million, with a limit utilisation of 72.60%.

Group management also makes a specific amount of risk capital available to limit operational risks. The Risk Control department carries out daily reviews to ensure that the risk capital provided (maximum loss limit) is sufficient to cover unexpected losses from operational risks; this monitoring is part of the daily report to Group management.

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

Overall, Risk Control considers that operational risk is not critical, since the total losses in 2014 were once again at a moderate level and furthermore no elevated risk potential was identified. The available risk capital was sufficient at all times. The technical equipment used for risk systems was deemed to be appropriate throughout the past financial year.

4.2.4 Liquidity risk

The objective 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.

Short-term liquidity risk refers to the risk that credit commitments could be drawn down unexpectedly or deposits could be withdrawn unexpectedly (call risk). In addition to unexpected outflows, delays may occur in the receipt of payments, 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 own payment obligations.

The Treasury department is responsible for the operational management of the Bank's payment obligations and for ensuring that these can be met. The market areas work closely with the Treasury and Payments departments to ensure that daily cash flows are coordinated between these areas. Any particular demands on liquidity from other departments are raised immediately with Treasury and Payments. With respect to short-term liquidity risk, Treasury prepares a daily liquidity status report showing the current liquidity situation, which is provided to Risk Control. Various credit lines and participation in the GC pooling market are used to ensure that short-term liquidity requirements are met at the Baader Bank Group.

Risk Control is responsible for monitoring short-term liquidity risk at Baader Bank Group. Various monitoring tools have been put in place in order to ensure this task can be performed adequately and that any countermeasures can be initiated without delay. Every day the Treasury department provides Risk Control with a liquidity status report showing the current liquidity position. Risk Control reviews and assesses this report to ensure that it appears reasonable. If an imminent liquidity shortage is identified, the relevant decision-makers are informed immediately. As a supplementary measure, Risk Control receives a daily report from the Payments department on the current status of the minimum reserve requirement, the morning status of the Bundesbank (German central bank) accounts including cash flows expected during the day, and the refinancing facilities. This information is checked by Risk Control and reviewed for any indications that the liquidity situation should be deemed critical.

As part of the implementation of the requirements of CRD IV (Capital Requirements Directive), Risk Control monitors daily adherence with the Liquidity Coverage Ratio (LCR) and the limits introduced for this purpose, and reports this information to the Executive Board as part of the Group risk report. This limit system is currently in the testing phase. Until LCR compliance commences, the Bank will continue to monitor compliance with the liquidity ratio on each trading day in accordance with Section 11 of the KWG in conjunction with the LiqV.

Due to the unique nature of short-term liquidity risk, it is not meaningful to quantify it and cover it with risk capital. The emphasis here is placed on the quality of risk management processes.

Structural liquidity risk (refinancing risk) refers to the risk that refinancing costs (at present value) could rise on account of a possible increase in spreads for the individual institution. If there is a fall in creditworthiness, it may only be possible to conclude deposit transactions 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. These liabilities are managed at an operational level by issuing promissory note loans on the capital markets. The liquidity obtained in this way is mainly invested in bonds eligible as collateral at the ECB, which in turn may be deposited at the Deutsche Bundesbank as refinancing facilities under the open market policy, or on the GC pooling market.

Possible refinancing losses are quantified through the preparation of liquidity progress reports and the calculation of potential liquidity shortfalls. A comparison is made each quarter between refinancing under current market conditions and the refinancing position if the unexpected were to occur. If unforeseen events were to occur, it is assumed both that refinancing would be significantly more expensive and that there would be unexpected cash outflows. The resulting difference represents the refinancing loss if the unexpected were to occur; this difference is taken into account in determining risk-bearing capacity for the Baader Bank Group and, if necessary, covered with risk capital. As at 31 December 2014, the value at risk for structural liquidity risk was calculated at €0.00 million, since there was no shortfall in the normal case scenario and hence no refinancing was required.

In addition, securities have different levels of market liquidity, and those with limited liquidity give rise to a liquidity risk. Low market liquidity in individual trading products means that transactions in these products are limited or impossible, both when opening and closing positions, because of the low level, or absence, of market liquidity. To mitigate this risk, the Risk Control department prepares assessments at regular intervals and communicates them to the board member responsible for markets. Each quarter, the risk potential for the market liquidity risk is calculated, based on expert estimates, and risk capital is allocated accordingly to cover it. As at 31 December 2014, the relevant experts estimated the risk of unexpected losses at €1.30 million. Alongside the calculation of this risk amount, there are further risk management and control processes, such as the monitoring and reporting of illiquid positions, that have an impact on the operational management of market liquidity risk, which is considered to be a material risk category.

The Risk Control department carries out quarterly reviews to ensure that the risk capital provided is sufficient to cover unexpected losses arising from liquidity risks. As at 31 December 2014, the limit utilisation for liquidity risk as a whole was 66.31%.

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

Overall, no potential losses were identified for structural liquidity risk in the event of unexpected circumstances. The risk potential for market liquidity risk is negligible when compared with the risk coverage capital. In addition, the Baader Bank Group holds only immaterial exposures in markets where liquidity is in short supply. As a result, Risk Control considers that the liquidity risk is not critical.

4.2.5 Regulatory risk

Regulatory risk results from the failure to comply with, or be aware of, new regulatory requirements. The occurrence of such a risk can lead to increased internal effort and expenditure due to tighter regulatory supervision, to financial losses because of penalty payments and even to the forced closure of a business area. The burden of supervisory requirements has risen enormously over the past year. Recognising and dealing with regulatory risks presents a major challenge for the institution and is therefore classified as material. Due to the special nature of this risk type it is not practical to quantify and cover it with risk capital. Instead, the emphasis in this area is on qualitative management. To this end, in 2014 software was licensed that assists in the recognition and monitoring of new requirements, and thus prevents new requirements from not being addressed.

The tools used for the management of regulatory risk are deemed by Risk Control to be sufficient with respect to the existing supervisory requirements and those still anticipated.

4.2.6 Business risk

Business risk describes the risk of unexpected losses resulting from management decisions on the business policy and positioning of Baader Bank Group. Furthermore, risks result from unexpected changes in market and general economic conditions with adverse effects on profit performance. Consequently, unexpected decreases in earnings and negative budget variances, where the causes do not fall into other defined risk categories, are also taken into consideration here. Since the business activities of Baader Bank Group are dependent in particular on the development of the general stock market climate, this type of risk is classified as material.

Business risk at Baader Bank Group is quantified in the context of the worst case scenario business planning, and is thus considered indirectly in risk-bearing capacity. Moreover, a quantification of business risk based on mathematical models is not deemed to be meaningful. Once again, for this type of risk the emphasis is on qualitative management. To this end, Group management holds a strategy meeting at least once a year in which they develop the business and risk strategy for the following years. This includes a focus on market expectations and their influence on the business model as well as the earnings position of the Baader Bank Group. The strategy is reviewed at regular intervals and, when necessary, adapted to changes in market conditions. In addition, the Controlling department performs a regular reconciliation between the budget plans and actual business development.

In the Risk and Investment Controlling department, risks and earnings are measured and monitored on a daily basis. Furthermore, the quarterly stress tests also analyse potential adverse market developments and their consequences for the financial situation of Baader Bank Group.

On the basis of the findings from the stress tests, and taking into account the business and risk strategy for 2015 onwards, Risk Control considers the existing business risk for the Baader Bank Group to be acceptable.

4.3 Summary of the Baader Bank Group's risk position

Baader Bank Group manages material risks through a meticulous risk management and control process and with the help of effective risk management tools. Our proactive approach to identifying risks and evaluating the consequences of the risks associated with our business activities aims to recognise and, with the help of appropriate measures, to mitigate the negative consequences of such risks on our financial results and long-term strategic objectives. The central Risk Control unit, which quantifies and monitors all risks within the Baader Bank Group, ensures at all times that interdependencies between the different types of risk can be identified and that countermeasures can be implemented immediately.

In 2014, the global trend towards greater regulation in the financial services sector continued, and is also likely to continue over the next few years. In order to reflect this trend properly, the Baader Bank Group has established a comprehensive monitoring process, which makes it possible to identify regulatory changes on a timely basis, to evaluate their potential impact on our business model and our processes, and to determine and implement accordingly any necessary actions.

As part of our risk strategy, once again only a portion of the existing risk capital was made available by Baader Bank Group management to cover unexpected losses during the 2014 financial year. The allocation of risk capital to individual types of risk takes particular account of the current risk potential within each risk category, the business strategy for the coming years and market expectations. No risk-reducing correlation effects are assumed to exist between the risk types, i.e. the Baader Bank Group also takes a conservative approach in this regard. Given that under these circumstances the Baader Bank Group's risk-bearing capacity is assured at all times, in spite of the condition that the minimum capital requirements under banking supervisory regulations in accordance with CRR must not be put at risk, Risk Control considers that the overall risk situation faced by the Baader Bank Group is acceptable.

5 Forecast report

Outlook for the market in 2015 – A fundamental recovery in sight

At first sight, the risks for capital markets in 2015 remain relatively high. Alongside geopolitical trouble spots such as Russia and the Middle East, there are also uncertainties in the eurozone. Following the Greek parliamentary elections, policymakers from the European Commission and the eurozone will need to demonstrate their willingness to compromise, for example with respect to extending debt maturities or relaxing their demands for reforms and austerity measures, in order to avoid Greece triggering a domino effect that could culminate in the break-up of the eurozone. Lastly, elections will also be held in Spain and Portugal in autumn 2015.

A closer look, however, sees monetary policy in the eurozone increasingly becoming a debt-financed stimulus package focused on reinvigorating the economy. To combat deflationary tendencies, at the start of March 2015 the ECB commenced its unconventional programme of buying up government bonds in order to reduce bond yields and expand liquidity, which – as a desired by-product – should also result in a weaker euro. The Bank of Japan will also extend its liquidity campaign. Even in the USA, the expected turnaround in interest rates will be modest in order to protect an otherwise globally impaired investment climate and avoid an outflow of capital from emerging markets. In any event, the US central bank understands that if its policy for raising interest rates is too rigorous, this could burst the worldwide bond bubble and thus damage the global financial system. Overall, it is likely that the continuation of the international liquidity boom will counterbalance the present crisis factors, providing support for equities.

In addition to monetary policy however, the equity markets are also benefitting from a brighter outlook for fundamental economic trends. A further weakening of the euro as an export currency, the stable US economy, less dynamic but hence sustainable growth in emerging economies, and falling energy prices all pave the way for improved economic and corporate data. Last but not least, high dividend yields versus continued low interest rates and bond yields promise a greater weighting towards value stocks, even amongst large institutional investors.

Development of business divisions within the Baader Bank Group

Market Making business division

Market Making's performance depends first and foremost on exchange-based and OTC trading volumes. The significant external driver of trading volume is volatility on the markets. This is something the Bank cannot influence; it is determined by the general economic conditions described earlier. In the view of Baader Bank, monetary policy and economic conditions will create an increasingly volatile but nonetheless positive environment for investing on the capital markets in 2015.

Banks and institutional investors will continue to have high liquidity available to them. Based on this, Baader Bank expects to see growth in turnover volumes during 2015, both in German exchange-trading and in OTC trading. The appeal of the equity, fund, ETF and derivative asset classes will increase further. Demand for bonds traded in euros will remain minimal in 2015 due to the historically low levels of interest rates. However, a significant upturn is expected in the trading of foreign currency bonds.

Baader Bank is taking all necessary measures to ensure that it can benefit from these anticipated trends. In exchange-based trading, the Bank expects that consolidation in the lead broker/specialist sector will continue and that the number of market makers on German trading platforms will decrease further. The Bank will exploit the resulting opportunities and secure its leading position amongst German securities specialists. The Bank intends to expand its trade with partner banks in the area of OTC trading. In addition, the Bank plans to tap additional trading centres and platforms and to press further ahead with the process of globalisation it has already begun (Vienna, Bern), in order to reduce its dependency on the German market. The number of tradable products in all asset classes will be increased.

There is a general risk that order volumes might be transferred to trading platforms where the Bank has no, or only a small, market share. In addition, new competitors may enter the market as a result of changes in the market models of stock exchange operators. Further risks are that consolidation in exchange-based trading takes place, without Baader Bank being involved, and that existing business relationships cannot be continued. In terms of OTC trading, there is a risk that the expected level of globalisation may not be feasible, such that the Bank's dependency on the German market remains.

Investment Banking business division

Investment Banking is sub-divided into two segments: brokerage business and capital market financing. In its activities as a broker for the DACH region, the Bank acts in the context of the general conditions discussed above. As is the case with market making, the success of brokerage business with institutional customers depends on trading volumes. The broadened basis of the stocks analysed and traded and improved access to investors through operating units in key international financial centres brought about by the integration of Helvea have had a stabilising effect in this area. There is a risk that institutional investors reduce their commission volumes and thus also the number of brokers used. In particular, regulatory developments including the FCA's proposals on the issue of paying for services such as research and corporate access, as well as the implementation of MiFID 2, could have a negative impact on the available commissions from investors in the UK and the eurozone.

In capital market financing, Baader Bank believes that the market environment in 2015 will be shaped by two conflicting forces. On the investor side, a high demand for investments is still apparent. The Bank expects a moderate to good increase in the number of transactions and in turnover volume. This is likely to include a number of flotations from the private equity arena as well as IPOs of companies with innovative business models looking to finance growth. Corporate actions are also expected to be shaped significantly by the need to finance further organic and acquisitive growth. The Bank will continue to develop its strong position in terms of innovative products such as scrip dividend schemes and tradable tender rights.

The size of the Bank's balance sheet creates some limitations, particularly in terms of transactions with guarantee components. Furthermore, competition around mandates for equity transactions remains intense. The risk of not being awarded a role in transactions is correspondingly high.

Turning to the **subsidiaries** of the Bank, Baader & Heins Capital Management AG intends to consolidate further its solid market position in the brokerage of promissory note loans and in money market trading. In general Baader Bank expects a positive trend to continue in this business segment. However, based on an assumption that the ECB's low interest rate policy is likely to last for some time, the Executive Board expects declining commission income in 2015 and a corresponding fall in net profit for the year. Skalis Asset Management AG is taking steps to increase further its fund volume, for example by introducing new products. Due to the high demand for defensive hybrid fund concepts with sustainability components, Skalis Asset Management AG expanded its product portfolio from 30 December 2014 by adding a further mutual fund. The company anticipates a substantial increase in assets under management this year.

The investment in the Swiss company Helvea S.A. should lead to further synergies on the turnover side and also to cost savings in overhead functions.

Conservative Concept Portfolio Management AG is also intensifying its efforts to increase significantly the customer assets it manages. Both the existing funds and newly launched alternative products are expected to generate new cash inflows.

Forecast business performance
In view of the market conditions discussed earlier, Baader Bank Group expects considerably higher net trading income in 2015 due to increasing volatility and buoyant turnover, particularly in equities, funds/ETFs and derivatives. Net fee and commission income is also forecast to rise further because of growing investment demand from investors and the associated higher number of transactions. The increase is not yet likely to compensate fully for the loss of net fee and commission income from the bond brokerage business, which was closed down in 2014; the net result is therefore expected to be down slightly on the previous year's result. Following the successful integration of Helvea, administrative expenses are expected to be around the level of the previous year, despite the increasing burden of regulatory requirements. Due to the fact that, as described earlier, a considerable part of Baader Bank Group's business activities are strongly dependent on external factors, the forecast results are subject to a high degree of uncertainty. Overall, the Group anticipates that a net profit at the level of the prior year can be achieved.

Unterschleissheim, 18 March 2015

Baader Bank AG

The Executive Board

Uto Baader Nico Baader Dieter Brichmann

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 Executive Board about the position of Baader Bank AG and the Group, whilst monitoring and supporting the work of the Executive Board. The Executive Board informed and consulted with the Supervisory Board on business policy, fundamental future management issues, the financial position and strategic development, the risk position, risk management and 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 in detail 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 Executive Board 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 convened five times during the reporting year. The focus of discussions between the Executive Board and the Supervisory Board was primarily on the position and performance of the two core business segments of Market Making and Investment Banking, with particular emphasis on their profitability, earnings potential and cost structure. Among the topics of discussion was the closure of the inter-dealer broker fixed income business in Frankfurt. On the basis of a proposal by the Executive Board, the Supervisory Board worked intensively to develop a new, optimised organisational structure for the institution, creating a more efficient and effective framework that reflects the changed conditions under which banks now operate. Other important topics discussed by the Supervisory Board and the Executive Board in 2014 included key projects, individual credit exposures and the medium to long-term impact on banks in Europe of changes to the regulatory environment, for example due to CRD IV regulations or the German Remuneration Ordinance for Institutions (Institutsvergütungsverordnung – InstitutsVergV). In addition, the Supervisory Board was informed between meetings about plans of particular significance and, where necessary, circular resolutions were passed in writing.

At its meeting on 21 March 2014, the Supervisory Board passed a resolution to re-appoint Dieter Brichmann to the Executive Board for a further term of five years. A detailed discussion of Baader Bank's business and risk strategy and its corporate planning took place at the meeting held on 19 December 2014. The compliance officer presented detailed half-yearly reports to the Chairman of the Supervisory Board. The Chairman of the Supervisory Board was also informed about important decisions and key business events in regular discussions with the Executive Board, and the minutes of Executive Board meetings were provided to him in a timely manner.

The financial statements and management report of Baader Bank AG for the year ended 31 December 2014, together with the consolidated financial statements and the Group 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, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich. An unqualified audit opinion was expressed. The consolidated financial statements and the Group 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 auditors conducted the audit in line with the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW).

All members of the Supervisory Board were sent the annual financial statement documents and auditors' report, together with the Executive Board's proposal for the appropriation of net earnings, in good time. At 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 Executive Board as well as the consolidated financial statements, the Group management report and the report on affiliated companies, including the auditors' report. The auditors' 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 auditors. During the meeting, the Executive Board explained the financial statements of Baader Bank AG and the Group. The auditors 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 auditors' 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 Executive Board prepared a report on affiliated companies. The auditors, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, audited the Executive Board's report on affiliated companies in accordance with legal requirements 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 company 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 Executive Board."

The Supervisory Board approved the financial statements and consolidated financial statements for 2014 in its meeting today. The 2014 financial statements are thus adopted. The Supervisory Board concurs with the Executive Board's proposal to pay a dividend from retained profit of €0.01 per dividend-bearing share and carry the remaining amount forward.

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

Unterschleissheim, 27 March 2015

Supervisory Board

Dr. Horst Schiessl
Chairman

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Consolidated balance sheet

as at 31.12.2014

Assets in €		**31.12.2014**		**31.12.2013**
1. Cash reserves				
a) Cash in hand	439.54		312.50	
b) Deposits at central banks	7,682,199.84	**7,682,639.38**	11,152,426.18	11,152,738.68
including:				
at Deutsche Bundesbank €7,682,199.84 (previous year: €11,152,426.18)				
2. Loans and advances to banks				
a) Payable on demand	76,291,458.11		70,109,125.29	
b) Other loans and advances	123,030,116.38	**199,321,574.49**	13,214,964.87	83,324,090.16
3. Loans and advances to customers		**37,147,839.30**		34,665,120.27
4. Debt securities and other fixed-income securities				
a) Bonds and other debt securities				
aa) From public issuers	12,217,567.04		24,892,519.84	
including:				
eligible as collateral at Deutsche Bundesbank €7,497,028.09 (previous year: €20,038,254.26)				
ab) From other issuers	193,265,039.26	**205,482,606.30**	263,956,065.99	288,848,585.83
including:				
eligible as collateral at Deutsche Bundesbank €99,495,235.18 (previous year: €147,773,535.50)				
5. Equities and other variable-rate securities		**29,506,650.03**		33,641,399.76
5a. Trading portfolio		**75,989,489.70**		51,707,689.46
6. Equity investments		**1,440,081.48**		2,057,970.13
including:				
in financial services institutions € 231,336.00 (previous year: €0.00)				
7. Interests in associates		**8,607,909.61**		8,184,741.54
8. Intangible assets				
a) Purchased concessions, trademark rights and similar rights and assets, and licences to such rights and assets	19,706,122.06		22,726,012.60	
b) Goodwill	9,921,837.06		11,705,343.09	
c) Advance payments made	1,262,645.66	**30,890,604.78**	847,150.94	35,278,506.63
9. Property, plant and equipment		**46,608,389.45**		47,691,658.43
10. Other assets		**11,046,597.93**		10,864,021.36
11. Prepaid expenses and accrued income		**3,118,167.77**		2,347,537.31
12. Excess of plan assets over pension liabilities		**6,450,502.51**		8,101,086.15
Total assets		**663,293,052.73**		**617,865,145.71**

Liabilities and Equity in €			**31.12.2014**		**31.12.2013**
1. Liabilities to banks					
a) Payable on demand		20,443,346.12		18,042,846.46	
b) With agreed term or period of notice		67,125,091.66	**87,568,437.78**	91,533,324.77	109,576,171.23
2. Liabilities to customers					
a) Other liabilities					
aa) Payable on demand		139,409,677.88		127,729,394.09	
ab) With agreed term or period of notice		277,344,675.62	**416,754,353.50**	224,923,189.96	352,652,584.05
3. Trading portfolio			**8,683,631.47**		4,754,137.28
4. Other liabilities			**7,008,830.68**		5,480,786.83
5. Accruals and deferred income			**7,651.36**		0.00
6. Provisions					
a) Provisions for pensions and similar commitments		1,367,989.11		1,284,049.33	
b) Tax provisions		943,875.21		682,477.83	
c) Other provisions		8,959,916.23	**11,271,780.55**	8,051,627.08	10,018,154.24
7. Fund for general banking risks			**23,250,000.00**		25,170,000.00
8. Shareholders' equity					
a) Called up capital					
aa) Subscribed capital	45,908,682.00			45,908,682.00	
ab) less nominal amount of treasury shares	−276,996.00	45,631,686.00		−276,996.00	
b) Capital reserve		31,431,265.61		31,431,265.61	
c) Retained earnings					
ca) Other retained earnings	27,780,766.67			30,015,103.03	
cb) Equity differences due to currency translation	534,117.07	28,314,883.74		−122,585.83	
d) Minority interests		1,996,026.18		2,141,498.59	
e) Consolidated retained profit		1,374,505.86	**108,748,367.39**	1,116,344.68	110,213,312.08

Total liabilities and shareholders' equity	**663,293,052.73**	**617,865,145.71**
Contingent liabilities		
a) Liabilities from guarantees and indemnity agreements	**2,583.00**	7,583.00
Other obligations		
a) Irrevocable loan commitments	**1,332,340.09**	1,747,488.89

Consolidated income statement

FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 DECEMBER 2014

in €			**2014**		**2013**
1. Interest income from					
a) Lending and money market transactions	1,160,882.13			974,313.13	
b) Fixed-income securities and government securities	10,511,554.30	11,672,436.43		14,288,279.12	
2. Interest expenses		– 10,354,862.58	**1,317,573.85**	– 10,747,475.92	4,515,116.33
of which:					
expenses from discounting €– 409,152.06 (previous year: €– 409,152.06)					
3. Current income from					
a) Equities and other variable-rate securities		1,898,992.42		1,670,537.72	
b) Equity investments		9,639.00	**1,908,631.42**	9,639.00	1,680,176.72
4. Fee and commission income		74,670,076.69		71,044,975.53	
5. Fee and commission expenses		– 22,267,834.40	**52,402,242.29**	– 21,508,589.80	49,536,385.73
6. Net income from the trading portfolio			**43,760,655.84**		42,612,558.11
7. Other operating income			**3,131,458.32**		1,922,887.26
8. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries	– 54,351,606.67			– 50,152,202.24	
ab) Social security contributions and expenses for pension provisions and for other benefit costs	– 6,685,450.57	– 61,037,057.24		– 5,132,176.52	
including:					
for pension provisions €– 836,418.60 (previous year: €– 929,783.92)					
b) Other administrative expenses		– 41,081,006.40	**– 102,118,063.64**	– 40,110,558.41	– 95,394,937.17
9. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment			**– 9,920,302.00**		– 9,975,881.56
10. Other operating expenses			**– 962,904.19**		– 1,218,591.94
11. Income from the revaluation of loans and advances and certain securities as well as reversals of loan loss provisions			**11,574,419.05**		5,712,542.20
Amount carried forward			**1,093,710.94**		– 609,744.32

in €	2014	2013
Amount carried forward	**1,093,710.94**	–609,744.32
12. Income from amounts released from the fund for general banking risks	**1,920,000.00**	2,130,000.00
13. Income from the revaluation of equity investments and securities treated as investments	**497,085.36**	9,999.00
14. Loss from interests in associates	**–3,275,768.45**	–43,264.38
15. Profit from ordinary activities	**235,027.85**	1,486,990.30
16. Taxes on income	**–1,263,476.67**	–1,035,076.67
17. Other taxes not included under item 10	**–136,881.91**	–233,649.93
18. Consolidated net profit before minority interests	**–1,165,330.73**	218,263.70
19. Minority interest in net income	**–354,527.59**	–399,828.54
20. Retained earnings of the parent company brought forward	**660,027.82**	656,990.28
21. Withdrawals from retained earnings		
a) from other retained earnings	**6,178,519.37**	2,699,007.45
22. Transfers to retained earnings		
a) to other retained earnings	**–3,944,183.01**	–2,058,088.21
23. Consolidated retained profit	**1,374,505.86**	**1,116,344.68**

Statement of changes in equity of the Baader Bank Group

AS AT 31.12.2013 AND 31.12.2014

2013 financial year	**Parent company**			
	Subscribed capital		**Consolidated earnings**	
in € thousand	**Common shares**	**Capital reserve**	**Retained earnings**	**Retained profit**
As at 1 January 2013	**45,909**	**31,431**	**24,658**	**8,439**
Purchase/withdrawal of treasury shares	0	0	555	0
Dividends paid	0	0	0	– 2,282
Change in scope of consolidation	0	0	– 58	0
Other changes	0	0	5,501	– 5,500
Consolidated net profit for the year	0	0	0	– 182
Other consolidated earnings	0	0	0	0
Total consolidated earnings	**0**	**0**	**0**	**– 182**
Transfer to retained earnings	0	0	2,367	– 2,367
Withdrawal from retained earnings	0	0	– 3,008	3,008
Non-operating changes in earnings	**0**	**0**	**– 641**	**641**
As at 31 December 2013	**45,909**	**31,431**	**30,015**	**1,116**

2014 financial year	**Parent company**			
	Subscribed capital		**Consolidated earnings**	
in € thousand	**Common shares**	**Capital reserve**	**Retained earnings**	**Retained profit**
As at 1 January 2014	**45,909**	**31,431**	**30,015**	**1,116**
Purchase/withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	– 456
Change in scope of consolidation	0	0	0	0
Other changes	0	0	0	0
Consolidated net profit for the year	0	0	0	– 1,520
Other consolidated earnings	0	0	0	0
Total consolidated earnings	**0**	**0**	**0**	**– 1,520**
Transfer to retained earnings	0	0	6,586	– 6,586
Withdrawal from retained earnings	0	0	– 8,820	8,820
Non-operating changes in earnings	**0**	**0**	**– 2,234**	**2,234**
As at 31 December 2014	**45,909**	**31,431**	**27,781**	**1,374**

Treasury shares	Shareholders’ equity	Equity difference from currency translation	Minority shareholders Minority equity	Consolidated equity
−860	**109,577**	**197**	**1,850**	**111,624**
583	1,138	0	0	1,138
0	−2,282	0	−107	−2,389
0	−58	0	0	−58
0	1	0	−1	0
0	−182	0	400	218
0	0	−320	0	−320
0	**−182**	**−320**	**400**	**−102**
0	0	0	0	0
0	0	0	0	0
0	**0**	**0**	**0**	**0**
−277	**108,194**	**−123**	**2,142**	**110,213**

Treasury shares	Shareholders’ equity	Equity difference from currency translation	Minority shareholders Minority equity	Consolidated equity
−277	**108,194**	**−123**	**2,142**	**110,213**
0	0	0	0	0
0	−456	0	−500	−956
0	0	0	0	0
0	0	0	0	0
0	−1,520	0	354	−1,166
0	0	657	0	657
0	**−1,520**	**657**	**354**	**−509**
0	0	0	0	0
0	0	0	0	0
0	**0**	**0**	**0**	**0**
−277	**106,218**	**534**	**1,996**	**108,748**

Cash flow statement of the Baader Bank Group

in € thousand	2014	2013
1. Net profit for the period (including net profit attributable to minority interests)	**– 1,165**	**218**
Non-cash items and reconciliation to the cash flow from 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	16,156	9,511
3. Changes in provisions	1,254	375
4. Other non-cash expenses	2,170	– 2,786
5. Profit and loss from the sale of assets	– 489	6
6. Other adjustments (net)	– 4,152	– 4,124
7. Sub-total	**13,774**	**3,200**
Changes to assets and liabilities from operating activities:		
8. Loans and advances		
8a. To banks	– 127,135	– 6,917
8b. To customers	– 2,844	5,426
9. Securities (excluding securities held as investments)	48,296	– 57,284
10. Other operating assets	677	– 6,447
11. Liabilities		
11a. To banks	– 22,186	12,810
11b. To customers	63,523	22,309
12. Liabilities from trading activities	3,929	3,135
13. Other operating liabilities	1,536	506
14. Interest and dividends received	16,915	16,049
15. Interest paid	– 10,703	– 10,099
16. Income taxes paid	– 2,060	– 1,826
17. Cash flow from operating activities	**– 16,278**	**– 19,138**
18. Proceeds from disposals of		
18a. Financial assets	11,146	10
19. Payments made for investments in		
19a. Financial assets	– 4,712	– 4,577
19b. Property, plant and equipment and intangible assets	– 4,470	– 7,019
20. Payments made for the acquisition of consolidated companies and other business units	0	– 13,563
21. Cash flow from investment activities	**1,964**	**– 25,149**
22. Payments to business owners and minority shareholders		
22a. Dividend payments	– 956	– 2,389
22b. Other payments	0	1,138
23. Changes in funds from other external capital (net)	0 [1]	57,759
24. Cash flow from financing activities	**– 956**	**56,508**
25. Net change in cash and cash equivalents (the sum of 17, 21 and 24)	**– 15,270**	**12,221**
26. Effects of changes in exchange rates, scope of consolidated companies and measurement on cash and cash equivalents	657	13,204
27. Cash and cash equivalents at start of period	**34,171 [2]**	**8,746**
28. Cash and cash equivalents at end of period	**19,558**	**34,171**

1 From this financial year, cash flows from debt financing and the repayment of bank liabilities are shown in the cash flow from operating activities.
2 Sight deposits are included if they are used to meet short-term payment obligations.

Notes to the consolidated financial statements

I. Basis of preparation

The consolidated financial statements of Baader Bank AG for the 2014 financial year have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) 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 Accounting Standards Committee of Germany (Deutsches Rechnungslegungs Standards Committee – DRSC) 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 of the 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 2014 and the financial year corresponds to the calendar year.

II. Accounting policies

When measuring 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 supplementary provisions applying to banks and financial services institutions (Sections 340 et seq. of the HGB) were observed.

In the interests of improved clarity and transparency, all information relating to items in the balance sheet and income statement that 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 shown 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
Loans and advances to banks and customers are generally recognised at their nominal amount or acquisition cost and are reduced by adequate write-downs where necessary. Offsetting permitted in accordance with Section 340f (3) of the HGB is applied.

Securities (excluding trading portfolio)
Securities that are intended to be used in business operations on an ongoing basis are recognised as financial assets under the modified lower of cost or market principle at amortised cost pursuant to Section 253 (1 and 3) of the HGB. Any impairments which appear to be permanent are taken into account. If necessary, revaluations are made in accordance with the requirement to reverse write-downs (Section 253 (5) of the HGB). Offsetting permitted in accordance with Section 340c (2) of the HGB is applied. 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.

Securities that are not intended for use in business operations on an ongoing basis and are not allocated to the trading portfolio are recognised as current assets at the lower of cost, the stock 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) of the HGB 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 equities and other variable-rate 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 equities and other variable-rate securities, and for equity investments and interests in affiliated companies. If there is no active market for derivative financial instruments, 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 in conjunction with IDW RS BFA Statements 2 and 5 issued by the Banking Committee (Bankenfachausschuss - BFA) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer - IDW) 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 separately in the "Securities (excluding trading portfolio)" section.

The starting point for calculating the risk discount or risk premium is the value at risk (VaR). Value at risk refers to a risk measurement that indicates the level of loss on the portfolio in question that will not be exceeded with a given probability over a given time horizon. Baader Bank AG uses the Monte Carlo simulation approach to calculate the VaR. A confidence level of 99% is assumed for the calculation and up to 100 observation points are taken into account. As at 31 December 2014, based on a quarterly parameter review, the calculation assumes that individual positions are held for a period of between 6 hours and 12 days.

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

The risk discount is calculated for all positions in the trading portfolio, including both assets and liabilities. Since it is not possible to split this amount properly between the asset and liability trading positions, the risk discount is applied to the larger of the respective portfolios. As a general rule, at the Baader Bank Group this is the asset-side of the trading portfolio.

Reclassification
The allocation of receivables and securities to the trading portfolio, liquidity reserve or assets measured as investments is based on their 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 receivables or securities takes place at the time of the change in purpose.

No reclassifications took place during the 2014 financial year.

Derivative financial instruments in the trading portfolio
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.

Loss-free measurement of interest-rate-based transactions in the banking book
IDW RS BFA Statement 3 provides guidance on specific issues related to the loss-free measurement of the banking book in accordance with HGB. The operating activities of banks in the context of the banking book are such that individual financial instruments cannot routinely be directly associated to one another. The banking book is managed as a single unit. For interest-rate-based assets and

liabilities in the banking book, the principle of prudence under commercial law is adhered to. In accordance with Section 249 of the HGB, a “provision for anticipated losses” is recognised for the necessary expenses expected in relation to management of the banking book (refinancing, risk and administrative costs) to cover any potential excess liability. In defining the scope of the banking book, Baader Bank Group has made use of the option not to include the directly allocable refinancing of non-interest-bearing assets or the corresponding assets. Baader Bank Group uses the periodic method to calculate the provision for anticipated losses. According to this approach, a provision for anticipated losses is recognised if the sum of discounted net profits or losses for future periods from the banking book is negative. Risk costs and administrative costs are taken into account by applying a deduction to the cash flows. As at the reporting date, Baader Bank AG has no excess liability. There is thus no requirement to recognise a provision for anticipated losses in relation to loss-free measurement.

Equity investments and interests in associates
Equity investments and interests in associates are recognised at amortised cost in accordance with the regulations applicable to non-current assets. If an impairment appears to be permanent, a write-down is recognised. If the reasons that led to a write-down no longer exist, the write-down is reversed up to a maximum of the acquisition cost. See also the separate “Securities (excluding trading portfolio)” section for more information on the determination of the theoretical price.

Intangible assets and property, plant and equipment
The Baader Bank Group reports its standard computer software under intangible assets. Purchased intangible assets are measured at cost net of straight-line amortisation. If an impairment appears to be permanent, a write-down is recognised.

Goodwill resulting from mergers and purchased order books is amortised over a period of 10 years on a straight-line basis. If an impairment appears to be permanent, a write-down is recognised.

Experience of the actual useful life has shown that the underlying 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.

Property, plant and equipment is measured at cost net of straight-line depreciation. Depreciation is calculated on a pro rata basis. Low-value assets with a value of up to €150.00 (net) are recognised immediately as expenses through the income statement. In addition, low-value assets with a cost of up to €1,000.00 are recognised in an annual collective line item and depreciated over five years on a straight-line basis. The actual useful lives of low-value assets that are pooled into a collective item, or any disposals of such assets, are not taken into account.

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

Other assets
Other assets are recognised at their nominal amount net of any necessary 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 (the German central bank) had set this interest rate at 4.53%.

Where the amount of pension obligations is determined by the fair value of securities held in the liquidity reserve 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 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 for the respective remaining term.

Cover assets
Cover assets are assets that are used exclusively to meet pension obligations or similar long-term commitments and that are protected from all other creditors. They are measured at fair value and are offset against the relevant underlying obligation in accordance with Section 246 (2) of the HGB.

Fund for general banking risks
The fund for general banking risks includes amounts deemed necessary, based on a prudent commercial assessment, to hedge general banking risks. Independently of this, 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, the balance of the fund for general banking risks in accordance with Section 340e (4) No. 4 of the HGB was equivalent to 50% of the average annual net income from the trading portfolio for the last five years.

Deferred taxes
Where differences arise between the carrying amounts under commercial law of assets, liabilities and deferred items, and their values under tax law, and where these differences are expected to be reversed in future financial years, a deferred tax liability must be recognised on the balance sheet if such differences result in a net tax expense. If these differences result in net tax income, a deferred tax asset may be recognised.

In accordance with the option available under Section 306 of the HGB, any resulting surplus asset is not recognised on the balance sheet.

Acquisition of treasury shares
The imputed value of treasury shares acquired is shown in the first column as a separate line item from subscribed capital, as a deduction. The two values together constitute issued capital. The difference between the imputed value and the acquisition cost of treasury shares is offset against freely available reserves (retained earnings) in equity, without impacting the income statement.

If treasury shares are resold, the disposal is shown in the first column. Any difference arising from the sales proceeds in excess of the imputed value is allocated to the appropriate reserves, subject to a maximum amount equal to the amount that was offset against freely available reserves. Any difference in excess of this amount is allocated to the capital reserve, while any loss arising on sale is charged to retained earnings.

Currency translation
Currencies are translated in accordance with the principles set out in Sections 256a, 308a and 340h of the HGB.

Assets and liabilities and outstanding cash transactions that are denominated in foreign currency are translated at the mean spot rate on the reporting date. Forward exchange transactions are translated at the forward rate on the reporting date.

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 gains and the losses from the currency translation are recognised in the income statement. The same applies to 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 losses from the currency translation are recognised in the income statement, in accordance with the imparity principle.

III. Changes in accounting policies

There were no changes in accounting policies in the 2014 financial year.

IV. Consolidated companies

In addition to Baader Bank AG as the parent company, the consolidated financial statements of Baader Bank Group for the year ended 31 December 2014 comprise seven subsidiaries (previous year: eight subsidiaries), in which Baader Bank AG holds a direct or indirect interest of more than 50% of the shares or exercises a controlling influence. Three of these companies are based in Germany, and four are headquartered abroad.

The following companies were included in the consolidated financial statements as at 31 December 2014, and were consolidated in full: → Table 16

On 30 November 2012, Baader Bank AG reached an agreement with the management and the majority of shareholders of Helvea Holding SA, Geneva, to acquire the company in a friendly takeover. The purchase agreement was subject to authorisation by the regulatory authorities and other conditions usual for such transactions. The transaction was completed on 2 August 2013 once authorisation was received from the regulatory authorities, and all of the shares in the company (100.00%) were transferred to Baader Bank AG. Since 31 August 2013, the company has been fully consolidated and included in the financial statements of the Baader Bank Group. Upon entry in the Commercial Register on 2 May 2014, all assets and liabilities were transferred by means of singular succession to Helvea SA, Geneva, as legal successor.

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 is required to be included in the consolidated financial statements. However, due to immateriality it was not consolidated on 31 December 2014, as permitted by Section 296 (2) Sentence 1 of the HGB.

The following associated companies were included in the consolidated financial statements: → Table 17

Under a purchase agreement dated 19 August 2013, Baader Bank AG acquired 25.00% of the shares in Ophirum ETP GmbH, Frankfurt am Main. In March 2014 Baader Bank AG increased its interest in Ophirum ETP GmbH to 50.00% of the shares.

Baader Bank AG acquired a 10.00% interest in the share capital of Clueda AG, Munich, on 4 February 2013 under a participation agreement. As part of this transaction, Baader Bank AG was granted extensive rights which permit it to exercise significant influence over Clueda AG's business and financial policies. During the financial year the interest was increased to 18.2% through a subscription to new shares. In view of the company's business prospects, Baader Bank AG has written down the goodwill included in the carrying amount of the investment by €2,637 thousand, as a precautionary measure.

As at 31 December 2014, Baader Bank AG continued to hold 21.93% of the shares in Parsoli Corporation Ltd., Mumbai (India). 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 holding is therefore recognised under the item equity investments, with a notional residual value of €1.00.

Table 16 Companies included in the consolidated financial statements in € thousand

Name / Registered office	Equity interest in %	Share capital	Equity capital	Total assets	Net profit/ loss for the year	First consolidated
Helvea SA, Geneva (Switzerland) [4]	100.00	4,967	4,566	7,499	– 1,144	31 August 2013
Helvea Inc., New York (United States of America) [1, 5]	100.00	277	4,404	4,706	– 460	31 August 2013
Helvea Ltd., London (United Kingdom) [1, 6]	100.00	0	1,201	1,452	80	31 August 2013
Skalis Asset Management AG (formerly: Skalis AG), Unterschleissheim [3]	100.00	50	662	823	– 1,007	31 December 2003
Baader & Heins Capital Management AG, Unterschleissheim	75.00	50	5,796	9,202	2,349	1 January 2005
Conservative Concept Portfolio Management AG, Bad Homburg	66.07	140	2,521	2,874	– 5	1 October 2006
Conservative Concept AG, Zug (Switzerland) [2, 4]	100.00	62	812	844	– 79	1 October 2006

1 Indirect holding via the investment in Helvea SA, Geneva (Switzerland).
2 Indirect holding via the investment in Conservative Concept Portfolio Management AG, Bad Homburg.
3 Indirect holding via the investment in Baader & Heins Capital Management AG, Unterschleissheim.
4 The figures for the financial year to 31 December 2014 have been translated (€/CHF 1.2024).
5 The figures for the financial year to 31 December 2014 have been translated (€/USD 1.2141).
6 The figures for the financial year to 31 December 2014 have been translated (€/GBP 0.7789).

Table 17 Associated companies included in the consolidated financial statements in € thousand

Name / Registered office	Equity interest in %	Carrying value of interest	Equity capital	Total assets	Net profit/ loss for the year	Market value of interest
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	30.00	4,752	13,328 [1]	17,763 [1]	874 [1]	n/a [4]
Ophirum ETP GmbH, Frankfurt am Main	50.00	3,542	116 [2]	1,366 [2]	– 399 [2]	n/a [4]
Clueda AG, Munich	18.17	314	1,109 [3]	1,768 [3]	– 752 [3]	n/a [4]

1 Figures based on the financial statements for the period ending 31 December 2013.
Equity, total assets and net profit for the period ending 31 December 2013 have been translated (€/OMR 0.5292).
2 Figures based on the financial statements for the period ending 31 December 2014.
3 Figures based on the financial statements for the period ending 31 December 2013.
4 No public market price available as at 31 December 2014.

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 Bank Group).

Subsidiaries

The subsidiaries of the Baader Bank Group are the entities which it controls. The Baader Bank Group has a controlling influence on subsidiaries if it can set their financial and operational policies. This is generally assumed when the Baader Bank Group holds a direct or indirect equity interest in 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 when assessing whether the Group controls another company. As at the reporting date there were no potential voting rights.

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

The Baader Bank Group reviews previous consolidation decisions to ensure that they are still appropriate at the end of every financial year, at a minimum. Any organisational changes are immediately taken into account accordingly. 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 preparing the financial statements for the companies included in the Baader Bank Group are applied consistently across the Group.

Subsidiaries are generally fully consolidated in accordance with the principles set out in Sections 300 et seq. of the HGB.

Article 66 (3) Sentence 4 of the Introductory Act to 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. Furthermore, for subsidiaries acquired from 1 January 2010 onwards, Section 301 (1) of the HGB requires that the revaluation method be used.

The Baader Bank 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.

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 that the Group companies hold in the subsidiary. Information about the calculation of the carrying value of investments is presented in the separate "Equity investments" section.

The difference between the proportional equity and the carrying value of the investments is allocated to the hidden reserves and charges attributable to the subsidiary's assets and liabilities in proportion to the interest held. The remaining difference represents goodwill or negative goodwill. The goodwill resulting from this process 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 on the balance sheet, 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.

Goodwill is generally amortised 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 through 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 additional acquisition.

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.

Baader Bank AG generally recognises any interests in subsidiaries not included in the consolidated financial statements due to limited options for exercising rights, or for reasons of materiality, at amortised cost (Section 296 (1 and 2) of the HGB). Refer also to the "Equity investments" section for more information.

As at the reporting date, all subsidiaries were included in the consolidated financial statements. Due to immateriality, one special-purpose vehicle was not consolidated on 31 December 2014. Refer also to the "Consolidated companies" section for more information.

Associates

An associate is a company over which the Group exercises a significant influence, but not a 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 are taken into account.

As at the reporting date there were no potential voting rights.

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.

As at the reporting date, one company in which the Group holds less than 20% of the voting rights was deemed to be an associate.

In accordance with Section 311 (1) of the HGB, interests in associates are initially recognised at acquisition cost using the equity method. In subsequent years, profits and losses and other changes in the net assets of the associate concerned increase or decrease the acquisition cost ("equity value").

The Group reviews the equity value for indications of impairment at least once a year, at the end of each financial year. If equity value exceeds fair value, a write-down is recorded. If the reason for the write-down ceases to exist, the write-down is reversed.

Goodwill is generally amortised 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 through the income statement.

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

If the Group sells all or part of its interest in an associate, the gain on disposal is determined by comparing the sales proceeds with the equity value attributed to the stake 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 during the 2014 financial year.
More information is available in the "Consolidated companies" section. In addition, the Group continued to have significant influence on its associates as at 31 December 2014.

Table 18 Foreign currency in € thousand

Currency	Loans and advances (customers and banks)	Securities, equity investments and associates	Other Assets	Liabilities (customers and banks)	Other liabilities
AUD	1	0	0	0	0
BRL	163	0	0	131	0
CAD	394	267	0	659	0
CHF	4,850	300	1,395	809	996
DKK	0	126	0	126	0
GBP	3,033	21	443	1,941	263
HKD	1,287	0	0	1,285	0
INR	18	0	0	0	0
JPY	1,837	294	0	2,124	4
MYR	2	0	0	0	0
NOK	0	0	0	0	0
OMR	2,942	4,731	0	0	0
PLN	1	0	0	0	0
SEK	0	0	0	0	0
SGD	1	0	0	0	0
TRY	0	0	0	0	0
USD	54,732	19,974	326	53,051	949
ZAR	0	0	0	0	0
	69,261	**25,713**	**2,164**	**60,126**	**2,212**

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 €97,138 thousand (previous year: €77,180 thousand). Liabilities denominated in foreign currency totalled €62,338 thousand (previous year €60,334 thousand). This involved the following balance sheet items: → **Table 18**

Income resulting from currency translation amounted to €651 thousand and is reported under other operating income.

Loans and advances to banks
Loans and advances to banks consist of bank deposits of €40,835 thousand and other loans and advances of €158,487 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 €205,483 thousand and did not include any loans and advances to affiliated companies. → **Table 19**

Table 19 Debt securities and other fixed-income securities in € thousand

	31.12.2014	31.12.2013
Bonds and other debt securities	202,239	282,251
Accrued coupon interest	3,244	6,598
Debt securities and other fixed-income securities	**205,483**	**288,849**

In the coming year, bonds and other debt securities totalling €13,992 thousand will fall due.

Equities and other variable-rate securities
As at 31 December 2014, the Baader Bank Group's equities and other variable-rate securities included classes of security assigned to the category of "assets treated as investments". For one class of security no valid quoted market price was available as at 31 December 2014 as there was no active market. The theoretical price at the reporting date was €17,282 thousand.

The total item is measured at amortised cost in the amount of €14,608 thousand in accordance with Section 253 (3) Sentence 3 of the HGB (under the modified lower of cost or market principle). There are no indications that a permanent impairment exists.

TABLE 20 MATURITIES OF THE LOANS AND ADVANCES AND LIABILITIES IN € THOUSAND

	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
Other loans and advances to banks	114,356	674	0	8,000
Loans and advances to customers	36,222	406	482	38
Liabilities due to banks with an agreed term or notice period	43,892	0	0	23,233
Liabilities due to customers with an agreed term or notice period	51,827	34,018	65,000	126,500

TABLE 21 MARKETABLE AND NON-MARKETABLE SECURITIES IN € THOUSAND

	Non-marketable	Marketable		Marketable securities not valued at the lower of cost or market
		Listed	Unlisted	
Bonds and other debt securities	0	205,483	0	0
Equities and other variable-rate securities	0	29,507	0	0
Interests in associates	8,608	0	0	0

Breakdown of residual maturities
The maturities of the loans and advances and liabilities reported in the balance sheet are as follows: → **TABLE 20**

Breakdown of marketable and non-marketable securities: → **TABLE 21**

Non-current assets
All of the land and buildings shown in the table of assets were used by the Baader Bank Group during the course of its operations.

No internally generated intangible assets were capitalised.

The composition of and movements in non-current assets are shown in the following table of assets: → **TABLE 22**

Shareholdings
Shareholdings are shown under figure X.

Other assets
Other assets include: → **TABLE 23**

TABLE 23 OTHER ASSETS IN € THOUSAND

	31.12.2014	31.12.2013
Corporation tax credits	4,415	5,814
Receivables from the German Federal Financial Supervisory	1,346	1,346
Receivables from brokerage fees and price differences	1,186	1,157
Other tax receivables	2,175	1,146
Sales tax receivables	16	427
Reinsurance claims from life insurance policies	19	18
Other receivables	1,889	956
Other assets	**11,046**	**10,864**

No receivables due from members of the Executive Board or the Supervisory Board are included within other assets.

TABLE 22 NON-CURRENT ASSETS IN € THOUSAND

	Cost of acquisition or production					
	As at 01.01.2014	Additions	Changes in the scope of consolidation	Pro rata result	Transfers	Disposals
A. Intangible assets						
1. Purchased concessions, commercial rights and similar rights and assets, and licences to such rights and assets	61,488	1,612	0	0	4	−235
2. Goodwill	25,078	732	0	0	0	0
3. Advance payments for intangible assets	847	420	0	0	−4	0
	87,413	**2,764**	**0**	**0**	**0**	**−235**
B. Property, plant and equipment						
1. Land and buildings	55,356	471	0	0	0	0
2. Furniture, fixtures and office equipment	7,522	1,202	0	0	134	−731
3. Advance payments for property, plant and equipment and assets under construction	104	33	0	0	−134	0
	62,982	**1,706**	**0**	**0**	**0**	**−731**
C. Financial assets						
1. Equity investments	6,089	0	0	0	0	−716
2. Associates	8,414	3,699	0	−39	0	0
3. Non-current securities	23,595	1,013	0	0	0	−10,000
	38,098	**4,712**	**0**	**−39**	**0**	**−10,716**

Prepaid expenses and accrued income
Prepaid expenses totalling €85 thousand relate to differences arising from the issue of five promissory note loans in accordance with Section 250 (3) of the HGB. This difference is released to the income statement pro-rata over the remaining maturity on a straight-line basis.

Liabilities to banks
Liabilities to banks serve mainly to finance the office building in Unterschleissheim and to refinance the securities trading business.

Liabilities to customers
At the reporting date, there were customer deposits payable on demand amounting to €139,410 thousand and liabilities to customers totalling €277,344 thousand, which relate primarily to promissory note loans raised.

Other liabilities
Other liabilities include: → **Table 24**

Table 24 Other liabilities in € thousand

	31.12.2014	31.12.2013
Trade payables	2,925	2,372
Tax liabilities	1,902	1,383
Miscellaneous liabilities	2,182	1,726
Other liabilities	**7,009**	**5,481**

Pension provisions
Pension obligations at 31 December 2014 stood at €12,119 thousand and were calculated using the method described in the "Liabilities and provisions" section. Bank accounts, securities accounts and reinsurance are available to cover these obligations. An interest expense of €395 thousand was recorded for the 2014 financial year. The actuarial calculations are based on the following parameters: → **Table 25**

Table 25 Parameters actuarial calculations in %

	31.12.2014	31.12.2013
Actuarial interest rate	4.53	4.88
Changes in salaries	2.00 to 3.00	0.00 to 3.00
Pension adjustments	1.80 to 2.00	2.00

In addition, the Klaus Heubeck "Richttafeln" 2005G (mortality) 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 2014.

Depreciation, amortisation and write-downs			Carrying value	
		of which	As at	As at
Cumulative	of which 2014	disposals	31.12.2014	31.12.2013
−43,163	−4,635	234	19,706	22,726
−15,888	−2,515	0	9,922	11,705
0	0	0	1,263	847
−59,051	**−7,150**	**234**	**30,891**	**35,278**
−12,488	−1,885	0	43,339	44,753
−4,861	−885	711	3,266	2,835
0	0	0	3	104
−17,349	**−2,770**	**711**	**46,608**	**47,692**
−3,933	0	98	1,440	2,058
−3,466	−3,237	0	8,608	8,185
0	0	0	14,608	23,595
−7,399	**−3,237**	**98**	**24,656**	**33,838**

Cover assets
→ **Table 26**

Table 26 Cover assets in € thousand

	31.12.2014	31.12.2013
Cost	13,534	13,296
Fair value	17,201	17,853
Offset liabilities	10,750	9,752

Bank deposits, reinsurance policies and securities accounts qualifying as cover assets are netted against the pension obligations. In addition, an excess of plan assets over pension liabilities totalling €6,451 thousand is reported within assets. Overall, this means that total pension provisions on the balance sheet stood at €1,368 thousand.

Other provisions
Other provisions consist of the following: → **Table 27**

Table 27 Other provisions in € thousands

	31.12.2014	31.12.2013
Provision for personnel expenses	5,984	4,956
Audit, legal and consultancy costs	421	592
Administrative expenses	1,700	999
Sundry provisions	855	1,505
Other provisions	**8,960**	**8,052**

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. 4 of the HGB, €1,920 thousand was released from this special item on 31 December 2014. This is shown in the income statement under "Income from amounts released from the fund for general banking risks".

Trading portfolio
Assets and liabilities held for trading as at 31 December 2014 were as follows: → **Table 28**

Table 28 Assets and liabilities held for trading in € thousands

Assets held for trading	**31.12.2014**	**31.12.2013**
Derivative financial instruments	28	37
Debt securities and other fixed-income securities	3,974	1,747
Equities and other variable-rate securities	72,837	50,702
Risk discount	−850	−778
Assets held for trading on the balance sheet	**75,989**	**51,708**
Liabilities held for trading	**31.12.2014**	**31.12.2013**
Derivative financial instruments	356	58
Liabilities	8,328	4,696
Liabilities held for trading on the balance sheet	**8,684**	**4,754**

Valuation units
No valuation units as defined by Section 254 of the HGB were created in the 2014 financial year.

Derivative financial instruments
At the reporting date of 31 December 2014, the Baader Bank Group held the following categories of derivative financial instruments in the trading portfolio:

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

These transactions involve futures and options.

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 on the balance sheet at fair value, which corresponds to their market value.

FORWARD TRANSACTIONS
At the reporting date, outstanding forward contracts consist solely of forward exchange contracts as defined by Section 36 No. 1 of the RechKredV. → TABLE 29

The above transactions relate exclusively to customer-originated forward contracts and to customer-originated cash transactions unsettled as at the reporting date.

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

ASSETS HELD FOR TRADING
→ TABLE 30

LIABILITIES HELD FOR TRADING
→ TABLE 31

TABLE 29 FORWARD TRANSACTIONS IN TCHF, THKD, TUSD

Maturity	Currency	Nominal
30 December 2014 to 5 January 2015	CHF	– 748
30 December 2014 to 2 January 2015	HKD	– 45
30 December 2014 to 2 January 2015	HKD	45
30 December 2014 to 2 January 2015	USD	– 9
30 December 2014 to 2 January 2015	USD	4

TABLE 30 ASSETS HELD FOR TRADING IN €

Portfolio	Description	Category	Maturity	Market price	Contracts	Market value	Carrying value	Risk factors
Eurex FH HVB	DAX® Options (ODAX)	Eurex equity index option	16 January 2015	43.70	20 Number	4,370.00	4,411.00	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (5 euros per index point)
Eurex FB	DAX® Futures (FDAX)	Eurex equity index future	20 March 2015	9,843.50	9 Number	2,214,787.50	2,216,470.05	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (25 euros per index point)
Eurex FB	EURO STOXX 50® Index Futures (FESX)	Eurex equity index future	20 March 2015	3,133.00	70 Number	2,193,100.00	2,212,175.50	Fluctuations in the cash flow result primarily from changes in the value of the Euro Stoxx 50 index (10 euros per index point)
Eurex FH HVB	DAX® Futures (FDAX)	Eurex equity index future	20 March 2015	9,843.50	1 Number	246,087.50	245,286.95	Fluctuations in the cash flow result primarily from changes in the value of the DAX index (25 euros per index point)
Eurex FH HVB	EURO STOXX 50® Index Futures (FESX)	Eurex equity index future	20 March 2015	3,133.00	5 Number	156,650.00	157,198.25	Fluctuations in the cash flow result primarily from changes in the value of the Euro Stoxx 50 index (10 euros per index point)
JPM USD FH	E-mini S&P 500 Stock Index Futures	Equity index future	20 March 2015	1,690.55	3 Number	253,582.90	257,100.27	Fluctuations in the cash flow result primarily from changes in the value of the S & P 500 index (50 US dollars per index point)

TABLE 31 LIABILITIES HELD FOR TRADING IN €

Portfolio	Description	Category	Maturity	Market price	Contracts	Market value	Carrying value	Risk factors
Eurex SV	Euro-Bund Futures 10 years (FGBL)	Fixed income future	6 March 2015	155.87	100 Number	15,587,000.00	15,266,975.00	Fluctuations in the cash flow result primarily from changes in the value of medium-term German debt securities (multiplier of 1,000)
Eurex SV	Euro-Bobl Futures 5 years (FGBM)	Fixed income future	6 March 2015	130.28	40 Number	5,211,200.00	5,175,590.00	Fluctuations in the cash flow result primarily from changes in the value of medium-term German debt securities (multiplier of 1,000)

Table 32 Interests in investment funds in € thousand

Instrument	Investment objective	Volume	Market value	Carrying value	Distribution
SKALIS Evolution Flex AK S (A1W9A0) [1]	Hybrid fund with defensive profile	128,300 number	13,230	12,986	0
SKALIS Evolution Flex AK R (A1W9AA) [1]	Hybrid fund with defensive profile	10,042 number	1,032	1,004	0
SKALIS Evolution Flex AK I (A1W9AZ) [1]	Hybrid fund with defensive profile	10,000 number	1,030	1,000	0
SKALIS Evolution Defensive AK R (A12BPG) [1]	Hybrid fund with defensive profile	20,000 number	2,000	2,000	0
SKALIS Evolution Defensive AK I (A12BPH) [1]	Hybrid fund with defensive profile	80,000 number	8,000	8,000	0
TRISTONE UI AK I (A1XDWV) [1]	Hybrid fund	36,000 number	3,843	3,600	0

1 Investment fund within the meaning of the UCITS directive, in accordance with Sections 192 et seq. of the German Investment Code (Kapitalanlagegesetzbuch – KAGB); mutual funds

Interests in investment funds
As at 31 December 2014, the Baader Bank 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 InvGt: → **Table 32**

Units of the investment fund were assigned to the liquidity reserve in the amount of €19,131 thousand. Information about the fair value measurement is presented in the "Securities (excluding trading portfolio)" section.

Investment fund units can be redeemed on a daily basis

Cash flows
– Daily: the daily settlement price is determined by Eurex. The daily settlement price for equity index options (including weekly options) is calculated using the Black 76 model. Dividend expectations, current interest rates and other distributions are taken into account, where appropriate. – Cash settlement takes place on the first exchange trading day after the final settlement day
– Daily: reconciliation of movements – Cash settlement takes place on the first exchange trading day after the final settlement day
– Daily: reconciliation of movements – Cash settlement takes place on the first exchange trading day after the final settlement day
– Daily: reconciliation of movements – Cash settlement takes place on the first exchange trading day after the final settlement day
– Daily: reconciliation of movements – Cash settlement takes place on the first exchange trading day after the final settlement day
– Daily: reconciliation of movements – Cash settlement takes place on the first exchange trading day after the final settlement day

Cash flows
– Daily: settlement price (volume-weighted average of all transactions at 5:14 pm, if more than five transactions were made) – Fulfilment by delivery
– Daily: settlement price (volume-weighted average of all transactions at 5:14 pm, if more than five transactions were made) – Fulfilment by delivery

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Assets transferred as collateral
For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2014: → **Table 33**

Table 33 Assets transferred as collateral in € thousand

	Mortgages	Securities (liquidity reserve)	Bank deposits
Liabilities to banks	26.200	25.000	10.357

Deferred taxes
Deferred taxes arise from differences in the amounts calculated under commercial and tax law in relation to their approach to tax loss carry-forwards, taxable goodwill, cover assets, capitalised order books, pension provisions, provisions for anticipated losses, and with respect to the discounting of other provisions. The tax rate applied is 29.19%. In accordance with the option under Section 274 (1) of the HGB, the resulting asset surplus is not recognised on the balance sheet.

Baader Bank Group equity
Subscribed capital and capital reserve
The subscribed capital (share capital) of Baader Bank AG as at 31 December 2014 amounted to €45,909 thousand, comprising 45,908,682 bearer shares with no par value.

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 Executive Board was thereby authorised, with the consent of the Supervisory Board, to increase the Bank's share capital by up to a total of €22,954 thousand by 29 June 2016 via the issue of new bearer shares on one or more occasions in return for cash and/or non-cash consideration. In principle, the shareholders will be granted subscription rights for these shares. However, with the approval of the Supervisory Board, the Executive Board may:

a) exclude fractional amounts from the subscription right;
b) exclude the subscription rights of shareholders, in order to issue new shares for cash contributions at an issue price that is not significantly lower than the quoted market price of shares already listed at the time the issue price is finalised, as per 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;
c) exclude the subscription rights of shareholders, in order to issue shares for non-cash considerations to acquire companies, equity interests in companies, 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).

By a resolution of the General Meeting of Shareholders on 1 July 2014, the Executive Board's authorisation of 14 June 2004, which allowed the Bank's share capital to be increased via the issue of up to 600,000 new bearer shares with dividend entitlement from the 2004 Share Option Plan, with the approval of the Supervisory Board in accordance with Section 4 (2c) of the Articles of Association, was revoked.

The contingent capital is designed to grant rights to holders or creditors of convertible debt securities and/or warrants from partial debt securities that are issued by 29 June 2016, by Baader Bank AG or by a company in which Baader Bank AG holds a direct or indirect majority interest, on the basis of the resolution of the General Meeting of Shareholders of 30 June 2011.

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 that 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 satisfy these rights. 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 Executive Board is authorised to determine the further details of execution of the contingent capital increase. The Supervisory Board is authorised to amend Section 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. Repurchase of treasury shares
By a resolution of the General Meeting of Shareholders on 1 July 2014, the resolution of the General Meeting of Shareholders of 29 June 2010, authorising treasury shares to be repurchased up until 28 June 2015, was revoked.

By a resolution of the General Meeting of Shareholders of 1 July 2014, pursuant to Section 71 (1) No. 7 and 8 of the AktG, the Bank is authorised as follows:

a) Pursuant to Section 71 (1) No. 7 of the AktG, the Bank is authorised until 30 June 2019 to buy and sell treasury 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 the Bank.
b) Pursuant to Section 71 (1) No. 8 of the AktG, the Bank is authorised to acquire shares of the Bank, in particular so as to be able to

– offer them to third parties in the context of the acquisition of companies, parts of companies, equity interests or assets – including by means of share swaps – and in the event of business combinations,

– offer them for subscription to those entitled under the Baader Bank AG 2006 Share Option Plan in accordance with the authorisation of the General Meeting of Shareholders of 19 July 2006; or

– cancel them.

This authorisation is limited to the acquisition of treasury 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 remains valid until 30 June 2019.

Shares will be acquired on the stock markets. 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 (5) 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 Executive Board is authorised to offer treasury shares of Baader Bank AG that were acquired as a result of this authorisation to third parties in the course of the acquisition of companies, parts of companies, equity interests or assets – including by means of share swaps – and in the event of business combinations.

Subject to the agreement of the Supervisory Board, the Executive Board is authorised to offer the Bank's own shares, acquired on the basis of this authorisation, for purchase by holders of options under the 2006 Share Option Plan approved by the General Meeting of Shareholders.

Shareholders' rights to subscribe to these treasury shares are 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 Executive Board is also authorised to withdraw treasury 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, 276,996 treasury shares were held.

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

Retained profit
→ **Table 34**

Table 34 Retained profit in € thousand

	31.12.2014	31.12.2013
Consolidated net profit before minority interests	– 1,165	218
Net profit attributable to minority interests	– 355	– 400
Consolidated net profit	**– 1,520**	**– 182**
Retained earnings of the parent company brought forward	660	657
Withdrawal from retained earnings	6,178	2,699
Transfer to retained earnings	– 3,944	– 2,058
Consolidated retained profit	**1,374**	**1,116**

Treasury shares
During the reporting year no treasury shares were allocated to persons eligible for the Baader Bank Group's share option plans. The number of treasury shares held did not change during the reporting period, and represents 0.60% of share capital as at 31 December 2014. The share capital held as treasury shares amounts to €277 thousand.

Shareholders acquired no shares for the account of Baader Bank AG or for any dependent company or company in which the Bank holds a majority interest during the financial year. → **Table 35**

Table 35 Treasury shares

Treasury shares held 31.12.2013	Additions (Number)	Ø-price in €	Disposals (Number)	Ø-price in €	Treasury shares held 31.12.2014
276,996	0	0	0	0	276,996

The average price of treasury shares held at the reporting date was €2.40.

Contingent liabilities
Contingent liabilities result from guarantees and amounted to €3 thousand on the reporting date.

Other obligations
There are irrevocable open loan commitments to customers totalling €1,332 thousand.

This item includes open loan commitments to members of the Executive Board totalling €300 thousand, €3 thousand of which has been drawn.

VII. Transactions not included in the balance sheet

Information in accordance with Section 285 No. 3 of the HGB
During the course of its normal business activities, Baader Bank Group has entered into financial commitments in addition to the liabilities shown in the balance sheet as at 31 December 2014, as shown in the following table: → **Table 36**

Table 36 FINANCIAL COMMITMENTS IN € THOUSAND

	Due in months	Financial obligation
Future payments under rental contracts for office space, utility spaces and car parking spaces	1 to 73	7,331
Future payments under vehicle leases and lease contracts for operating and office equipment	2 to 48	3,186
Future payments under other service contracts	11 to 36	2,060

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 Bank Group's ability to fulfil its existing obligations in the foreseeable future.

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 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 amounting to €3,131 thousand (previous year: €1,923 thousand) mainly includes income relating to other periods (€547 thousand), income from non-cash benefits (company cars) (€417 thousand), income from the reversal of provisions (€930 thousand) and income from internet advertising (€159 thousand).

Income relating to other periods primarily consists of refunds of contributions from the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) amounting to €161 thousand and income from the derecognition of liabilities amounting to €259 thousand.

Other operating expenses
Other operating expenses amounting to €963 thousand (previous year: €1,219 thousand) mainly include expenses of €383 thousand relating to other periods, legal settlement expenses of €229 thousand and additions to provisions for legal risks amounting to €90 thousand.

The expenses relating to other periods relate primarily to costs for services purchased in the previous year (€350 thousand) and adjustments to net fee and commission income amounting to €33 thousand.

Taxes on income
The tax expense reported in 2014 of €1,263 thousand essentially comprises income taxes for the past financial year amounting to €1,575 thousand and tax refunds from previous years of €172 thousand.

€1,575 thousand of the taxes on income relates 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 2014 financial year, the average number of staff employed was 484 (previous year: 478). 34 of these employees held executive positions.

Total remuneration of the Executive Board and Supervisory Board
The members of the Executive Board received total remuneration of €1,455 thousand for their activities during the financial year.

The members of the Supervisory Board received total remuneration of €168 thousand for their activities during the financial year.

Audit fees
The following information relates to the total fees of PricewaterhouseCoopers AG WPG for services provided to Baader Bank AG and its fully consolidated German subsidiaries.

The fees for the 2014 financial year can be broken down as follows: → **Table 37**

Table 37 AUDIT FEES FOR THE BAADER BANK GROUP IN € THOUSAND

Baader Bank Group	31.12.2014
Annual audit services	370
Other certification services	46
Tax advisory services	98
Other services	101
Total fees	**615**

Executive bodies in the Baader Bank Group

Executive Board
Herr Uto Baader, Munich (Chairman)
Occupation: Economist
Responsibilities: Policy and Strategy, Operations/IT, Compliance, Capital Markets Analysis

Herr Nico Baader, Gräfelfing
Occupation: Banker
Responsibilities: Investment Banking, Market Making, Asset Management & Services, Corporate Communications, Treasury

Herr Dieter Brichmann, Penzberg
Occupation: Businessman
Responsibilities: Internal Audit, Accounting, Controlling, Risk Management, Reporting, Lending, Human Resources and Business Organisation

Supervisory Board
Herr Dr. Horst Schiessl, Munich (Chairman)
Partner at SSP Schiessl Rechtsanwälte - Partnergesellschaft

Herr Dr. Christoph Niemann, Meerbusch (Deputy Chairman)
Former general partner at HSBC Trinkhaus & Burkhard KGaA

Herr Karl-Ludwig Kamprath, Munich
Former Chairman of the Executive Board at Kreissparkasse München Starnberg Ebersberg

Herr Helmut Schreyer, Munich
Former general partner at Hauck & Aufhäuser Privatbankiers KGaA

Frau Theresia Weber, Emmering (employee representative)
Baader Bank AG bank employee in Clearing & Settlement

Herr Jan Vrbsky, Darmstadt (employee representative)
Deputy profit centre manager in equities lead brokerage on the Frankfurt, Berlin and Munich Stock Exchanges at Baader Bank AG

Table 38 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
	Clueda AG, Munich	Member 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	Baader & Heins Capital Management AG, Unterschleissheim (since 16 December 2014)	Member of the Supervisory Board
	Conservative Concept Portfolio Management AG, Bad Homburg	Member of the Supervisory Board
	Gulf Baader Capital Markets S.A.O.C., Muscat (Oman)	Member of the Managing Board
	Helvea Holding SA, Geneva (Switzerland) (until 11 June 2014)	Chairman of the Managing Board
	Helvea SA, Geneva (Switzerland)	Chairman of the Managing Board
	U.C.A. AG, Munich	Member of the Supervisory Board
Dieter Brichmann	Baader & Heins Capital Management AG, Unterschleissheim	Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Bad Homburg	Chairman of the Supervisory Board
	Skalis Asset Management AG, Unterschleissheim	Deputy Chairman of the Supervisory Board
Christine Schiedermaier	Baader & Heins Capital Management AG, Unterschleissheim (until 15 December 2014)	Member of the Supervisory Board
Christian Bacherl	Helvea Holding SA, Geneva (Switzerland) (until 11 June 2014)	Member of the Managing Board
	Helvea SA, Geneva (Switzerland)	Member of the Managing Board

Table 39 More than 5% of the shares in the following companies in € thousand

Name / Registered office	Equity interest in %	Most recent interim/ annual financial statements	Equity (total)	Net profit/ loss for the year
Parsoli Corporation Ltd., Mumbai (India)	21.93	No current data available as at 31 December 2014.		
U.C.A. AG, Munich	13.81	31 December 2013	8,824	–852
Trading Systems Portfolio Management AG, Bad Homburg	9.64	31 December 2013	1,227	8

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

As at 31 December 2014, the following persons were members of the statutory supervisory bodies of major German and foreign companies: → **Table 38**

X. List of Baader Bank Group shareholdings

The Baader Bank Group directly holds more than 5% of the shares in the following companies, which were not subsidiaries or associates as at 31 December 2014: → **Table 39**

Unterschleissheim, 18 March 2015

Baader Bank AG
The Executive Board

Uto Baader Nico Baader Dieter Brichmann

Auditor's Report

We have audited the consolidated financial statements prepared by the **Baader Bank Aktiengesellschaft, Unterschleissheim,** comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the parent Company'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 of the consolidated financial statements in accordance with § (Article) 317 HGB (Handelsgesetzbuch : German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW)(Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable 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 legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 18 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Sven Hauke	ppa. Axel Menge
Auditor	Auditor

Imprint

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