Baader

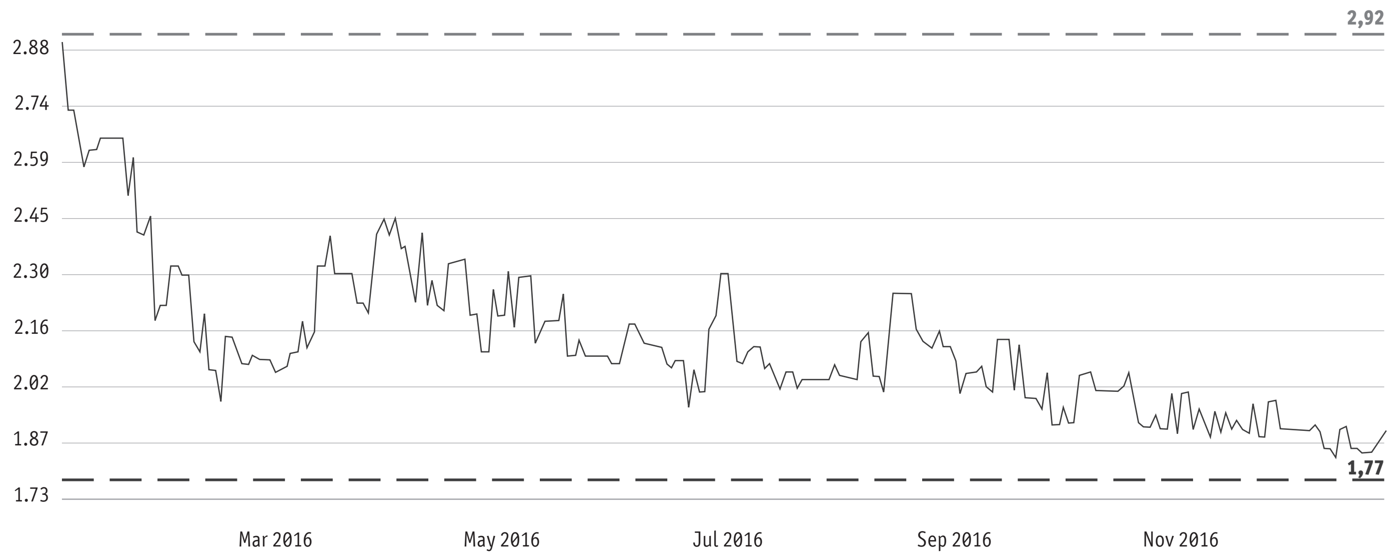
Annual Report of the Baader Bank Group 2016

Key figures

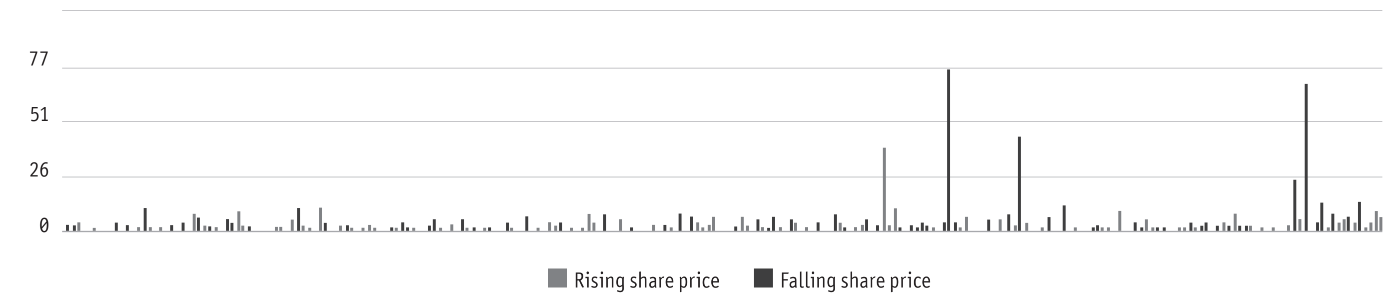
Baader Bank Group	2015	2016	Change to the previous year absolute	relative
	EUR '000	EUR '000	EUR '000	%
Income	**111,997**	**100,477**	**−11,520**	**−10**
of which is interest income and current income	2,495	3,227	732	29
of which is commission income	50,147	40,747	−9,400	−19
of which is the trading result	52,553	52,809	256	0
of which other income	6,802	3,694	−3,108	−46
Expenses	**119,590**	**102,610**	**−16,980**	**−14**
of which personnel expenses	54,209	50,289	−3,920	−7
of which administrative expense and other operating expenses	42,242	41,344	−898	−2
of which amortisation and depreciation	20,579	9,943	−10,636	−52
of which additions to the fund for general banking risks	0	584	584	100
of which is the result from shares in associates	2,560	450	−2,110	−82
Earnings before taxes (EBT)	**−7,593**	**−2,133**	**5,460**	**72**
Operating result*	**52**	**−1,778**	**−1,830**	**–**
Total assets	**576,330**	**578,536**	**2,206**	**0**

* gross profit less personnel and other administrative expenses, as well as depreciation on intangible and tangible assets (gross profit = net interest and current income, commission and trading result)

Price IN EUR



Volume IN THOUSANDS UNITS

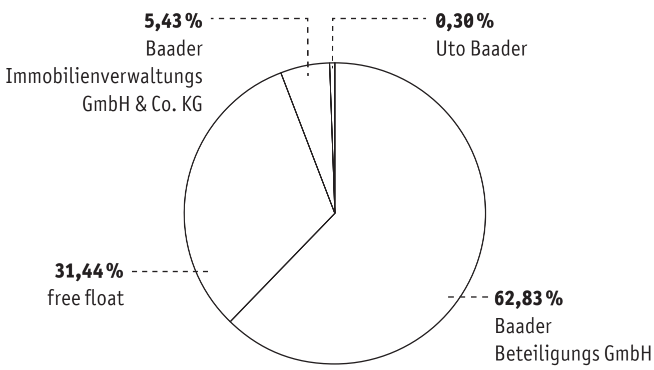


Facts and figures

Key data and other information

WKN	508810
ISIN	DE0005088108
Reuters	BLMG.MU
Bloomberg	BWB@GR
Ticker	BWB (German Federal Office of Defence Technology and Procurement)
Sector	Banks
Stock market listing	01/08/1994
Admission segment	Outside market
Home stock exchange	Munich / m:access
Other stock exchanges	Berlin
	Düsseldorf
	Frankfurt
	Hamburg
	Hannover
	Stuttgart
	Xetra

Shareholder structure of Baader Bank AG



Executive Board

Nico Baader (Chairman)
Dieter Brichmann (Deputy Chairman)
Christian Bacherl
Oliver Riedel

Supervisory Board

Dr Horst Schiessl (Chairman of the Supervisory Board)
Dr Christoph Niemann (Deputy Chairman of the Supervisory Board)
Karl-Ludwig Kamprath
Helmut Schreyer
Jan Vrbsky
Theresia Weber

Baader Bank AG is a joint-stock company under German law with its headquarters in Munich.

Baader Bank AG is registered at the Munich District Court under HRB 121537 and is supervised by the German Federal Financial Supervisory Authority (BaFin), Marie-Curie-Straße 24–28, 60439 Frankfurt am Main and Graurheindorfer Str. 108, 53117 Bonn.

The VAT registration number of Baader Bank AG is DE 114123893.

The LEI (legal entity identifier) is used for the unambiguous identification of all companies and funds with registered offices in Germany, which have a reporting obligation pursuant to future regulatory requirements: 529900JFOPPEDUR61H13.

The creditors' identification numbers (Creditor Identifiers, CI) make it possible to identify a debit receiver (creditor) unambiguously under a SEPA Direct Debit scheme: DE54ZZZ00000118113.

The GIIN (Global Intermediary Identification Number) is used for reporting to the Internal Revenue Service (USA) under the FATCA (Foreign Account Tax compliant Act) as well as for establishing Baader Bank AG as a FATCA-compliant institution: HPMLSE.00000.LE.276

Notes
We classify external data sources, which have been processed in our report, as trustworthy and reliable. Although they have been carefully researched, we accept no responsibility for the accuracy of this information.

Forward-looking statements made in this report are based on current expectations, assumptions and forecasts on the basis of information currently available. No guarantee can be accepted regarding future developments.

If registered brands or trademarks have been listed, they also belong to their respective owners, even if they have not been identified as such. Even if they are not labelled, they are not free names as defined by the law on brands and trademarks.

Contents

Combined Management Report

1 General information about the Baader Bank Group

1.1 Organisational and legal structure

Baader Bank AG (Baader Bank) is a leading investment bank in Germany and a market leader in trading with financial instruments. As at the balance sheet date, the Baader Bank Group comprised the parent company and six fully consolidated companies – of these, three are subsidiaries and three sub-subsidiaries. The Group's headquarters are in Unterschleissheim near Munich. Baader Bank has additional German branches in Frankfurt am Main, Stuttgart and Düsseldorf.

The subsidiary Baader & Heins Capital Management AG (Baader & Heins AG), in which Baader Bank has a 75% interest, has its headquarters in the same building as the Group's headquarters in Unterschleissheim, as does SKALIS Asset Management AG (SKALIS AG), which is wholly owned. Conservative Concept Portfolio Management AG (CCPM AG), in which Baader Bank holds 66.07% of the shares, relocated its headquarters from Bad Homburg v.d. Höhe to Frankfurt am Main in March 2016. Conservative Concept AG (CC AG), previously a wholly-owned subsidiary of CCPM AG, was no longer operational in 2016 and was liquidated on 31 October 2016. The wholly-owned Swiss subsidiary of Baader Bank was renamed Baader Helvea AG (formerly Helvea S.A.) in June 2016. At the same time, the names of its wholly-owned subsidiaries were changed from Helvea Ltd. to Baader Helvea Ltd. and Helvea Inc. to Baader Helvea Inc. After the branch in Geneva was closed on 31 March 2016, Baader Helvea AG continued its operations headquartered in Zurich. Jointly with Baader Helvea Ltd. with registered offices in London, Baader Helvea Inc. with registered offices in New York, the existing office in Montreal and the newly established office in Boston (since the beginning of 2016), it forms the Baader Helvea Group.

There were no changes under corporate law in 2016 for the interests in Gulf Baader Capital Markets S.A.O.C., Muscat/Oman, and in Ophirum ETP GmbH, Frankfurt am Main.

At the end of 2016, a total of 452 staff members were employed at the Baader Bank Group and 393 employees at Baader Bank AG. As in the previous year, the Group's business performance is primarily determined by the Baader Bank.

Baader Bank's shares are traded on the open market on the Munich stock exchange in the m:access market segment as well as on the open market on the Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Hanover and Stuttgart stock exchanges.

Baader Beteiligungs GmbH, Munich, holds a 62.83% interest in Baader Bank, Baader Immobilienverwaltungs GmbH & Co. KG holds 5.43%, 0.30% is owned by the company's founders and the former Chairman of the Executive Board, Uto Baader, the remaining 31.44% of the shares are in free float.

Baader Bank has a full banking licence, is a member of the German banking association, Bundesverband deutscher Banken e.V., and is part of its deposit insurance scheme.

The composition of Baader Bank's Executive Board and the division of responsibilities remained unchanged in the past financial year 2016. The Chairman of the Executive Board is Nico Baader. Other members of the Executive Board are Deputy Chairman Dieter Brichmann as well as Christian Bacherl and OIiver Riedel.

1.2 Business model of the Baader Bank Group

Baader Bank's core business consists of providing high-quality services in the areas of market making and investment banking. In addition, supporting segments serve the purpose of task fulfilment and services for various customer groups in the core business segments. In 2016, Baader Bank's supporting segments were the Deposits, Custody and Lending Business, Research and Asset Management & Services. The latter segment provides financial portfolio management services as defined by the regulator, and other services for institutional buyers in the white label business, which are not offered under the Baader Bank brand name.

In 2016, Baader Bank's supplementary segments included the Executive Board's Proprietary Trading, Treasury that is charged with the task of preserving and controlling the Bank's liquidity situation, and Financial Portfolio Management which performs active investment management for the Group's own strategies and products that are distributed via Group companies under their brand names.

On the whole, no significant changes were made to the business model during the financial year. As part of the strategy formulation process, the Executive Board further developed the naming and structuring of the business segments. This is explained in further detail in Section 1.3 as well as in the Outlook.

1.2.1 Market Making business segment

The core business segment of Market Making comprises the intermediary activities of Baader Bank both on behalf of regulated stock exchanges as well as part of their co-operations with partner banks for over-the-counter (OTC) securities trading.

Baader Bank handles more than 800,000 order books on German and foreign stock exchanges. The Bank is therefore a leading market maker in the German-speaking countries. Market making is an umbrella term for all the business activities that are known as order book broker, specialist, and specialist or quality liquidity provider, depending on the organisation and terminology of the respective stock exchange. In its market making activities, the Bank acts on behalf of regulated stock exchanges in Germany (Berlin Stock Exchange, Frankfurt Stock Exchange, Stuttgart Stock Exchange, Munich Stock Exchange and Gettex, and Frankfurt Certificates Stock Exchange), in Switzerland (Bern Stock Exchange), and Austria (Vienna Stock Exchange). Depending on the respective market model, Baader Bank quotes prices and executes orders for exchange-traded domestic and foreign shares, bonds, funds, participation certificates, Exchange Traded Products (ETPs), and securitised derivatives. This service is provided on the basis of uniform internal standards, stock exchange regulations, and regulatory requirements. Baader Bank's objective is to ensure fundamentally homogenous task execution at consistently high quality on all stock exchanges and in all classes of securities.

In addition, Baader Bank's activity in over-the-counter securities trading is also conducted within the Market Making segment. This business comprises the intermediary activities that Baader Bank conducts in cooperation with partner banks, mainly online banks or online brokers. In doing so, Baader Bank quotes tradable prices on OTC trading platforms and acts as a counterparty in bilateral trading relationships. Trading partners' end clients, mainly private investors, generate trading revenue in equities, bonds, funds and ETPs.

1.2.2 Investment Banking segment

Baader Bank's core business segment of Investment Banking comprises the services provided to both institutional investors and corporate customers. The Equities & Derivatives division is responsible for sales and trading for institutional investors; the Financing Group is responsible for corporate customers.

Within the core business segment of Investment Banking, the Equities & Derivatives division provides all services for clients in the secondary market focusing on shares from the German-speaking countries and handles the placement and sales of primary market transactions. Specifically, this involves brokerage, i.e. order execution in shares, bonds, ETPs and derivatives for clients on the national and international stock exchanges and trading platforms to which Baader Bank is directly connected or connected via partner institutions. In its sales activity, Baader Bank actively addresses end customers and sells research products and trading ideas. The goal is to generate client orders in financial instruments or cheque payment business and sell products from primary market transactions. Sales trading comprises the acceptance and execution of client orders, support and advice in portfolio trading and the provision of trading-related services such as CSA brokerage and clearing services. In the business with asset managers, Baader Bank offers account and custodian functionalities as well as professional trading options to its customers.

The services portfolio of the Financing Group comprises the provision of independent advice on financing deals and capital market transactions and the structuring and execution of equity or debt transactions via the capital markets. The independently offered services package of Corporate Brokerage, Baader Bank provides independent and continuous advice on financing deals and transactions, assistance in the capital markets, and support of listed companies through designated sponsoring. The technical trading services offered include support for capital measures, capital increases and decreases, the support of voluntary and obligatory offers related to the purchase of shares, support for squeeze-out procedures, and the withdrawal of invalid physical share certificates.

1.2.3 Business segments of the subsidiaries and equity investments

The Baader Bank Group's offering is rounded off by the range of products and services offered by its subsidiaries and equity investments. These mainly comprise the research and brokerage activities involving products of the German-speaking capital markets for German-speaking and English-speaking investors, the brokerage of promissory note loans, registered securities and money market investments, as well as the management of client funds in traditional hybrid funds, and absolute return strategies. These services are provided by the German and Swiss subsidiaries listed in Section 1.1. In addition, Ophirum ETP GmbH issues and markets bearer bonds backed by precious metals in the product form of ETPs.

1.3 Further development of the business segments

As part of the strategy formulation at the end of 2016, the overall bank strategy was further developed by redesigning the business segments. For this reason, only the areas that clearly represent market-related sources of income will, in future, be defined as business segments. Treasury is solely a corporate function and will no longer be reported on as a business segment in the future. The Bank's activities in the supplementary business segment of the Executive Board's Proprietary Trading has been de facto discontinued and will therefore no longer be reported on as a separate business segment.

On- & Off-Exchange Market Making, Multi Asset Brokerage and Capital Markets (the latter was previously included under the Investment Banking segment) form the core business segments in which Baader Bank is a market and/or technology leader. Within the supporting segments, the new strategy from 2017 provides for further developments in definition, structure and prioritisation. The Deposits, Custody and Lending business will, in the future, be called Banking Services. Asset Management Services will include the former supplementary segment of Financial Portfolio Management as these are similar services from a regulatory point of view. No changes are made to the supporting business segment Research in the context of this new alignment.

With this redesign and selective supplementation of existing business segments, Baader Bank lays the foundation for further developing its customer- and product-focused business strategy.

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2 Report on the economic position

2.1 Macroeconomic and sector-specific environment

2.1.1 Macroeconomic environment

Review of capital markets in 2016:
monetary policy as a critical relaxation factor for the financial markets

In 2016, the global economy suffered under the normalisation of the previously high growth rates in the emerging markets, in particular in China. The US was also unable to maintain the economic strength of previous years. Whilst the Eurozone's economy was restrained, thanks to the stable domestic economy, the German economy was robust overall on the export side despite frictional losses. The commodity-producing countries benefited from rising prices for oil and industrial metals.

The referendum in the United Kingdom on leaving the European Union and the vote in the Italian referendum against administrative reforms were the source of major political uncertainties. Negative spill-over effects on the financial markets were contained by central banks' generous measures. Specifically, the ECB raised the monthly bond purchase volume from EUR 60 billion to EUR 80 billion from the beginning of the year, and included investment-grade corporate bonds, and simultaneously lowered the central bank and deposit interest rates to 0.0% and –0.4%, respectively. The ECB emphasised its liberal monetary policy in the final quarter of 2016 by again extending its bond purchase program from March to December 2017, while, however, reducing the purchase volume to the original amount of EUR 60 billion.

Hopes for a noticeable recovery in the US domestic economy in the future and the expectation that this would benefit the global economy resulted in a fundamental strengthening of the international equity and commodity markets. The Fed's monetary policy of taking a break from the tight cycle of interest rate hikes had a supporting effect. The limited appreciation of the US dollar due to the interest rate stemmed the capital flight from the emerging markets to the US and eased a significant risk factor in 2016.

With respect to the planned production cutbacks by the producing countries, commodities, in particular Brent crude oil, compared favourably as an investment class – even translated to euros. Given the improved economic prospects for the US and the global economy, US equities and securities in emerging markets were the outperformers amongst the equity markets. Besides the weakening of the yen due to the continuing expansionary monetary policy of the Japanese central bank, the export-sensitive Japanese equity market benefited mainly from speculation about closer trade relations with the US. Shares from Germany and the Eurozone benefited from the monetary policy support provided by the ECB. The precious metals silver and gold benefited from the lack of a yield alternative in interest-bearing assets.

At the sector level, the German consumer sector proved to be solid due to consumers' more buoyant buying mood whilst export-sensitive sectors such as industrials benefited from the weakening of the euro towards the end of the year. The automobile sector in particular almost compensated for its weakness throughout the year. The banking sector also firmed up towards the end of the year due to positive spill-over effects from the bank bailout in Italy and the increasing settlement of mortgage charges in the US. However, utilities continued to suffer from the consequences of the energy turnaround.

2.1.2 Investment banking sector, market position, and changes in competitive position

As one of the three biggest order book-keeping market makers in the German-speaking securities trading sector, Baader Bank operates within a highly competitive and increasingly fragmented market environment. The market models of closed order books employed in the German physical exchanges are subject to growing competition from multi-market-maker models and other functional innovations. Amongst others, functions such as the quote request process have been introduced in floor trading.

Given the increasing technical and regulatory requirements, market makers on German stock exchanges are in a consolidation phase which could result in new competitor configurations with the continued existence of smaller, less well capitalised market players being put at risk. Due to its strong market position, Baader Bank is well positioned to face these challenges.

In the area of capital market services, the same competitive situation as in previous years will continue. Competition for capital market mandates that influence profits, driven by competition in prices and services, will characterise the market landscape. However, this should not result in any major changes to the number of competitors and competing firms. Baader Bank will be able to further cement its established market position with its efficient organisation and customer and product expertise.

Baader Bank's partial expansion of brokerage services in 2016 with the CSA Brokerage and the Buy Side-Trading Desk and Clearing Services allows it to offer competitive solutions without having to resort to expensive expansions to the existing infrastructure.

In the view of Baader Bank, there is major potential in intensifying business relationships with asset managers, family offices and fintechs in 2016. With its high level of affinity for IT and its comprehensive banking service offering, from account and custody business through to trade connections, order management and reporting, Baader Bank is not in competition with but supplements the range of services provided by asset managers, family offices and fintechs, a customer group with significant potential for market growth.

Investment management companies are tending to opt for outsourcing asset management functions and trading desk services due to the increasing regulatory requirements and the higher cost pressure. As one of a few full-service providers, Baader Bank can also benefit from this market development and sees a clear competitive advantage therein.

2.2 Business developments

2.2.1 Development of the main performance and profit drivers

The main performance and profit drivers of Baader Bank are net trading income and net commission income, which constitute the majority of the Bank's overall performance. These are determined by the exogenous developments on the relevant markets, and the prevailing moods and volatilities described below.

The first half of 2016 was, in particular, characterised by a dampened mood and restraint on international capital markets resulting in a low volume of securities trades including on the German stock exchanges in which Baader Bank is active. It was not until the second half of the year that the Brexit vote and the US presidential election campaign as well as the associated volatile market movements brought about selective, disproportionately high trading volumes in equities, funds and ETFs, while the phase before these decisions was characterised by low trading volumes. Trading in securitised derivatives was also lower in the second half of the year due to uncertainties among investors. Financial policy decisions, such as those of the ECB to expand the purchase of corporate bonds as well as the continuing low interest environment, hampered improvement in bond trading again in the second half of 2016.

2.2.1.1 Market Making business segment

In 2016, Baader Bank was mandated to act as a specialist for a total of four IPOs in the Prime Standard segment of the Frankfurt Stock Exchange. It was responsible for the order book-keeping of Innogy SE, Senvion SA, Shop Apotheke Europe and Uniper SE. Given the significant reduction in IPOs on the Frankfurt Stock Exchange in Germany during 2016 – there were only five IPOs in this period – the number of mandates given to Baader Bank (four) can be regarded as very satisfactory.

In OTC trading, Baader Bank considerably expanded its collaboration with partner banks in 2016. Almost all the major online and direct banks in the German-speaking countries used the quoting, trading and settlement systems of Baader Bank. Baader Bank has thus developed a market position amongst the leading three providers in this segment.

2.2.1.2 Investment Banking segment

In the capital markets business, Baader Bank has developed an excellent position on the market in the segments it has defined as relevant since the focusing introduced in 2010.

The exogenous influencing factors mentioned earlier (see Section 2.2.1), however, had an unfavourable effect on commission income in the area of capital market services throughout the entire reporting period of 2016. Nevertheless, Baader Bank assisted in a range of transactions and proved its qualitative strength in particular in technical trading services.

In the Equity Capital Markets division, Baader Bank assisted in the capital increase of Global Bioenergies SA as a joint book runner and acted as a sole book runner for the capital increase of MPC Münchmeyer Petersen Capital AG. It also acted in the role of sole book runner for a further capital increase and the placement of publity AG.

In the second half of 2016, Baader Bank was the sole book runner for the capital increase of Deutsche Beteiligungs AG. In the technical securities trading services assistance it provides, Baader Bank built on the success of previous years and successfully expanded its range of services by assisting in several public takeover bids.

In the 2016 Equity League Tables, Baader Bank was ranked sixth in Germany and Austria as measured by placed volumes of up to EUR 100,000 thousand. For transaction volumes of up to EUR 250,000 thousand, the Bank was among the top 15 firms as of the closing date.

Under the Baader Helvea brand, Baader Bank garnered top places in the core markets of Germany, Switzerland and Austria in the Extel Survey 2016 at the beginning of June. In a total of 13 out of 16 relevant categories, Baader Helvea was among the top three providers. In the "Execution German Equities" category, Baader Helvea was given first place for both large caps and small & mid-caps. The equity sales team achieved first place for German equities and third place for Swiss equities.

During 2016, Baader Bank set new focal points in the cooperation with asset managers, family offices and large institutional investors and expanded its service offering for their end customers in the area of Account and Custody business. In the second half of the year, Baader Bank also strengthened its competencies in the areas of CSA brokerage, trading desk and clearing services. These expansions could be realised solely due to the capacity utilisation of existing infrastructure, without major investments (see Section 1.3).

The assets managed in the supporting business segment Asset Management & Services amounted to EUR 5.35 billion as at the end of financial year 2016 and thus 118.2% above that of the previous year. The number of mandates increased by 9 to 56 from the start of 2016.

Baader Helvea's research offering is regularly mentioned in print media and the appearances on TV media bear witness to the high quality of the published studies and the professionalism of the analysts. The coverage of companies, with a focus on listed companies in the German-speaking regions, remained unchanged compared to the previous year. In addition, a fundamental approach by sector is pursued, which has a high degree of specialisation due to the targeted selection and qualitative analysis of business models.

In January 2016, Baader Helvea held the 12th Swiss Equities Conference in Switzerland. At this well-established conference, 54 Swiss companies made presentations to around 265 investors from 18 countries. At the annual Baader Investment Conference that took place in September 2016 in Munich, Baader Bank provided a knowledge platform via panels and forums on controversial regulatory issues and MiFID II as well as a specialised equity trading symposium. With 141 listed companies from Germany and Austria and around 650 institutional investors from 33 countries, the conference increased its number of participants for the fifth time in succession. Both the Baader Investment Conference as well as the event for the strategically important target group of asset managers and family offices held in June 2016 at the offices of Baader Bank in Unterschleissheim proved to be effective event marketing measures to intensify customer relations.

2.2.1.3 Developments at the subsidiaries

The portfolio management income of the financial services institution CCPM AG is mainly determined by the assets under management (AuM), the agreed management fees, and the earned performance fees. AuM decreased slightly in 2016 year-on-year, fulfilling management's forecast of a flat growth curve in the event of stagnating performance. The losses were mainly a result of the decrease in the investment volume in the mutual fund TriStone UI. The investment volume in the mutual fund Athena UI remained almost unchanged as at the end of the 2016 compared to the end of the previous year.

The mutual fund TriStone UI initially realised significant gains at the beginning of the reporting year, thus slightly increasing AuM. The sustained negative performance of the fund from March through November 2016, which was in particular triggered by and gained momentum due to the continuing sideways movement of the European equity indices, resulted in strong cash outflows. At the end of the year, the AuM of the TriStone UI fund were significantly below that of the previous year and no performance fee could be earned. The annual target of consolidating the fund assets in 2016 was thus not reached.

A new high was realised in mid-2016 by the Athena UI fund which, however, was just slightly above the previous mark, resulting in a correspondingly low performance fee. For the special funds managed according to the Athena strategy, the high water mark was not achieved or exceeded at the later settlement date with the result that no performance fee was earned here.

On the whole, we met the management fee income forecasts for the reporting year for the Athena and the TriStone fund. However, the performance fee was extremely limited.

Baader & Heins AG is a financial services institution that specialises in acting as an intermediary for mainly illiquid, interest-bearing financial products between issuers and institutional investors. Its customers include major institutional investors in the insurance industry, the public sector as well as the banking industry in Germany and abroad. The business model of this subsidiary is primarily determined by commission income that depends on the number of transactions concluded and the volume brokered. In the reporting period, the company suffered losses in the number of transactions concluded in the amount of approx. 5% and more than 13% in the brokered volume compared to the previous year. When compared to the planning, the transactions concluded and the business volume developed in line with expectations for the past financial year.

In contrast, net commission income and net profit for the year developed significantly better than expected. Commission income remained at the previous year's level with an increase of 2%. The decrease in commission income of 20% forecast for 2016 therefore did not occur. Operationally, taking into account the lower human resources and administrative expenses, Baader & Heins realised an increase of 61%. Only the special effect from a necessary write-down for the subsidiary SKALIS AG on the whole resulted in a significant increase in pre-tax profits.

The net asset and liquidity situation of the company set up in the previous years was maintained in the past financial year.

As a financial services institution, SKALIS AG offers its customers management of hybrid fund concepts for mutual and special funds with systematic risk mitigation as part of an investment approach developed in-house. Hybrid funds are products that include more than two investment classes, such as shares and bonds. The SKALIS Evolution Defensive mutual fund was set up with two tranches, a traditional retail tranche and a tranche for institutional investors. It performed negatively in 2016, significantly below investors' expectations.

The flagship product, SKALIS Evolution Flex, also closed 2016 with an unsatisfactory negative performance.

Due to the below-average performance and negative growth of AuM, there were significant outflows of the managed assets in 2016 resulting in lower commission income which was significantly below the planned figures for 2016.

At the same time, the cost savings in the administrative expense decided by the Executive Board were significantly reduced compared to the plan.

Due to the lower AuM, which resulted in a negative development in commission income, as well as the below-average performance of the managed funds, the results of operations of SKALIS AG deteriorated in 2016. The business performance of the company still in the process of establishing itself on the market is therefore regarded as unsatisfactory on the whole. This also applies given that the net loss expected in the original planning for financial year 2016 was exceeded.

The Swiss subsidiary Baader Helvea AG (formerly Helvea S.A.) has had business connections with institutional investors worldwide for more than 10 years, focusing on the United Kingdom, Switzerland and the US. With the acquisition of the Baader Helvea Group, Baader Bank became one of the largest local brokers in German, Austrian and Swiss shares.

The business performance of Baader Helvea was heavily influenced by restructuring measures in 2016. To strengthen the sales activities of the Baader Helvea Group in the North American market, Baader Helvea Inc. opened a new office in Boston at the beginning of 2016. The relocation of its headquarters to Zurich and the associated special effects resulted in the subsidiary not being able to continue its positive contribution to the consolidated net profit of Baader Bank in recent years. In the view of management, Baader Helvea is in a sector-specific start-up phase after the structural changes undertaken in 2016 and expects significantly higher income for 2017.

2.2.2 Comparison of actual business performance in 2016 with the forecasts published in the prior year

On the whole, the operating result of the Baader Bank Group were satisfactory in 2016 even if the expected forecasts in the sub-markets did not materialise and the planned results were only partially reached.

Where a moderately positive capital market for transactions was expected for net commission income, this did not occur to the extent anticipated. The receptiveness for new placement of volumes was too uncertain. The number of mandates and transactions were also consequently low. Cash equity in the German-speaking countries succeeded as expected and reached the planned figures for financial year 2016 due to gains in market share despite a decline in market volume. The Helvea Group had a negative effect here on the consolidated net income as the Swiss market developed negatively.

For net trading income, the planned significant increase was not quite reached. Compared to 2016, it remained at the same level which, given the sharp decrease in trading volumes on German stock exchanges, can be seen as very satisfactory. The positive performance of the index positions was not associated with corresponding increases in securities volumes.

In support, the positive performance of earnings contributions from the supplementary segments of Banking Services and Asset Management Services must be mentioned. However, they still make up a small portion of the overall result due to their independence from securities trading but are strategically important.

Due to the cost sensitivity and flexibility of the Baader Bank Group, expenses were significantly below forecasts. The increase in gross profit planned for 2016 as well as the re-attainment of the profit threshold at the Group level could not be realised due to the developments mentioned in the individual sub-markets.

However, Baader Bank AG recognises slightly positive earnings before taxes in the separate financial statements.

2.3 Economic position of the Baader Bank Group

2.3.1 Net assets, financial position and results of operations

The net assets, financial position and results of operations of Baader Bank AG as the parent company of the Baader Bank Group essentially determine the overall financial performance of the Group in the past financial year. The statements made for the Baader Bank Group in principle also apply to Baader Bank AG. Accordingly, the management report of Baader Bank AG and that of the Baader Bank Group were combined pursuant to Section 315 (3) HGB. Where there might be significant differences between the annual financial statements of Baader Bank AG and the consolidated financial statements and supplementing quantitative disclosures must be made, these are explained and presented in the subsequent passages of the report.

The annual financial statements and consolidated financial statements of Baader Bank AG were 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) as well as in compliance with the supplementary regulations of the German Stock Corporation Act (Aktiengesetz: AktG) and audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich. The annual financial statements for financial year 2016 were published in the electronic Federal Gazette.

2.3.2 Results of operations

The results of operations of the Baader Bank Group for the financial year were strongly influenced by the continuing demanding business environment.
The performance and earnings drivers in the operational segments are regarded as satisfactory. The results of operations of the Baader Bank Group as well as Baader Bank AG in financial year 2016 compared to the previous years 2014 and 2015 were as follows: → **Tables 1 and 2**

TABLE 1 INDICATORS FOR THE RESULTS OF OPERATIONS OF THE BAADER BANK GROUP

		2014	2015	2016	Change to the previous year absolute	relative
		EUR'000/%	EUR'000/%	EUR'000/%	EUR'000	in %
Income		**116,512**	**111,997**	**100,477**	**−11,520**	**−10%**
of which net interest income[1] and current income		3,227	2,495	3,227	732	29 %
including net interest income		1,318	579	2,087	1,508	> 100%
including current income		1,909	1,916	1,140	−776	−41%
	Share of income	*3%*	*2%*	*3%*		
of which net commission income[1]		52,402	50,147	40,747	−9,400	−19%
	Share of income	*45%*	*45%*	*41%*		
of which net trading income[1, 2]		43,761	52,553	52,809	256	0%
	Share of income	*38%*	*47%*	*53%*		
of which other income		17,122	6,802	3,694	−3,108	−46%
including other operating income		3,131	5,088	2,328	−2,760	−54%
including income from write-ups[3] and income from the reversal of provisions in the lending business		12,071	0	1,366	1,366	100%
including income from the liquidation of the fund for general banking risks		1,920	1,714	0	−1,714	−100%
	Share of income	*15%*	*6%*	*4%*		
Expenses		**116,277**	**119,590**	**102,610**	**−16,980**	**−14%**
of which personnel expenses		61,037	54,209	50,289	−3,920	−7%
	Share of expenses	*52%*	*45%*	*49%*		
of which administrative expense and other operating expenses		42,044	42,242	41,344	−898	−2%
including other administrative expenses		41,081	39,943	38,329	−1,614	−4%
including other operating expenses		963	2,299	3,015	716	31%
	Share of expenses	*36%*	*35%*	*40%*		
of which amortisation and depreciation		9,920	20,579	9,943	−10,636	−52%
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment		9,920	10,991	9,943	−1,048	−10%
including other depreciation, amortisation and write-downs[4] and as well as additions to provisions in the lending business		0	9,588	0	−9,588	−100%
	Share of expenses	*9%*	*17%*	*10%*		
of which additions to the fund for general banking risks		0	0	584	584	100%
	Share of expenses	*0%*	*0%*	*1%*		
of which net income from interests in associates		3,276	2,560	450	−2,110	−82%
	Share of expenses	*3%*	*2%*	*0%*		
Earnings before taxes (EBT)		**235**	**−7,593**	**−2,133**	**5,460**	**72%**
Taxes		1,400	803	1,486	683	85%
	Tax ratio	*> 100 %*	*−11%*	*−70%*		
Consolidated net profit before minority interests		**−1,165**	**−8,396**	**−3,619**	**4,777**	**57%**
Minority interest in net income		**−355**	**19**	**137**	**118**	**>100%**
Consolidated net profit for the year		**−1,520**	**−8,377**	**−3,482**	**4,895**	**58%**
Net profit / loss of the parent company brought forward		**660**	**918**	**−6,546**	**−7,464**	**–**
Transfers to / withdrawals from retained earnings		**2,234**	**913**	**3,386**	**2,473**	**>100%**
Consolidated net retained profit / loss		**1,374**	**−6,546**	**−6,642**	**−96**	**−1%**
Key figures						
Gross profit (revenues)[5]		99,390	105,195	96,783	−8,412	−8%
Operating result[6]		−12,648	52	−1,778	−1,830	–
Expense-income ratio		100%	107%	102%		
Personnel expenses ratio[7]		61%	52%	52%		
Administrative expenses ratio[8]		41%	38%	40%		
Return on equity before taxes[9]		0%	−8%	−2%		

1 Related income and expenses are shown as net
2 Net income from the trading portfolio
3 Write-ups of receivables and certain securities as well as equity investments and securities held as assets
4 Depreciation, amortisation and write-downs on receivables and certain securities as well as equity investments, and securities held as assets
5 Equivalent to the gross profit arising from the net interest income and current income, net commission income and net trading income items
6 Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment
7 Personnel expense as a % of revenue or gross profit
8 Administrative expense as a % of revenue or gross profit
9 EBT as a % of equity

Table 2 Indicators for the results of operations of Baader Bank AG

	2014	2015	2016	Change to the previous year absolute	relative
	EUR'000/%	EUR'000/%	EUR'000/%	EUR'000	in %
Income	**96,617**	**92,253**	**85,152**	**−7,101**	**−8%**
thereof net interest income [1] and current income	4,725	4,168	4,201	33	1%
including net interest income	1,345	635	2,150	1,515	> 100%
including current income	3,380	3,533	2,051	−1,482	−42%
Share of income	*5%*	*5%*	*5%*		
of which net commission income [1]	28,334	25,064	21,287	−3,777	−15%
Share of income	*29%*	*27%*	*25%*		
of which net trading income [1, 2]	43,802	52,553	52,809	256	0%
Share of income	*45%*	*57%*	*62%*		
of which other income	19,756	10,468	6,855	−3,613	−35%
including other operating income	6,382	8,827	5,489	−3,338	−38%
including income from write-ups [3] and income from the reversal of provisions in the lending business	11,574	0	1,366	1,366	100%
including income from the liquidation of the fund for general banking risks	1,800	1,641	0	−1,641	−100%
Share of income	*20%*	*11%*	*8%*		
Expenses	**95,665**	**99,763**	**85,148**	**−14,615**	**−15%**
of which personnel expenses	46,910	40,110	37,721	−2,389	−6%
Share of expenses	*49%*	*40%*	*44%*		
of which administrative expense and other operating expenses	36,925	37,533	38,049	516	1%
including other administrative expenses	35,576	35,640	35,055	−585	−2%
including other operating expenses	1,349	1,893	2,994	1,101	58%
Share of expenses	*39%*	*38%*	*45%*		
of which amortisation and depreciation	11,830	22,120	8,752	−13,368	−60%
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	8,819	9,757	8,752	−1,005	−10%
including other depreciation, amortisation and write-downs [4] and as well as additions to provisions in the lending business	3,011	12,363	0	−12,363	−100%
Share of expenses	*12%*	*22%*	*10%*		
of which other expenses	0	0	626	626	100%
including expenses from the addition to the fund for general banking risks	*0*	*0*	*626*	*626*	*100%*
Share of expenses	*0%*	*0%*	*1%*		
Earnings before taxes (EBT)	**952**	**−7,510**	**4**	**7,514**	**–**
Taxes	238	*−46*	100	146	–
Tax ratio	*25%*	*−1%*	*>100%*		
Net profit (NP) / loss for the year	**714**	**−7,464**	**−96**	**7,368**	**99%**
Retained earnings from the previous year	660	918	−6,546	−7,464	–
Net profit / loss	**1,374**	**−6,546**	**−6,642**	**−96**	**−1%**
Key figures					
Gross profit (revenues) [5]	76,861	81,785	78,297	−3,488	−4%
Operating result [6]	−14,444	−3,722	−3,231	491	13%
Expense-income ratio	99%	108%	100%		
Personnel expenses ratio [7]	61%	49%	48%		
Administrative expenses ratio [8]	46%	44%	45%		
Return on equity before taxes [9]	1%	−7%	0%		

1 Related income and expenses are shown as net
2 Net income from the trading portfolio
3 Write-ups of receivables and certain securities as well as equity investments and securities held as assets
4 Depreciation, amortisation and write-downs on receivables and certain securities as well as equity investments, and securities held as assets
5 Equivalent to the gross profit arising from the net interest income and current income, net commission income and net trading income items
6 Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment
7 Personnel expense as a % of revenue or gross profit
8 Administrative expense as a % of revenue or gross profit
9 EBT as a % of equity

Whilst current income decreased by EUR 776 thousand to EUR 1,140 thousand year-on-year due to low dividend income (Baader Bank AG: by EUR 1,482 thousand to EUR 2,051 thousand), net interest income increased significantly from EUR 579 thousand to EUR 2,087 thousand (Baader Bank AG: from EUR 635 thousand to EUR 2,150 thousand). Net interest income was primarily characterised by interest income from fixed-interest securities (EUR 8,605 thousand) as well as from lending and money market transactions (EUR 437 thousand), which were offset by corresponding interest expenses from the issue of own promissory note loans (Baader Bank AG: EUR 5,963 thousand) and the refinancing of the Group's head office in Unterschleissheim (Baader Bank AG: EUR 880 thousand). The increase of EUR 1,508 thousand (Baader Bank AG: of EUR 1,515 thousand) in net interest income is primarily due to lower interest expenses resulting from the maturity of promissory note loans with high interest rates. With a share in total earnings amounting to 3% (Baader Bank AG: 5%), net interest income and current income – unchanged to the previous year – is of minor importance for the Group's results of operations.

At EUR 40,747 thousand (Baader Bank AG: EUR 21,287 thousand), net commission income made a significant contribution, as in the previous year, and represents 41% of the Group's earnings (Baader Bank AG: 25% of earnings). The factors described below made a significant impact in reducing the net commission income in the Group by 19% or EUR 9,400 thousand (Baader Bank AG: by 15% or EUR 3,777 thousand). Besides EUR 3,703 thousand lower brokerage fees and a result from transactions of EUR 10,643 thousand, reduced placement volumes, restraint by institutional investors and structuring-related special effects such as the concentration of Swiss activities to Zurich and the resulting closure of the Geneva branch, resulted in the previous years' result not being achieved. Although declines in earnings were partially compensated for by an expanded range of products on the issuer side, the net commission income from capital market services decreased by EUR 2,867 thousand to EUR 4,079 thousand (Baader Bank AG: by EUR 2,353 thousand to EUR 3,608 thousand). The restrained market level combined with the special effects described also resulted in a significant reduction in earnings in the Group's cash equity business, which decreased by a total of EUR 3,693 thousand to EUR 25,398 thousand. In contrast, as a result of gaining further market shares and increasing the number of international investors, Baader Bank AG realised an increase of EUR 1,525 thousand to EUR 18,628 thousand in the cash equity business.

Net commission income had a positive impact on net earnings from the brokering of promissory note loans with a slight increase of EUR 409 thousand (Baader Bank AG: decrease of EUR 14 thousand), a net earnings from management and performance fees increase by EUR 182 thousand (Baader Bank AG: by EUR 39 thousand) and a EUR 558 thousand year-on-year decrease in settlement and stock exchange fees (Baader Bank AG: by EUR 485 thousand). Other net commission income decreased by EUR 75 thousand (Baader Bank AG: increase of EUR 246 thousand).

In contrast to net commission income, net trading income moved solidly sideways. The earnings contribution of EUR 52,809 thousand is at the level of the previous year, on the whole, and results entirely from Baader Bank AG as an institution authorised to maintain a trading book. The core business segment of Market Making contributed significantly to this development, which is assessed as positive by the Executive Board. The past financial year was characterised by the trading volume stabilising at extremely low levels. A positive aspect that must be mentioned is, in addition, the gaining of additional order flow providers in over-the-counter trade as well as Baader Bank AG's activity as an exclusive market-maker on the Gettex exchange since 2015.

Other income decreased by EUR 3,108 thousand to EUR 3,694 thousand (Baader Bank AG: by EUR 3,613 to EUR 6,855 thousand). These are largely based on the year-on-year lower current operating income and, due to the addition to the fund for general banking risks, lack of income from a possible dissolution. In contrast, the valuation gains in the non-trading book were highly positive, contributing EUR 6,100 thousand to income from the write-up of receivables and certain securities resulting in a positive net total contribution in the amount of EUR 1,366 thousand.

Expenses decreased significantly by 14% or EUR 16,980 thousand to a total of EUR 102,610 thousand (Baader Bank AG: by 15% or EUR 14,615 thousand to EUR 85,148 thousand). The personnel, administrative and other operating expenses decreased significantly compared to the previous year and, on the whole, are below budget. The sharpest decrease was personnel expenses with a decrease of EUR 3,920 thousand to EUR 50,289 thousand (Baader Bank AG: by EUR 2,389 to EUR 37,721 thousand). The reason for this was, in particular, profit-related and thus lower variable remuneration components as well as lower additions to pension provisions.

Once the impact of the cost reduction measures introduced at the beginning of 2015 was fully felt in the past financial year, other administrative expenses likewise dropped by a further EUR 1,614 thousand to EUR 38,329 thousand (Baader Bank AG: by EUR 585 thousand to EUR 35,055 thousand). There was also a positive trend in write-downs. While net profit in the previous year was still significantly characterised by high valuation losses in the non-trading book and write-downs for the interests in associates held by the Baader Bank Group, only scheduled amortisation and depreciation on intangible assets and property, plant and equipment was recognised in financial year 2016 at a total of EUR 9,943 thousand (Baader Bank AG: EUR 8,752 thousand).

In compliance with Section 340e (4) HGB, an amount of EUR 584 thousand (Baader Bank AG: EUR 626 thousand) was added to the fund for general banking risks in financial year 2016. As at the balance sheet date, an amount of EUR 22,120 thousand (Baader Bank AG: EUR 22,135 thousand) was allocated to the special item.

Despite negative or break-even earnings before taxes, a tax expense from current taxes is recognised in the consolidated financial statements as well as in the separate financial statements. For the separate financial statements of Baader Bank AG, this is due to operating expenses and write down that could not be deducted for tax purposes. The tax expense in the consolidated financial statements is mainly a result of the positive contributions to earnings made by subsidiaries that could not be netted against negative results for tax purposes. In addition, the Group exercised the option of not accounting for asset surpluses from deferred taxes.

As a result of the factors described, Group earnings after taxes increased to EUR – 3,482 thousand (previous year: EUR – 8,377 thousand) due to a EUR 4,895 thousand lower loss. For Baader Bank AG, net profit for the year amounting to EUR – 96 thousand improved significantly by EUR 7,368 thousand year-on-year. In contrast, gross profit decreased by 8% or EUR 8,412 thousand (Baader Bank AG: 4% or EUR 3,488 thousand). Without taking into account the previous year's special effects, the operating result also decreased correspondingly by EUR 1,830 thousand.

2.3.3 Financial position and net assets

As at the balance sheet date, total assets amounted to EUR 578,536 thousand, and with a slight increase of EUR 2,206 thousand is, on the whole, at the previous year's level (Baader Bank AG: increase of EUR 3,519 thousand to EUR 582,139 thousand). Irrespective thereof, changes were made to the balance sheet structure of the Baader Bank Group, on both the assets and liabilities side. The changes under assets are primarily the result of a closing date-related decrease in loans and advances to the banks due on demand of EUR 23,876 thousand (Baader Bank AG: decrease of EUR 23,829 thousand) and a decrease in debt securities of EUR 20,101 thousand, which were offset by a significant increase of EUR 59,718 thousand in the credit balances with Deutsche Bundesbank. On the liabilities side, the changes were primarily due to payables to banks and customers with an increase of EUR 22,667 thousand (Baader Bank AG: increase of EUR 19,188 thousand), overdrafts and loans with an agreed term due to the conclusion of a money market transaction, with an increase of EUR 13,641 thousand and a decrease of EUR 31,514 thousand in payables to customers resulting from the repayment of individual deposits from the issue of own promissory note loans with an agreed term. The balance sheet equity ratio remains unchanged at 17% both for the Group and Baader Bank AG.

The net assets and balance sheet movements of the Baader Bank Group and Baader Bank AG as at the balance sheet date are detailed as follows: → Tables 3 and 4

Table 3 Indicators for the financial position and net assets of the Baader Bank Group

	2014	2015	2016	Change to the previous year absolute	Change to the previous year relative
	EUR'000/%	EUR'000/%	EUR'000/%	EUR'000	%
Current assets	**569,295**	**492,627**	**503,312**	**10,685**	**2%**
Share of current assets in net assets	*86%*	*85%*	*87%*		
of which cash reserves	7,683	14,593	74,311	59,718	> 100%
of which loans and advances to banks	199,321	117,067	95,166	−21,901	−19%
including due on demand	76,291	98,204	74,328	−23,876	−24%
including other loans and advances	123,030	18,863	20,838	1,975	10%
of which loans and advances to customers	37,148	30,253	34,988	4,735	16%
of which debt securities and other fixed-income securities	205,483	225,003	204,902	−20,101	−9%
of which equities and other variable-income securities	29,507	27,124	23,534	−3,590	−13%
of which trading portfolio	75,989	59,995	54,301	−5,694	−9%
of which other assets and prepaid expenses and deferred charges	14,164	18,592	16,110	−2,482	−13%
Non-current assets	**93,998**	**83,703**	**75,224**	**−8,479**	**−10%**
Share of non-current assets in net assets	*14%*	*15%*	*13%*		
of which equity investments and interests in associates	10,048	5,968	5,518	−450	−8%
of which intangible assets	30,891	27,006	21,002	−6,004	−22%
of which property, plant and equipment	46,608	43,980	41,908	−2,072	−5%
of which excess of plan assets over pension liabilities	6,451	6,749	6,796	47	1%
including pension obligations	−5,659	−7,158	−10,132	2,974	42%
including fair value of plan assets [1]	12,110	13,907	16,928	3,021	22%
Total assets	**663,293**	**576,330**	**578,536**	**2,206**	**0%**
External financing	**511,332**	**444,183**	**448,707**	**4,524**	**1%**
External financing as a % of total assets	*77%*	*77%*	*78%*		
of which bank loans and advances	87,568	53,223	61,174	7,951	15%
including due on demand	20,443	21,214	15,524	−5,690	−27%
including with agreed term or notice period	67,125	32,009	45,650	13,641	43%
of which payables to customers	416,755	386,031	382,874	−3,157	−1%
including due on demand	139,410	154,536	182,893	28,357	18%
including with agreed term or notice period	277,345	231,495	199,981	−31,514	−14%
of which other liabilities	7,009	4,929	4,659	−270	−5%
Other refinancing funds	**43,213**	**31,992**	**33,814**	**1,822**	**6%**
Other refinancing ratio	*7%*	*6%*	*6%*		
of which trading portfolio	8,684	1,686	2,116	430	26%
of which provisions	11,272	8,770	9,578	808	9%
of which fund for general banking risks	23,250	21,536	22,120	584	3%
of which deferred income	7	0	0	0	0%
Balance sheet equity	**108,748**	**100,155**	**96,015**	**−4,140**	**−4%**
Balance sheet equity ratio	*16%*	*17%*	*17%*		
of which subscribed capital	45,632	45,632	45,632	0	0%
of which capital reserve	31,431	31,431	31,431	0	0%
of which retained earnings	28,315	28,230	24,565	−3,665	−13%
of which minority interests	1,996	1,408	1,029	−379	−27%
of which balance sheet profit/loss	1,374	−6,546	−6,642	−96	−1%
Off-balance-sheet commitments	**1,335**	**10,102**	**25,452**	**15,350**	**> 100%**
of which contingent liabilities from guarantees and indemnity agreements	3	5	13,255	13,250	> 100%
of which obligations from loan commitments	1,332	10,097	12,197	2,100	21%
Key figures					
Liquid funds [2]	83,974	112,797	148,639	35,842	32%
Balance sheet liquidity surplus [3]	240,319	257,202	247,037	−10,165	−4%
Modified equity ratio [4]	20%	21%	20%		

1 The plan assets comprise the fair values of the following balance sheet items: Loans and advances to banks, shares and other variable-income securities, reinsurance from insurance policies
2 By definition, liquid funds comprise the balance sheet items cash reserves and loans and advances to banks due on demand
3 The balance sheet liquidity surplus is equivalent to the total of short-term receivables, available-for-sale securities and current liabilities
4 Balance sheet equity ratio including the fund for general banking risks

TABLE 4 INDICATORS FOR THE FINANCIAL POSITION AND NET ASSETS OF BAADER BANK AG

	2014	2015	2016	Change to the previous year absolut	relativ
	EUR'000/%	EUR'000/%	EUR'000/%	EUR'000/%	%
Current assets	**553,563**	**479,184**	**489,612**	**10,428**	**2%**
Share of current assets in net assets	*84%*	*83%*	*84%*		
of which cash reserves	7,682	14,592	74,310	59,718	>100%
of which loans and advances to banks	184,833	103,748	81,913	−21,835	−21%
including due on demand	64,557	87,473	63,644	−23,829	−27%
including other loans and advances	120,276	16,275	18,269	1,994	12%
of which loans and advances to customers	38,130	32,392	37,231	4,839	15%
of which debt securities and other fixed-income securities	205,483	225,003	204,902	−20,101	−9%
of which equities and other variable-income securities	28,193	25,502	21,950	−3,552	−14%
of which trading portfolio	75,989	59,995	54,301	−5,694	−9%
of which other assets and prepaid expenses and deferred charges	13,253	17,952	15,005	−2,947	−16%
Non-current assets	**108,490**	**99,436**	**92,527**	**−6,909**	**−7%**
Share of non-current assets in net assets	*16%*	*17%*	*16%*		
of which equity investments and interests in associates	30,148	26,745	26,876	131	0%
of which intangible assets	26,066	22,436	17,257	−5,179	−23%
of which property, plant and equipment	45,825	43,506	41,598	−1,908	−4%
of which excess of plan assets over pension liabilities	6,451	6,749	6,796	47	1%
including pension obligations	−5,659	−7,158	−10,132	2,974	42%
including fair value of plan assets [1]	12,110	13,907	16,928	3,021	22%
Total assets	**662,053**	**578,620**	**582,139**	**3,519**	**1%**
External financing	**513,835**	**449,625**	**450,758**	**1,133**	**0%**
External financing as a % of total assets	*78%*	*78%*	*77%*		
of which bank loans and advances	86,634	53,222	61,174	7,952	15%
including due on demand	20,197	21,213	15,524	−5,689	−27%
including with agreed term or notice period	66,437	32,009	45,650	13,641	43%
of which payables to customers	421,113	392,221	385,585	−6,636	−2%
including due on demand	141,768	160,726	185,603	24,877	15%
including with agreed term or notice period	279,345	231,495	199,982	−31,513	−14%
of which other liabilities	6,088	4,182	3,999	−183	−4%
Other refinancing funds	**39,686**	**28,383**	**30,865**	**2,482**	**9%**
Other refinancing ratio	*6%*	*5%*	*5%*		
of which trading portfolio	8,684	1,686	2,116	430	26%
of which provisions	7,852	5,188	6,614	1,426	27%
of which fund for general banking risks	23,150	21,509	22,135	626	3%
Balance sheet equity	**108,532**	**100,612**	**100,516**	**−96**	**0%**
Balance sheet equity ratio	*16%*	*17%*	*17%*		
of which subscribed capital	45,632	45,632	45,632	0	0%
of which capital reserve	31,431	31,431	31,431	0	0%
of which minority interests	30,095	30,095	30,095	0	0%
of which balance sheet profit/loss	1,374	−6,546	−6,642	−96	−1%
Off-balance-sheet commitments	**1,335**	**10,102**	**25,452**	**15,350**	**>100%**
of which contingent liabilities from guarantees and indemnity agreements	3	5	13,255	13,250	>100%
of which obligations from loan commitments	1,332	10,097	12,197	2,100	21%
Key figures					
Liquid funds [2]	72,239	102,065	137,954	35,889	35%
Balance sheet liquidity surplus [3]	227,814	241,626	235,038	−6,588	−3%
Modified equity ratio [4]	20%	21%	21%		

1 The plan assets comprise the fair values of the following balance sheet items: Loans and advances to banks, shares and other variable-income securities, reinsurance from insurance policies
2 By definition, liquid funds comprise the balance sheet items cash reserves and loans and advances to banks due on demand
3 The balance sheet liquidity surplus is equivalent to the total of short-term receivables, available-for-sale securities and current liabilities
4 Balance sheet equity ratio including the fund for general banking risks

2.3.3.1 Current assets

The carrying amounts of loans and advances to banks decreased by EUR 21,901 thousand to EUR 95,166 thousand (Baader Bank AG: by EUR 21,835 thousand to EUR 81,913 thousand) with a simultaneous increase in the credit balances with central banks of EUR 59,718 thousand to EUR 74,311 thousand. The decrease in debt securities and other fixed-interest securities are primarily a result of the disposal of bonds of other issuers. During the reporting year, the newly acquired shares and other variable-interest securities were allocated exclusively to the liquidity reserve. Total debt securities of EUR 204,902 thousand mainly comprised corporate bonds (as in previous years) of EUR 151,710 thousand. The trading portfolio decreased slightly by EUR 5,694 thousand or 9% to EUR 54,301 thousand on account of the closing date.

As at 31 December 2016, 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 5**

Table 5 Securities portfolio of the GIIPS countries as at 31 December 2016 in EUR '000

	Other issuers	Public issuers
Greece	15	36
Italy	0	0
Ireland	4,169	4,111
Portugal	0	0
Spain	5	1
GIIPS countries at 31/12/2016	**4,189**	**4,148**

Other assets and prepaid expenses and deferred charges decreased by EUR 2,482 thousand to EUR 16,110 thousand (Baader Bank AG: by EUR 2,947 to EUR 15,005 thousand). This is mainly due to the decrease in other assets in the amount of EUR 2,391 thousand (Baader Bank AG: EUR 2,401 thousand) due to lower tax receivables and pro rata repayment of corporate tax credits.

The excess of plan assets over pension liabilities increased slightly by EUR 47 thousand to a total of EUR 6,796 thousand year-on-year. The reason for this was essentially the plan assets measured at fair value that increased to EUR 16,928 thousand. The plan assets comprised EUR 1,742 thousand in loans and advances to banks as well as EUR 15,186 thousand in shares and other variable-interest securities.

2.3.3.2 Equity investments and interests in associates / affiliates

The carrying value of equity investments and interests in associates fell by EUR 450 thousand during the financial year to EUR 5,518 thousand. The change is entirely attributable to the continued recognition, i.e. re-measurement of the carrying amounts by pro rata gains and losses of the associates. At Baader Bank AG, the equity investments and interests in affiliated companies increased slightly from EUR 26,745 thousand by EUR 131 thousand to EUR 26,876 thousand due to the capitalisation of subsequent acquisition costs.

2.3.3.3 Intangible assets and property, plant and equipment

The decrease in intangible assets and property, plant and equipment by a total of EUR 8,076 thousand to EUR 62,910 thousand (Baader Bank AG: by EUR 7,087 thousand to EUR 58,855 thousand) is mainly based on the scheduled write-downs in financial year 2016 amounting to EUR 9,943 thousand (Baader Bank AG: EUR 8,752 thousand), which is offset by investments incl. reclassifications from advance payments in the amount of EUR 2,276 thousand (Baader Bank AG: EUR 2,072 thousand).

Investments in intangible assets comprised IT software (EUR 1,219 thousand) and goodwill (EUR 131 thousand). Additions relating to IT software were largely a result of upgrades of existing software products (EUR 1,042 thousand) and acquisitions of new software products (EUR 177 thousand).

The write-downs comprised EUR 2,588 thousand relating to the depreciation of property, plant and equipment and EUR 7,355 thousand relating to the amortisation of intangible assets (EUR 2,692 thousand related to goodwill, EUR 2,689 thousand to order books, EUR 1,794 thousand to software and EUR 180 thousand to licenses and industrial property rights).

The EUR 1,191 thousand higher write-downs at Group level are mainly a result of amortisation on capitalised goodwill in the amount of EUR 936 thousand.

No further significant investments were planned as at the balance sheet date or at the reporting date. With this in mind, intangible assets and property, plant and equipment will decrease by further scheduled depreciation in the future.

2.3.3.4 External financing

External financing comprised solely bank loans and advances and loans and advances to customers as well as other liabilities. On the whole, external financing was higher than the previous year (+ EUR 4,524 thousand) and amounted to EUR 448,707 thousand (Baader Bank AG: increase of EUR 1,133 thousand to EUR 450,758 thousand) as at the balance sheet date. The reason for the low growth is primarily due to the increase in loans and advances to customers due on demand of EUR 28,357 thousand (Baader Bank AG: EUR 24,877 thousand) as well as the inclusion of a money market transaction under bank loans and advances with an agreed term or notice period with simultaneous repayment of individual deposits from the issue of own promissory note loans. In the past financial year, these decreased by EUR 17,378 thousand to EUR 177,675 thousand.

As at the balance sheet date, other liabilities decreased by EUR 270 thousand to EUR 4,659 thousand (Baader Bank AG: by EUR 183 thousand to EUR 3,999 thousand).

2.3.3.5 Other refinancing funds

Other refinancing funds increased by EUR 1,822 thousand to EUR 33,814 thousand (Baader Bank AG: by EUR 2,482 to EUR 30,865 thousand). The increase is mainly the result of a change in provisions of EUR 808 thousand to EUR 9,578 thousand (Baader Bank AG: by EUR 1,426 thousand to EUR 6,614 thousand) as well as an addition to the fund for general banking risks in the amount of EUR 584 thousand (Baader Bank AG: EUR 626 thousand) in compliance with Section 340e (4) HGB. The change in the provisions relates mainly to additions to other provisions in the amount of EUR 430 thousand (Baader Bank AG: EUR 1,403 thousand) and tax provisions in the amount of EUR 372 thousand (Baader Bank AG: EUR 20 thousand). The liabilities held for trading increased from EUR 1,686 thousand to EUR 2,116 thousand as at the balance sheet date.

2.3.3.6 Balance sheet equity

In the current financial year 2016, there were no changes to the subscribed capital and capital reserves. The decrease in equity of EUR 4,140 thousand to EUR 96,015 thousand is primarily due to the consolidated net profit before minority interests (EUR – 3,619 thousand), dividend payments (EUR – 313 thousand) as well as effects from currency translation (EUR – 289 thousand). At Baader Bank AG, the decrease in equity of EUR 96 thousand to EUR 100,516 thousand is solely due to the negative net profit for the year.

The balance sheet equity ratio amounted to 17% (Baader Bank AG: 17%), and, taking into account the fund for general banking risks, the modified equity ratio amounted to 20% (Baader Bank AG: 21%).

2.3.3.7 Off-balance-sheet commitments

Off-balance-sheet commitments as at the balance sheet date were a result of contingent liabilities (guarantees) in the amount of EUR 13,255 thousand as well as outstanding irrevocable loan commitments to customers in the amount of EUR 12,197 thousand. Contingent liabilities in the form of a surety relate to assistance with a squeeze-out measure for which Baader AG issued a bank guarantee. This does not result in any financial risks for the Baader Bank Group as the bank guarantee was issued with a link to underlying credit balances in the same amount.

2.3.3.8 Liquidity

Operational liquidity management, which involves the management of daily payments, the planning of expected cash flows, and the management of disposable liquidity, serves the purpose of ensuring the ability of the Baader Bank Group to satisfy all its payment obligations at all times

The Group's cash position, which was already very solid in prior years, was maintained at a consistently high level in the past financial year. The balance sheet liquidity surplus decreased slightly by 4% or EUR 10,167 thousand to EUR 247,037 thousand (Baader Bank AG: decrease of 3% or EUR 6,588 thousand to EUR 235,038 thousand).

Baader Bank AG's regulatory liquidity ratio was 4.69 as at 31 December 2016 (previous year: 4.23). The liquidity ratio prescribed by the German Liquidity Regulation is the ratio of cash to payment obligations due in 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.

Unutilised credit facility agreements with domestic banks were in effect as of the balance sheet date.

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 449 in the previous year to 452 as at the balance sheet date. There are 121 female employees and 331 male employees in the Group, from a total of 19 countries.

At Baader Bank AG, the number of employees as at 31 December 2016 also increased from 388 (previous year) to 393; of these 107 are female employees and 286 male employees from 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 2016 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.

With its own provident fund, Baader Unterstützungskasse e.V., the Group has an independent social institution that can provide company pension benefits.

2.4.2 Environmental report

The services provided by 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.

2.5 General assessment of the report on the economic position

The business development of the Baader Bank Group for financial year 2016 was, on the whole, characterised by the demanding business environment. The restrained markets and erratic phases with, at times, inordinate trading volumes, were the reasons for the consolidated net profit for the year.

Nevertheless, Baader Bank AG performed well in the competitive environment, further developed its market position and made a positive earnings contribution to the consolidated net profit for the year on the whole. The position of Baader Bank AG within the Group essentially determined the overall economic development in the past financial year.

The Executive Board was satisfied with the business development of Baader & Heins AG, which made a positive, although lower, earnings contribution despite the write-downs of the shares in SKALIS AG.

The consolidation measures undertaken at CCPM AG in 2014 were continued in the past financial year and ended with a significantly improved and positive overall result.

Similarly to CCPM AG, the business development of SKALIS AG is also highly dependent on the development of AuM and the performance realised in the management of these assets. Although CCPM AG maintained its AuM at the previous year's level during the course of the financial year, SKALIS AG recorded noticeable declines in its managed assets specifically in the flagship product, SKALIS Evolution Flex. Combined with below-average performance in the funds, SKALIS AG was unable to reach the target figures. On the whole, the company closed the year with a net loss for the year, albeit a lower loss than in 2015.

The primarily exogenous factors (see Section 2.2.1) resulted in a significant decrease in trading activities, in particular also at the Baader Helvea Group. Cautious investors and low trading volumes prevented the achievement of the net commission income of the previous year. As the business activities of the Baader Helvea Group are mainly characterised by net commission income, the Group was unable to make a positive contribution to the Group's overall result.

In retrospect, the Baader Bank Group was able to defy the adverse market environment, even if the result was slightly negative. Its excellent positioning in the market, its international focus and the recognition expressed in the customer portfolio are a good starting point for the upcoming financial years. Against this backdrop, the Executive Board assesses the results of operations as satisfactory even if below the original expectations.

The solid net assets and financial position of the Baader Bank Group has for many years been such that the Bank's solvency was guaranteed at all times during the reporting period, and is also secured for the future thanks to the risk monitoring systems within the Group.

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3 Forecast, opportunities and risk report

3.1 Risk report

The section below describes the risk situation of the Baader Bank Group and Baader Bank AG as at 31 December 2016. As the business activities of Baader Bank AG constitute the largest and thus a significant share of risk in the Baader Bank Group, the risk management structures and processes are currently instituted at the level of the Baader Bank Group. In order to prove the appropriateness of this system, a deviation analysis between the risk potential of Baader Bank AG and the Baader Bank Group is carried out at least annually.

The statements below therefore in the first instance relate to risk management within the Baader Bank Group. Where they deviate, Baader Bank AG's figures are always provided as a supplement to those of the Group. Should there be any deviations in terms of content in the procedures and processes, a separate note is made.

3.1.1 The risk management system of the Baader Bank Group

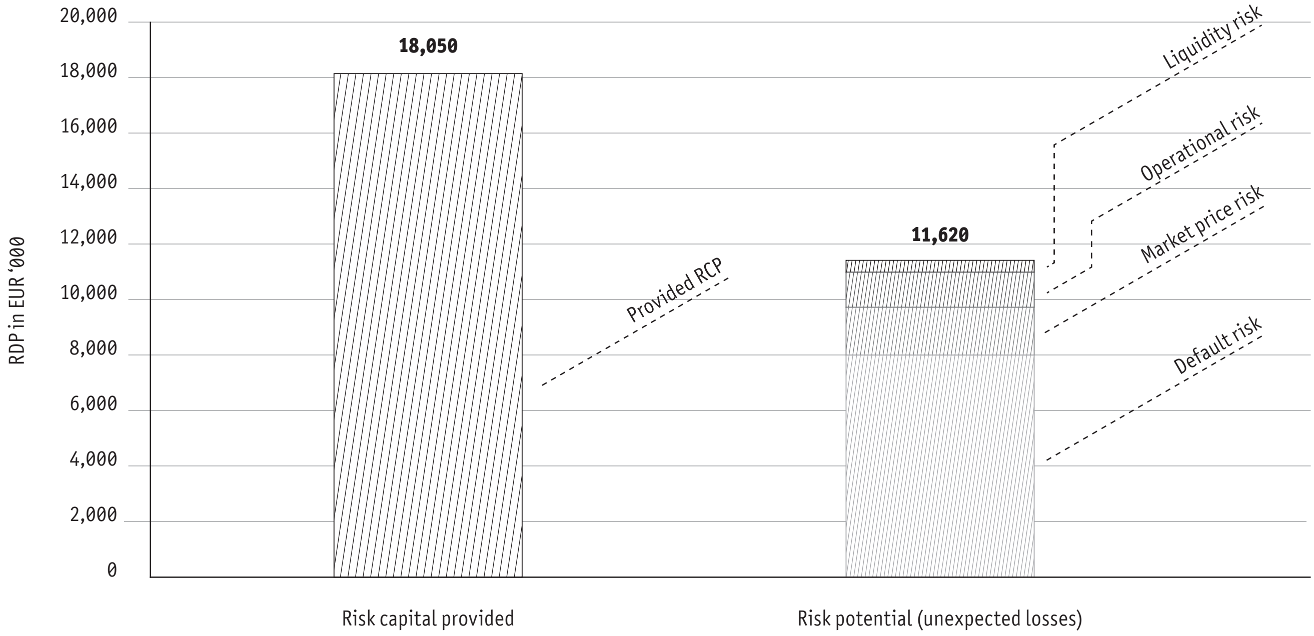
By their nature, the business activities of the Baader Bank Group are subject to risks. The Executive Board has therefore established a comprehensive risk management system. It is designed to fulfil both the regulatory requirements as set out in the relevant pronouncements of the national and international regulatory authorities, and the Bank's internal business requirements.

3.1.2 Objectives of risk management

The overriding objective of risk management at the Baader Bank Group is to guarantee its risk-bearing capacity at all times, thereby ensuring that the Group can continue to operate. Consequently, the deliberate assumption, active management and continuous monitoring of risks constitute the core elements of business and risk management of the Baader Bank Group. The Group identifies, assesses and monitors the risks arising during the course of its business activities. This is the only way in which the Group can manage its business activities in a risk-aware manner, meaning that it assumes calculable risks with due regard to the Group's risk-bearing capacity and categorically avoids existential risks.

In order to satisfy this fundamental principle, the Executive Board reviews a daily comprehensive summary of the nature of all significant risks and their limit utilisation rates by the Baader Bank Group. The risk-bearing capacity is also taken into account in particular in the determination of the business and risk strategy.

FIGURE 1 RISK-BEARING CAPACITY IN THE BAADER BANK GROUP AS AT 31 DECEMBER 2016 IN EUR '000



3.1.3 Risk-bearing capacity

The Group's risk-bearing capacity is regularly reviewed by the Risk Controlling department of the parent company Baader Bank AG, which is responsible for risk controlling at Group level. As part of this review, the available risk coverage potential (RCP) is checked against the risk potential. 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 equity and regulatory equity requirements as at 31 December 2016 are shown in the table below: → **TABLE 6**

TABLE 6 SUMMARY OF EQUITY REQUIREMENTS IN EUR '000

	Baader Bank AG	**Baader Bank Group**
Equity	102,369	95,518
Risk assets	676,282	671,178
Equity requirements	58,329	57,889

The objective of the going-concern approach is thus to ensure the continuation of business activities, subject to the secondary condition that the minimum capital requirements would be permanently fulfilled even if the considered risks would materialise.

The primary and secondary risk coverage potential of the Baader Bank Group is composed of the forecast results (primary RCP) and components of balance sheet equity (secondary RCP). Therefore, this approach is based on the income statement and balance sheet. The forecast results (net profit for the year before minority shareholders) represent the amount that the Group expects to generate in the coming financial year based on the business plan, with due regard to the anticipated market environment. For this purpose, a distinction is made between the forecast results in the normal case, the middle case and the worst case. These differ in terms of the premises underlying the respective plan. As the forecast result is inherently uncertain, the middle case is used as a "starting figure" for the primary risk coverage capital for determining the risk-bearing capacity as at 31 December 2016. Depending on current business developments, the underlying plan figures may also be adjusted to the normal or worst case during the course of a financial year. This always results in an extraordinary review of the risk-bearing capacity.

When reviewing the risk bearing capacity, the available risk coverage potential is always compared to the risk potential. Since expected losses are already taken into account in the forecast results, only unexpected losses are quantified when determining the risk potential. → **FIGURE 1**

In comparison, risk coverage capital in the amount of EUR 33,053 thousand was available to Baader Bank AG as at 31 December 2016. The Baader Bank Group's total risk is limited by the available risk coverage potential. As a general rule, the Group's management makes only part of the risk coverage potential available (risk capital) to permanently secure the Group's risk-bearing capacity. 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. In addition, losses arising are deducted from the available risk capital reserve on a daily basis. The purpose of this is to check whether the risk capital reserve is still adequate and the risk-bearing capacity is still intact. Risk coverage 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.

In order to ensure that the fixed capital (tertiary risk coverage potential) does not need to be drawn upon even in hypothetical crisis times (stress scenarios), the Risk Controlling department checks the greatest losses arising from the stress scenarios against the available risk coverage potential for all relevant risk types. In a stress case, the expected profit before taxes from the worst-case scenario is applied for the primary risk coverage capital, and the fund for general banking risks is additionally applied as the secondary risk coverage capital. 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 coverage potential"; however, the results must be critically evaluated and any necessary actions determined.

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 coverage 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, the Baader Bank Group's and Baader Bank AG's risk-bearing capacity was not endangered at any time in financial year 2016 and their survival as going concerns would have been assured even if the worst-case stress scenario would have occurred.

3.1.4 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, liquidity, etc.

Based on the business strategy, Group management adopts a risk strategy for the coming financial year that is consistent with the business strategy, with due consideration given to internal and external factors. For this purpose, it is necessary to carry out a risk inventory for the Baader Bank Group that takes the new aspects arising from the business strategy into account. The risk inventory at the Baader Bank Group is performed by Baader Bank AG's Risk Controlling department at least once a year. In addition to the annual risk inventory, an extraordinary review may be conducted to account for changes in the significance of risks or the commencement of business activities in new products or new markets, for example. In order to ensure that the Risk Controlling department is immediately informed of such changes, this department is to be involved in all "new products and markets" processes and projects, and is to be informed immediately of any changes in the strategic orientation, equity interest structure, market expectations, etc. Changes identified in the risk profile are promptly taken into consideration and reported to Group management. The following risks were identified as material during the past financial year: → **Figure 2**

The risk strategy established as a result of this process is broken down into sub-strategies according to the material risk types. The basic element of the risk policy strategy is that the Bank'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. For financial year 2017, Group management provided to the Baader Bank Group risk capital of EUR 15,935 thousand in the form of a loss ceiling, based on figures as at 31 December 2016. The risk capital for the Baader Bank Group is allocated to the individual risk types as follows: → **Figure 3**

3.1.5 Risk management structures and processes

In accordance with the Minimum Requirements for Risk Management (MaRisk AT 4.3.2 No. 1), the risk management system of the Baader Bank Group comprises the identification, assessment, management, monitoring, and communication of material risks. These processes are as follows:

To ensure the **identification** of new risks, all risky transactions and/or the positions arising from such transactions are immediately entered into the portfolio management systems. As part of the "Activities in new products or on new markets" process, the Risk Controlling department is also informed promptly of any potential changes to the existing risk profile. In this process, the planned activities are reviewed and the corresponding risk content is identified. Existing activities are reviewed on a regular basis. Furthermore, Baader Bank AG's Risk Controlling 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 the Risk Controlling department, which has developed a concept for managing and monitoring these risks. 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 in the section on Baader Bank Group risks.

Figure 3 Breakdown of the risk capital of the Baader Bank Group

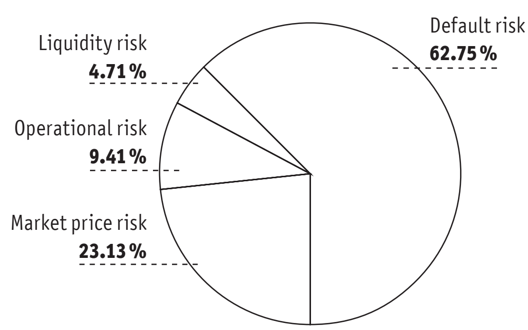
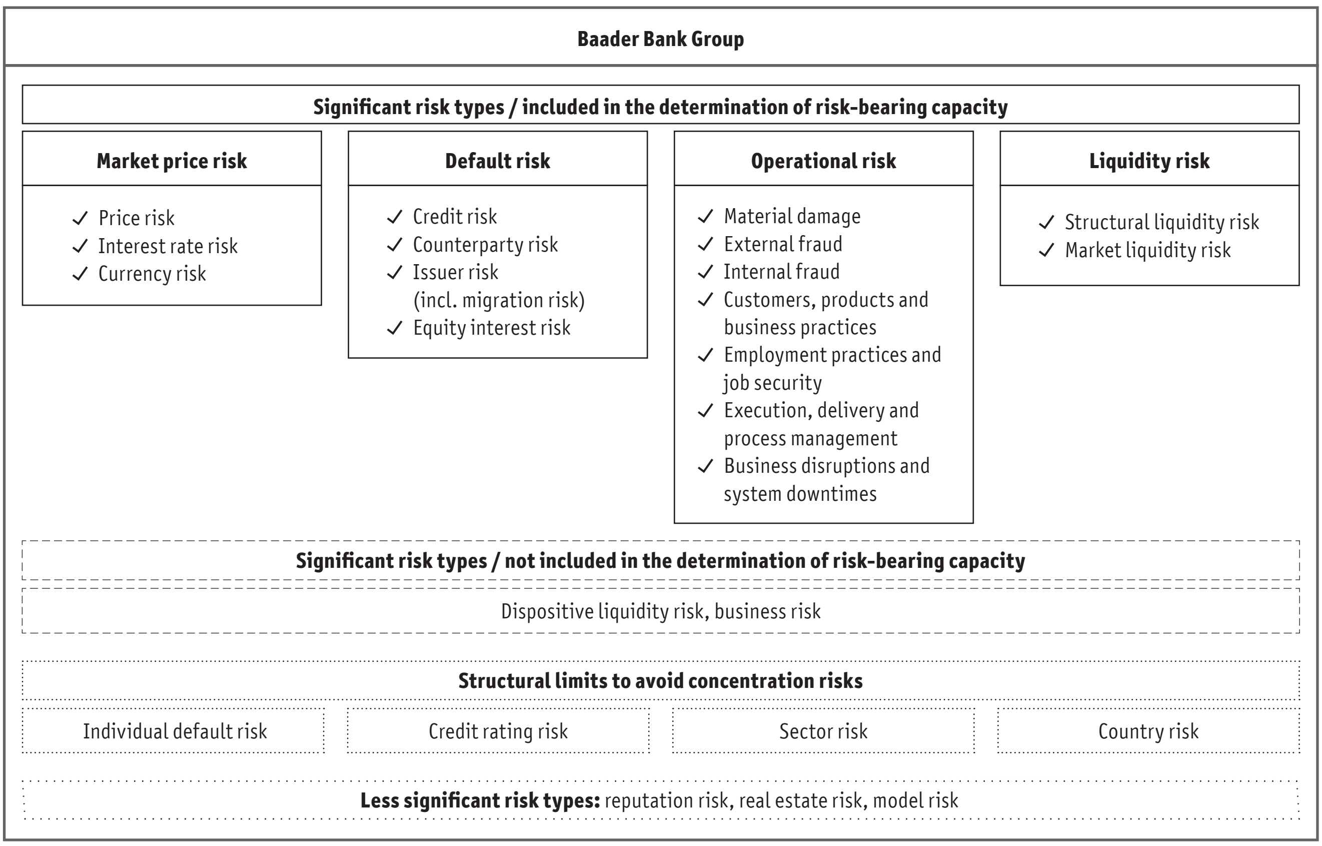


Figure 2 Overview of the risks of Baader Bank



The Executive Board is responsible for the **management** of the risks within the Baader Bank Group. Risks are managed using a system of limits to mitigate the relevant material risks. The limits are set at least annually by means of a resolution passed by Group management based on the company's risk-bearing capacity. Independently of the annual process, these limits can be adjusted whenever necessitated by the business activity and/or financial performance of the Baader Bank Group.

The permanent imputation of risks to limits enables the Risk Controlling department to conduct adequate **monitoring**. The Risk Controlling department detects any limit overrun and recommends appropriate actions such as position reduction or short-term limit increases to the person responsible for the position and notifies the management responsible for monitoring. The Group management then decides on the action to be taken and informs the relevant market area and Risk Controlling department. Subsequently, the Risk Controlling department monitors execution of the agreed action, and in the event that the measure is not implemented, initiates an escalation process. The Risk Controlling department has, in addition, installed an early risk identification system for monitoring purposes.

Group management is responsible for ensuring adequate and orderly business organisation and for the further development of that system. This responsibility includes all essential elements of risk management, including establishing the risk policy. To assist the Group management in exercising this responsibility, the Risk Controlling department maintains a comprehensive reporting system to ensure the **communication** required by MaRisk in the form of daily and periodic reports and, if required, ad hoc reports to Group management.

In addition, the Risk Controlling department conducts **stress tests** for all significant risk types at least every quarter. As part of the stress tests, the Risk Controlling department 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 stress test report and discussed with them, if necessary. Furthermore, due consideration is given to the results of the stress tests in the review of the Group's risk-bearing capacity. As at 31 December 2016, the worst-case loss for the Baader Bank Group amounted to EUR 39,962 thousand (Baader Bank AG: EUR 37,849 thousand).

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 promptly adjusted to reflect changing conditions. 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 results of the validations are brought to the attention of Group management in the form of separate reports.

The technical resources comprising the risk monitoring and management systems are appropriate for the risk management system. 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.

3.1.6 Significant changes compared with the previous year

The following changes were made to the models employed by the Risk Controlling department in 2016:

Counterparty default risk

In the past financial year, the risk calculation for the counterparty default risk was improved by using the extended version of the Gordy model. The new calculation now takes into account the specific loss rates in the event of a default (loss given default) as well as the granularity of the portfolio by means of the Herfindahl-Hirschman index. Furthermore, since the change, the actual residual terms of the individual positions are taken into account. The procedure is based on the foundation IRB approach of the Basel Committee on Banking Supervision.

In supplement, as part of the annual validations, the internal rating process models that are used to assess the counterparty default risk were reviewed and calibrated with the assistance of external credit ratings (S&P ratings) and external probabilities of default. The complexity of the rating models were reduced here with a consistently high level of accuracy of the calculated probabilities of default.

Market price risk

Various model validations were also carried out for the market price risk in the past financial year. Based on the results, the Risk Controlling department adjusted individual correction factors for the market price risk calculation as well as the underlying allocation of the risk factors to the individual positions. In addition, the backtest results indicated a significant overestimation of risk for the treasury portfolio. The data history for calculating the market price risk was then adjusted based on the historical simulation. Consequently, the measured risk was significantly reduced which also revealed better backtesting results.

With respect to the "Basel interest rate shock" on the banking regulatory assessment of interest rate fluctuations in the non-trading book, the regulatory requirement of the 0% floor was implemented. This resulted in a significant reduction in interest rate risk coefficients.

Liquidity risk

The liquidity risk validations resulted in an optimisation of the assumptions for calculating the structural liquidity risk. In supplement, an analysis of historical data was used to modify the haircuts to calculate the liquidity progress review.

Operational risk

In the past financial year, regulatory risk was included under operational risk as from the third quarter and allocated to the loss category "execution, delivery and process management". This process is useful as losses from the regulatory risk result from non-compliance with or not being aware of new regulatory requirements.

3.1.7 Risks of the Baader Bank Group

The significant risks identified in the past financial year were market price risks, counterparty default risks, operational risks, liquidity risks, liquidity risks and business risks. There were no risks directly jeopardising the company's existence.

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.

3.1.7.1 Market price risk

In general, market price risks are regarded as 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 refers to the risk of changes in the price of an equity instrument. Interest rate risk refers to the risk of a reduction in the present value of an interest rate-sensitive financial instrument due to changes in market interest rates. Exchange rate risk refers to the risk of losses resulting from exchange rate changes that have a negative effect on the Bank's own position.

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. As at year end, the Bank had the following exposures to positions entailing market price risks: → Table 7

Table 7 Summary of holdings of the Baader Bank Group / Baader Bank AG as at 31 December 2016 in EUR '000

	Baader Bank Group		Baader Bank AG	
Market risk positions	**2016**	**2015**	**2016**	**2015**
Equities	13,621	32,854	13,621	32,854
Bonds	203,844	221,528	203,844	221,528
Securitized derivatives	797	645	797	645
Funds, index certificates and fund-like certificates	52,265	47,756	50,700	46,700
Options	1	28	1	28
Futures	−31,748	−5,962	−31,748	−5,962
Swaps	0	0	0	0

The differences between the Baader Bank Group and Baader Bank AG in the position "Funds, index certificates and fund-like certificates" are due to the subsidiaries' own holdings. The options and futures positions are included in the Market Making segment to reduce the risk of derivatives used in the profit centre.

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. By way of exception, the interest rate risk of the bank book and the exchange rate risk are determined on the basis of historical simulation in a separate system. The VaR is also calculated as the 99% quantile of the various changes in value. As at 31 December 2016, the value-at-risk for the position entailing market price risk amounted to EUR 1,854 thousand, previous year: 5,350 (Baader Bank AG: EUR 1,837 thousand, previous year: 5,326) at a limit utilisation of 37.81% (previous year: 70.22%).

The risk model used to determine value-at-risk merely represents an approximation to reality. In reality, extreme events can occur somewhat more frequently than would be expected under the assumption of a normal distribution. The quality of the VaR model is regularly verified by means of backtesting (clean backtesting) with reference to the relation between the VaR values and the market value changes of a position on the basis of actual price changes. If the number of outliers from backtesting exceeds the limit defined as critical, the Risk Controlling 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.

To limit market price risks, the Baader Bank Group installed a comprehensive limit system in the central trading and position management software program. 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.

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

The average level of market price risk at the Baader Bank Group fell considerably over the past financial year. This is primarily due to lower holdings as well as optimisations to the risk model. The risk capital made available for market price risks was sufficient to cover potential unexpected losses.

3.1.7.2 Counterparty default risk

Counterparty 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 the risk of deterioration of the debtor's credit rating and is included in the form of credit spread risk.

To limit counterparty default risks, the total counterparty default risk is limited and monitored with reference to the risk capital allocated by Group Management. If a market area intends to incur a counterparty default risk in connection with a borrower unit that is not yet known to the Group, it must present a written proposal to the Risk Controlling department. The Risk Controlling department then determines a credit rating for the new borrower unit on the basis of an internal rating system. If the counterparty default risk limit is exceeded on a given trading day, the Risk Controlling department reports the limit overrun to the Executive Board member responsible for markets and the Executive Board member in charge of monitoring and recommends an appropriate action. The Executive Board then resolves an action to be taken and informs the market area and the Risk Controlling department of the resolved action. The Risk Controlling department then monitors the implementation of the resolved action. In addition, overruns of the counterparty default risk limit are reported to the Executive Board as part of the Group reporting system.

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. The Herfindahl-Hirschman index that measures portfolio granularity and thus risk concentrations is taken into account. This risk weighting can be used as the basis to calculate the unexpected loss for each borrower unit, which is comparable to the value-at-risk. The loss rate for the default of the respective borrower unit (LGD = loss given default) as well as the actual remaining term of the position are taken into account. The total risk across all borrower units is derived from the sum of all individual risks. The total risk may not exceed the risk capital provided by the Executive Board for counterparty default risks. The limit for the counterparty default risk is set at least annually as part of the resolution to determine the risk elements and risk-bearing capacity.

When considering default risk, the Baader Bank Group makes a distinction between credit risk, counterparty risk, issuer risk and 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 loans against collateral. This collateral generally consists of listed securities whose collateral value is determined using a conservative measurement procedure, or of bank guarantees.

As at 31 December 2016, the lending business was exposed to a risk in the amount of EUR 475 thousand resulting from unsecured overdrafts or unsecured loans at the reporting date. The difference between Baader Bank AG and the Baader Bank Group is due to a loan issued by Baader Bank AG to a subsidiary.

Individual value adjustments are charged against loans and advances from customers whenever the receivables are past due by longer than 90 days or when the loans are deemed to be non-performing loans. Loans are deemed to be non-performing when it appears improbable that the debtor will be able to completely fulfil its loan obligations without the bank resorting to collateral liquidation measures. As at the reporting date of 31 December 2016, a risk provision for customer credits existed in the total amount of EUR 132 thousand (previous year: EUR 873 thousand).

Furthermore, as part of the lending business the Treasury department makes money market investments at banks. On the whole, as at 31 December 2016, loans and advances to banks incurred risk in the amount of EUR 1,269 thousand. The difference at the Group level is a result of the subsidiaries' money market investments.

For the Baader Bank Group, a counterparty risk in the form of a replacement risk is incurred in the settlement of trading transactions. 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. Therefore, only over-the-counter derivative transactions are relevant for the replacement risk. Baader Bank 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 counterparty default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk. As at 31 December 2016, a risk of EUR 142 thousand was incurred for the replacement risk as well as from own holdings in derivatives for hedging purpose in the Market Making segment as well as from customer holdings in derivatives.

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. As at 31 December 2016, a risk in the amount of EUR 5,492 thousand was incurred for the issuer risk, in particular from treasury holdings.

The term 'shareholding' refers to equity investments pursuant to Section 19 (1) Sentence 1 no. 7 and no. 8 of the KWG (affiliated companies). In the case of equity investments, a counterparty 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 2016, a risk in the amount of EUR 567 thousand was incurred for the equity investment risk. In contrast, at Baader Bank AG the risk amounted to EUR 1,591 thousand. The difference is in particular due to the subsidiaries not included in consolidation. The VaR figures as at 31 December 2016 compared to the previous year are shown in the table: → **Table 8**

There were no further counterparty risks from off-balance-sheet transactions.

In addition, risk management of the counterparty default risk takes into account concentration risks of the respective individual counterparty, creditworthiness, industry and country risks in order to identify, limit and monitor the risk concentrations of the Baader Bank Group. However, no risk capital is allocated to cover these risks separately, so as to avoid double counting. The utilisation of the concentration limits is monitored by the Risk Controlling department and reported to the Executive Board once daily. If a limit is exceeded during the course of a trading day, the Risk Controlling department reports this immediately to the responsible Board member for the market and the Board member responsible for monitoring. The action to be taken is communicated to the Risk Controlling department and its implementation is monitored.

To limit the risk with respect to cluster risk for a borrower unit (individual counterparty risk) a relevant limit for the respective borrower is set taking into account the internal credit rating, the exposure class and the applicable large loan limits. The exposure at default (EaD) of all credit risk transactions is permanently applied against the borrower unit's limit in the monitoring system.

To limit exposure to credit rating risk, a limit is established for each credit rating category. As a general rule, no limit is established for and no new business is conducted with borrower units in the credit rating category of 5 or worse. Limits are established for borrower units in this credit rating category only in the case of existing exposures when the credit rating of the affected borrower unit worsens; in this case, the limit only serves the purpose of capping the exposure. The positions subject to counterparty default risk on the basis of exposure at default are presented as at 31 December 2016 compared to the prior reporting date in the table below. → **Table 9**

With respect to sector risk, a limit is established for the credit risk exposure to each sector, so as to ensure reasonable diversification across sectors. As in prior years, the sector of "banks, savings banks, and financial institutions" accounts for the greatest share of credit risk exposure (29.70%, previous year: 42.07%), although this share has been considerably reduced since 31 December 2016, resulting in greater diversification. The reason why the sector of "banks, savings banks, and financial institutions" accounts for such a large share of total credit risk exposure is due to the short-term investment of surplus liquidity with banks and the depositing of collateral with the respective clearing member for derivatives transactions. Differences between the Baader Bank Group and Baader Bank AG are due to the subsidiaries' money market investments and are limited to the "banks, savings banks, and financial institutions" sector.

Table 8 Counterparty risk of the Baader Bank Group / Baader Bank AG as at 31 December 2016 in EUR '000

	Baader Bank Group		Baader Bank AG	
Counterparty default risk	**2016**	**2015**	**2016**	**2015**
Credit risk KU	475	361	572	411
Credit risk KI	1,269	1,641	1,108	1,489
Counterparty risk	142	62	142	62
Issuer risk	5,492	7,893	5,492	7,893
Equity investment risk	567	801	1,591	2,436

Table 9 Breakdown of exposures by credit rating category as at 31 December 2016

	Baader Bank Group				Baader Bank AG			
	2016		2015		2016		2015	
Credit rating category	**EUR '000**	**%**	**EUR '000**	**%**	**EUR '000**	**%**	**EUR '000**	**%**
Credit rating category 1	131,981	32.61	89,887	23.04	131,981	33.78	87,796	23.14
Credit rating category 2	93,281	23.04	92,043	23.60	85,981	22.00	88,948	23.44
Credit rating category 3	124,577	30.78	125,722	32.23	117,849	30.16	120,264	31.70
Credit rating category 4	39,180	9.68	52,186	13.38	39,180	10.03	52,186	13.75
Credit rating category 5	15,757	3.89	30,244	7.75	15,757	4.03	30,244	7.97
Total	**404,776**	**100.00**	**390,083**	**100.00**	**390,748**	**100.00**	**379,438**	**100.00**

Figure 4 Breakdown of exposures by country at the Baader Bank Group as at 31 December 2016

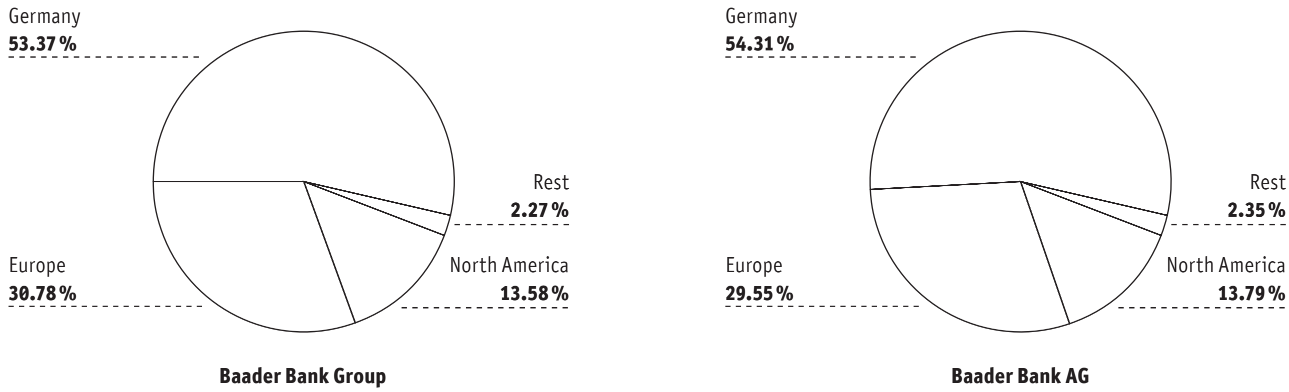
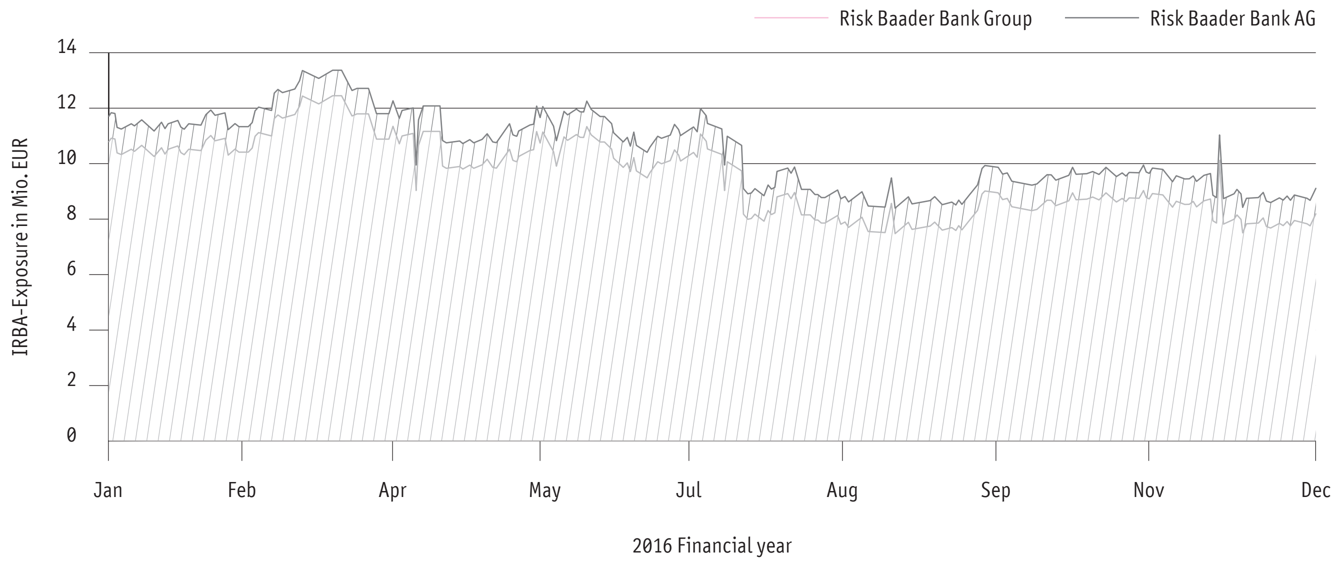


Figure 5 Development of the counterparty default risk in 2016



With respect to country risk, country limits are established in order to ensure diversification in the credit portfolio and to limit credit exposure to countries deemed to be critical. A breakdown of the counterparty default risk by country at 31 December 2016 is shown below: → **Figure 4**

Country risk is mainly inherent in the bond holdings of the treasury portfolio. The domicile of the respective parent company is the determining factor here. The Bank's exposure to GIIPS countries continues to be extremely low at 3.05%.

The development of the bank's counterparty default risk during the course of financial year 2016 is additionally presented below. → **Figure 5**

As at 31 December 2016, the value-at-risk for the entire counterparty default risk amounted to EUR 7,944 thousand with a limit utilisation of 72.22% (previous year: 67.24%). The difference to Baader Bank AG here is also a result of the components described under the individual risks (counterparty default risk as at 31 December 2016 for Baader Bank AG: EUR 8,905 thousand).

Throughout 2016, the counterparty default risk of Baader Bank decreased significantly due to the credit rating improvements in the existing portfolio as well as the described optimisations to the risk model. Furthermore, in the Executive Board's risk strategy it is planned to reduce the counterparty default risk and, in particular, the issuer risk from the treasury portfolio on a continuous basis.

3.1.7.3 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. Included in this are 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 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 Controlling 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. In addition, operational risk managers can also report on an ad hoc basis if new risk potentials are identified.

The Security Committee examines the steps proposed by the Risk Controlling department 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 the Executive Board 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. To this end, they enter all losses of EUR 1 thousand or more into an application. “Loss” is defined as follows: A loss is a financial loss that is directly connected with operational risk. This also includes unrealised losses.

The causes of significant losses are analysed immediately. For this reason, Risk Controlling has been ordered to report losses to the Chairman of the Security Committee

In addition, only two noteworthy legal disputes involving significant financial risks were still underway at the end of the financial year. 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 2016, the value-at-risk amounted to EUR 1,307 thousand (Baader Bank AG: EUR 1,215 thousand) with a limit utilisation of 93.38%.

The Executive Board also makes a specific amount of risk capital available to limit operational risks. The Risk Controlling 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 the Executive Board.

In addition, quarterly stress tests are conducted for operational risk. The procedure for quantifying losses using stress tests 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 presented in the MaRisk report and are taken into consideration in reviewing the risk-bearing capacity.

In financial year 2016, losses totalling EUR 692 thousand were reported. This represents a significant decrease compared to the previous year (previous year: EUR 1,383 thousand). For this reason, the Risk Controlling department regards the operational risk as not critical. In addition, the risk capital provided was sufficient at all times. The technical equipment used for risk systems was deemed to be appropriate throughout the past financial year.

3.1.7.4 Liquidity risk

With respect to liquidity risk, the bank must ensure that it can fulfil its payment obligations at all times. Liquidity risk is fundamentally sub-divided into market liquidity risk, dispositive liquidity risk, and structural liquidity risk.

The dispositive (short-term) liquidity risk refers to the risk that credit commitments could be drawn down unexpectedly or deposits could be withdrawn unexpectedly (call risk). Besides unexpected outflows, payment receipts could be delayed, thus leading to an unplanned lengthening of the capital commitment period for lending transactions (maturity risk). This can have an effect on the Bank’s ability to meet its own payment obligations.

The Treasury department is responsible for ensuring that the Bank’s payment obligations 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. Unusual liquidity drains from other areas of the bank are promptly reported to the Treasury department and Payments department. 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 Controlling is responsible for monitoring dispositive liquidity risk in the Baader Bank Group. Various monitoring mechanisms have been installed to properly exercise this function and promptly initiate countermeasures when necessary. For the purpose of managing and monitoring the Liquidity Coverage Ratio or LCR (as required by the CRD IV), a limit system was installed for the marked areas. This system sets limits on all netted inflows and outflows, on the one hand, and on the total committed capital per value date and profit centre on the other hand. These liquidity limits enable the Treasury department to manage liquidity and thus also the LCR on an intraday basis. In addition, observance of the LCR is monitored daily in connection with the Group Risk Report to the Executive Board. Furthermore, the Treasury department submits a daily liquidity report detailing the current liquidity situation to the Risk Controlling department, which subjects it to a plausibility check and reviews it. If an imminent liquidity shortage is identified, the relevant decision-makers are informed immediately.

Due to the unique nature of the dispositive liquidity risk, it is not meaningful to quantify it and cover it with risk capital. In this area, heightened attention is given to the quality of the risk management process.

Structural liquidity risk (refinancing risk) refers to the risk that refinancing costs could rise on account of a possible increase in spreads for the individual institution. A credit rating deterioration could mean that the bank would be able to conduct borrowing transactions only at worse terms. In addition, market-induced changes could also have a major effect. 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. A scenario involving considerably more costly funding and unexpected cash outflows is applied in the unexpected case. 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 2016, a value-at-risk in the amount of EUR 0 thousand was calculated for the structural liquidity risk as there was no liquidity shortfall and refinancing was therefore not necessary.

Furthermore, the Baader Bank Group holds securities with different degrees of market liquidity, leading to liquidity risk in the case of less liquid securities. 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 Controlling department prepares assessments at regular intervals and communicates them to the board member responsible for markets. The risk potential of market liquidity risk is calculated every quarter on the basis of an expert assessment and risk capital is allocated to cover it. As at 31 December 2016, the risk from unexpected losses was calculated at EUR 515 thousand. 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 Controlling 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 2016, the limit utilisation for the entire liquidity risk was 68.64% (previous year: 97.36%).

In addition, quarterly stress tests are conducted for operational risk. The losses arising under the stress tests are quantified using a (liquidity) value-at-risk approach under stressed assumptions. The results of the stress tests are presented in the MaRisk report to the Executive Board and are taken into consideration when reviewing the risk-bearing capacity.

No loss potential was calculated in the unexpected case for the structural liquidity risk as at 31 December 2016. The risk potential for market liquidity risk is moderate in comparison with the available risk cover amount. In addition, the Baader Bank Group has only insignificant exposures in low-liquidity markets. Therefore, liquidity risk is deemed to be not critical.

3.1.7.5 Business risk

Business risk describes the risk of unexpected losses resulting from management decisions on the business policy and positioning of the Baader Bank Group. Furthermore, risks result from unexpected changes in market and general economic conditions with adverse effects on the results of operations. 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 the Baader Bank Group are dependent in particular on the development of the general market environment on the exchanges, this type of risk is classified as material. Factors that are deemed to be significant and which affect the environment on the exchanges include, for example, trading volumes, the performance of the equity indices and volatilities, interest rates and commodities prices.

However, it is not considered useful to quantify business risk on the basis of complex mathematical models. The Baader Bank Group quantifies the business risk at the Executive Board's annual strategy meeting held for business planning in so far as both a normal case and worst case plan are prepared for this purpose as a negative deviation to expected earnings. In this process, particular consideration is given to historical figures of past years as well as market expectations and the influence thereof on the business model and profit situation of the Baader Bank Group. This plan is reviewed at regular intervals of time and adjusted when necessary to reflect new market conditions, etc. In addition, Risk Controlling checks the planned business performance with the actual business performance on a regular basis. If there are significant negative deviations to the plans, this is taken into account in the context of the risk-bearing capacity. Furthermore, the quarterly stress tests also analyse potential adverse market developments and their consequences for the financial situation of the Baader Bank Group. In addition, the focus here is on the qualitative management of this type of risk and the introduction of meaningful control measures.

With respect to the earnings situation, the past financial year did not meet expectations. Nevertheless, based on these insights, the plans for the next few financial years and, in particular taking into account the business and risk strategy that aims for greater diversification of sources of income, the current business risk for the Baader Bank Group is regarded as acceptable.

3.1.8 Summary of the Baader Bank Group's risk position

The 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 in 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 Controlling 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.

As part of our risk strategy, the Executive Board of the Baader Bank Group allocated only part of the available risk capital to cover unexpected losses in financial year 2016, as in prior years. The breakdown and intrayear 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. As Baader Bank's risk-bearing capacity was and is assured at all times even under these conditions, despite the assumption that the regulatory minimum capital requirements as per the CRR may not be placed at risk, there is no further need for action with respect to Baader Bank's overall risk situation.

3.2 Forecast and opportunities report

3.2.1 Expected development of general economic conditions and financial industry conditions

Outlook for the capital markets in 2017: the most political stock market year of this decade?

Political risks harbour a high level of potential for uncertainties for private business, investors and consumers. A case in point is the numerous national elections due in the Eurozone. In addition, the United Kingdom will submit its application to leave the EU and, according to British Prime Minister Theresa May, seek a so-called "hard Brexit" that will take the country out of the European domestic market and the customs union as well as cut extensive legal ties. As the EU's strict rules will no longer be followed after a hard exit, the United Kingdom can follow its own sovereign economic policy. By lowering British corporate taxes and labour and social security costs to the lowest possible level, the United Kingdom will in future be competing with continental Europe as an industry location.

However, to prevent further government bond and banking crises, as well as election results that put the acceptance of the EU and the euro at risk, policy makers and monetary policy will counteract these risks significantly. The European Central Bank will continue its bond purchase program in order to prevent rising yields as a typical consequence of investor uncertainty. Last but not least, low-interest financing of new debt in the Euro countries is ensured, as it also enables state recapitalisation of affected banks.

Crisis management through monetary policy gives the equity markets a sustained liquidity argument, as the continued lack of interest-bearing investments as an attractive investment class has resulted in a major investment crisis that will be mitigated in particular by equity investments.

The monetary policy argument for equities will not be diluted by the interest-rate policies of the US Fed. The cycle of interest-rate hikes by the Fed is likely to continue on a comparatively weaker scale. The Fed supports the frequently cited government infrastructure measures via smooth debt financing. In principle, the Fed takes into account the economic risks to the US of an excessively strong US dollar caused by interest rate hikes. The resulting capital flight to the US would harm the emerging markets and therefore the global economy. In view of the economic policy closed season of the new Trump administration, the Fed will likely only concern itself with specific interest rate hike issues in the second half of 2017. In any case, negligible US interest rate hikes are historically seen as a fundamental vote of confidence in the robustness of the US economy and the US stock market.

Provided that no severe political crisis occurs in the EU, the euro is not expected to depreciate dramatically but to move sideways to the US dollar.

On the one hand, the German equity market, highly dependent on industry and exports, can benefit from the planned re-industrialisation of the US. On the other hand, potential trade protectionism by the new US President may be a cause for concern for German companies. From the German side, one would try to counter US import duties at the macro level by complying with US demands for more commitment to European economic stimulus via new debt and a reduction in the export surplus. At the micro level, German export stocks will develop counter strategies that serve to expand investments in the US that correspond to President Trump's main goal of adding jobs in America.

Against this background, purchases of German blue-chips from the DAX index, in particular German industrial stocks from the cyclical MDAX and SDAX equity indices will seem attractive in 2017. These benefit from their numerous patents as part of the continuing digitalisation of the global economy, the so-called "industrial revolution 4.0". As in-house development for the key technologies required for this development in countries such as China is too expensive, these industrial stocks will benefit from significant takeover speculation.

German real estate shares will also have price potential. In principle, their advantages are the continuing low interest rates for construction, continuing shortage of residential space in major cities and a low home ownership ratio in Germany (on an international comparison) even if growth in value is no longer as dynamic as recent years.

After just two years, stronger profit growth for these companies is likely.

In principle, China remains a latent risk factor for the global economy and thus for the fundamental assessment of the German equity market. This is firstly due to the restructuring of the national economy to more sustainable, but also weaker, growth rates. In terms of trade policy, there are signs of greater conflict between the US and China. Beijing will respond with further planned stabilisation of the economy which will also calm the financial markets in Shanghai and global investor sentiment.

With the equity markets generally more positive, however an increase in volatility can be expected that gives rise to latent, if not open, crises.

In the second half of 2017, trading volumes are likely to lead to a rise in order activity in securities trading due to the positive overall trend as well as increasing price fluctuations.

3.2.2 Expected development of the business segments and subsidiaries, with due regard to sector-specific framework conditions

As described in Section 1.3, the definition and naming of the business segments of Baader Bank was further developed for strategy 2017ff. The future core business fields identified are On- & Off-Exchange Market Making, Multi Asset Brokerage and Capital Markets. After the redesign, supporting segments will be Banking Services, Asset Management Services and Research. The following outlook is based on this redesign:

3.2.2.1 Outlook for the On- & Off-Exchange Market Making segment

In 2017, the financial performance of the On- and Off-Exchange Market Making segment will be influenced mainly by market developments, trading volumes in the various securities classes and market volatility. At least in the short- and medium-term, Baader Bank anticipates increasing trading volumes in on- and off-exchange trading. As in the previous year, high volatilities in securities trading can be expected in 2017. In all probability, these factors will continue to have a positive effect on the trading profit of Baader Bank. In this regard, it should be emphasised that these profit drivers are mainly determined by exogenous global economic and monetary policy developments, which cannot be influenced by Baader Bank, making it very difficult to forecast the expected development of general economic conditions and the effect of those conditions on this trading income.

As a market maker on German stock exchanges, Baader Bank expects to face significant systemic and structural changes in 2017 and subsequent years.

The preparations for the replacement of the Xetra system by its successor T7 planned for 2017/2018 will be continued in 2017. The conversion from the traditional price determination to closed order books with differentiated pricing models in the multi-market-maker and quote request process is associated with relocating the trading volumes to the platforms that operate these market-maker models. For this reason, Baader Bank provides all the technical, staffing and process-related bases in order to gradually attain multi market-maker capacity at international standards and is confident that it will successfully master this challenge by means of proactively developing competencies and making technical modifications to systems. In addition, the Bank is obliged to observe the increasing regulatory requirements in the course of the introduction of MiFID II and the associated conditions for designing market models, and meet the documentation and transparency criteria. Baader Bank believes it is well equipped to be able to achieve its strategic objectives in this core business field, namely to secure the current market position on stock exchanges in German-speaking countries, successfully further develop its OTC trading as well as create all the requirements for competing in multi-market models.

Nevertheless, there is the continued risk that order volumes, including those of private investors, could be moved to stock exchanges in which Baader Bank has no or only a negligible 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. Further expansion outside of Germany will not be realisable to the expected extent for over-the-counter trade. The Bank would thus remain dependent on the German market.

3.2.2.2 Outlook for the Capital Markets segment

The significant drivers for the order situation in the Capital Markets segment are the general developments on the share market in terms of trading volumes as well as the prevailing volatility on the secondary markets. In general, the performance in the first half of the year is decisive in this regard. The assumptions for market developments formulated in the description of the macroeconomic development (see Section 3.2.1) form the basis of the activities in the Capital Market segment in financial year 2017. Despite the downturns in 2016 in equity transactions and the low number of IPOs, Baader Bank was able to cement its customer relationships in German-speaking countries and its solid market position. In view of the pleasing placements in the Extel Survey 2016 and the Equity League Tables (see Section 2.2.1.2) and the proven quality of mandate addresses in Corporate Brokerage, Baader Bank expects to reap competitive advantages and above-average profit opportunities in terms of transactions should the market revive in 2017.

Baader Bank intends to maintain its market leadership in securities technology, which tends to be independent from market sentiment, and take a leading position for transactions up to EUR 150,000 thousand. Furthermore, realistic goals worth aiming for are placements among the top three for transactions up to EUR 250,000 thousand and a firm standing among the top 10 capital market service providers for transactions up to EUR 500,000 thousand in German-speaking countries.

These market opportunities described will, however, be limited by the relatively low balance sheet volume of Baader Bank in particular due to transactions with guaranteed components for large transaction mandates. In addition, the competition for mandates in traditional equity transactions will remain intense in 2017. The risk of not being awarded a role in transactions is correspondingly high. Irrespective thereof, the Executive Board of Baader Bank will continue to pursue the medium-term objective of generating steadily growing sales and income volumes in this core business segment in 2017.

3.2.2.3 Outlook for the Multi Asset Brokerage segment

The significant income drivers in the Multi Asset Brokerage segment are, as is largely the case for the On- & Off-Exchange Market Making and Capital Markets segments, the prevailing mood underlying the economy, the general developments in the equity market as well as volatile movements in the secondary markets. In order to generate order volumes in a market environment where growth and market share is tending to stagnate, in 2017 Baader Bank will focus on its proven brokerage activities in electronic trading, sales and sales trading/execution and focus more sharply on offering complementary services such as CSA brokerage and clearing services in specialist derivatives clearing.

For this purpose, the Bank follows a quality strategy and delivers high quality process mapping in securities trading across all asset classes on the basis of existing infrastructure and implements all the regulatory requirements.

In respect of its regional focus, Baader Bank is considered a local broker for the German-speaking region (Germany, Austria and Switzerland) for customers worldwide. A pan-European approach to market cultivation has not been pursued in the past nor is this likely to occur in the foreseeable future. Thus, attaining the market leadership position as the leading broker of specified product groups and services in the German-speaking region continues to be the highest strategic goal in this business segment. As in the Market Making segment, the primary risk in this segment is that institutional investors reduce their commission volumes and therefore also the number of brokers they work with. 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.

3.2.2.4 Outlook for the Banking Services segment
Baader Bank includes all the original B2B and B2B2C customer segment banking functions and services in the Banking Services segment renamed in 2016. The Bank is thus responding to the current upheavals in the German-speaking market in particular relating to asset managers where, besides traditional asset managers, who mainly serve a few customers with large volume portfolios, digital asset managers are increasingly joining the market. The online offers and attractive pricing models offered by fintechs are increasingly seriously competing with traditional bank consulting services as they tend to target a broader spectrum of investors who have lower investment volumes and thus have a significant market growth potential.

The increase in account and custody customers entails a need for additional services and interface solutions in order to be able to map the entire asset management process. This is where digital asset managers are initially meeting the limits of their in-house capacities in terms of infrastructure and expertise. As a full-service bank and full-service provider, Baader Bank follows an interface approach and acts as a partner for asset managers in account and custody account management, technical mapping of order management and reporting processes in a system in compliance with MiFID II and is part of a broad international trading network. With increased use of the existing infrastructure in this area, Baader Bank hopes to have a continuously frequented market interface through which a substantial share of its order volume can be generated in 2017 and subsequent years.

3.2.2.5 Outlook for the Asset Management Services segment
Baader Bank has a significant competitive advantages for its business activities in the Asset Management Services segment. In particular, the speed and quality of trading and the diversity of execution venues and tradable securities represent a unique selling proposition for Baader Bank compared to its competitors in this segment. For the current financial year, Baader bank expects to see significant growth across all asset classes and has identified an increased outsourcing requirement on the customer side due to the increasing regulation and thereby higher cost pressure for asset management companies. In order to fulfil its full-service approach, Baader Bank will in future also offer the takeover of buy-side trading desks in addition to its trading and regulatory expertise.

3.2.2.6 Outlook for the Research segment
The Equity Research Department of Baader Helvea is an important link between German-speaking corporate customers and international investors and, in connection with equities strategy and capital market expertise in line with the economy as well as an ETF research product, it continues to represent a significant factor in cementing its leading position as a local broker in Germany, Austria and Switzerland.

Research companies can expect to be faced with major changes in the market and competitive situation in 2017 and subsequent years and will have to comply with higher regulatory and legal requirements and thus rising costs. Baader Bank is therefore making a priority of investments in the quality of the analytical work based on its fundamental approach and focusing on companies in the German-speaking regions. Due to the continuing strong presence at international investor conferences and efficient networking with other brokerage service providers on the sales side, Baader Bank believes that, as a leading provider, it can take advantage of significant opportunities arising with respect to corporate access and demand in the international investor environment.

3.2.2.7 Outlook for the business development of subsidiaries
<u>CCPM AG</u>
With respect to the performance of managed assets (AuM), management fees and in respect of the income situation from profit participations, the business situation of CCPM AG will, in the future, continue to be characterised by the performance of the products it offers.

Given the significantly changing geopolitical situation, mainly caused by Brexit and the new US government, characterised by uncertainties and unknowns, higher volatility is expected in the markets during the course of the year. It is therefore probable that if CCPM AG implements its portfolio management as a combination of favourable fund performance and thus growth in AuM in financial year 2017, this will lead to a correspondingly positive business performance for CCPM AG.

The requirement for this will initially be that the results attained by the funds managed according to the Athena strategy will reach the old fund price highs. Should this succeed, additional significant sales and revenue enhancing effects are expected in 2017 which could result in an increase of approx. 10% to 30% in AuM.

With regard to the portfolio management of the TriStone UI fund, it will first be important to initiate a significant recovery in the fund price which could occur under favourable market conditions.

The positive income effects described should be sufficient to cover the company's overhead costs which are expected to be higher in 2017.

<u>Baader & Heins AG</u>
The most important goal of Baader & Heins in 2017 will be to secure the company's strong market position in the brokerage of debt instruments and in money market trading in a persistently difficult market environment. Above all, the company will strive to maintain its profitability. If the ECB continues to pursue a policy of low interest rates for a longer period of time, thereby causing investors to shift investments to equities, mutual funds, and real estate, a pronounced decline in the number of transactions and the volume of brokered securities cannot be ruled out. Although, contrary to expectations, commission income in 2016 was maintained at the previous year's level, the brokerage commissions as well as the resulting commission income for 2017 is lower by approximately 20% due to the continuing cautious assessment of business opportunities. Although earnings before taxes could generally drop, with an expected decline of 10% to 15%, the result could still be clearly positive. However, the company will seek to offset any negative exogenous conditions as much as possible through active cost management. The goal is to generate a solid profit in financial year 2017.

<u>SKALIS AG</u>
The business situation of SKALIS AG will, in the future, continue to be characterised by the performance of the managed public and special funds as well as the development in connection with the volume of AuM.

Despite a difficult year in 2016 in which below-average performance, in particular in the flagship product, SKALIS Evolution Flex, resulted in significant outflows of managed assets, the outlook for the future is characterised by cautious optimism. The consolidation process started in 2016 will continue in 2017. On the whole, a similar but more positive, stabilising market environment for the management strategy pursued is expected, with the best case scenario being a slight increase in AuM managed. An increase in fund inflows is directly related to the objective of attaining competitive relative performance (in comparison to the peer group) and using this approach to attain positive absolute performance in the managed funds. The sales and recognition of the SKALIS brand will be strengthened further in 2017 via targeted sales activities and the generation of media attention.

If business develops as planned for SKALIS AG, an expansion in the product portfolio by a further mutual fund during the course of next year is planned. This will round off the hybrid fund product portfolio and capture additional investor segments.

In addition, SKALIS AG aims to expand the product portfolio in the special fund segment, for instance by acquiring pure bond mandates.

The attainment of a break-even threshold forecast in the previous year for the start of 2018 has been postponed by a further two years to 2020 due to the company's difficult business situation.

<u>Baader Helvea Group</u>
The Baader Helvea Group will also make an important contribution to the successful support of its international clients in 2017; it therefore represents an important element of Baader Bank's consolidated Group-wide investment banking strategy in German-speaking countries in the Brokerage and Capital Markets segments of Baader Bank and the Group. As the integration of Baader Helvea in the Baader Bank Group has now been completed in full, far-reaching synergy effects will be realised. Due to the relocation of the headquarters to Zurich (Switzerland) and the resulting closure of the Geneva (Switzerland) branch in 2016, additional significant cost reductions are also expected.

3.2.3 Overall assessment of the future development of the Baader Bank Group

The basic environment in the markets in which Baader Bank operates will continue to present a major challenge in 2017 and subsequent years. Besides the strong competition and historically low trading volumes and transaction numbers, the introduction of MiFID II will drive the market consolidation forward and force smaller providers out of the market due to the rising costs for regulatory requirements and technology.

The infrastructure projects expected to be initiated after the new US President takes office, could, on the one hand, increase the international willingness to invest, however, it could also restrict export-oriented European corporations which could lead to continued restraint in capital measures.

A change to the interest rate policy by the central banks is not expected, at least for the first half of 2017, which would, in turn, have a positive effect in terms of reviving the equity markets.

Given these uncertainties, which are primarily of an exogenous nature, the Executive Board is of the opinion that reliable forecasts for the development of business can only be made with reservations. For this reason, the statements, expectations and forecasts on the future development of Baader Bank made in this Management Report are therefore based on the information and knowledge available to the company as at the closing date. The assumptions and premises underlying the forecasts and forward-looking statements are subject to the customary uncertainties, unknowns and risks.

Baader Bank faces no higher risks requiring special management due to the continuing low interest environment with, in some cases, negative interest rates. The deposit-taking and lending business of Baader Bank remains a component of its banking services and allows customers to finance their trading activities in financial instruments. Even though this continues to represent a basis for the execution of the core business segments, the deposit-taking and lending business is subject to short maturities (receivables and liabilities due on demand) and interest rate margins generated therefrom will also, in the future, not make a significant contribution to the overall earnings of Baader Bank.

The Executive Board is of the view that, should the proposed underlying conditions come to bear on international financial markets, the forecast sales and transaction volumes for 2017 in all the important financial instruments will increase moderately to significantly.

For the individual earnings components, this would mean a planned, slight increase in the company's commission income and trading income. Therefore, gross profit should be at least 10% above that of the previous year.

Relative to this, administrative expenses should not increase to the same extent, with the result that positive income from ordinary business activities can be expected at the Group level in financial year 2017. However, this assessment of the Executive Board is subject to the caveat of valuation risks, which cannot be ruled out due to the unknown factors relating to the general market situation.

4 Other disclosures

4.1 Corporate governance statement with the determinations and disclosures pursuant to Section 289a (2) no. 4, and (4) sentence 1 HGB

On 28 September 2015, the Executive Board passed a resolution on the determination of targets for the proportion of women at the two management levels below the Executive Board pursuant to Section 76 (4) AktG. The contents are as follows:

a) The first management level below the Executive Board comprises the employees of Baader Bank designated as "Managing Director". There are currently 20 employees at the first management level of which zero are female (corresponds to a share of 0%).
b) The second management level below the Executive Board comprises the employees of Baader Bank designated as "Executive Director". There are currently 25 employees at the second management level of which three are female (corresponds to a share of 12%).
c) The company's Executive Board has set the target for the proportion of women at the first management level of the company pursuant to Section 76 (4) AktG at 3.6% and has determined that this target will be reached by 30 June 2017.
d) The company's Executive Board has set the target for the proportion of women at the second management level of the company pursuant to Section 76 (4) AktG at 12% and has determined that this target will be reached by 30 June 2017.

On 28 September 2015, the Supervisory Board passed a resolution on the determination of targets for the proportion of women on the Executive Board and Supervisory Board pursuant to Section 111 (5) AktG. The contents are as follows:

a) For the Executive Board, a target for the proportion of women pursuant to Section 111 (5) AktG is set at 0%, which must be reached by 30 June 2017.
b) For the Supervisory Board, a target for the proportion of women pursuant to Section 111 (5) AktG is set at 16.67%, which must be reached by 30 June 2017.

4.2 "Closing statement on the subordinate status report pursuant to Section 312 AktG"

Baader Bank Aktiengesellschaft (Baader Bank AG) is a dependent company of Baader Beteiligungs GmbH, Unterschleißheim (Baader GmbH). Baader GmbH has a shareholding of 62.83% in Baader Bank AG. As no control agreement has been concluded between the companies, the Executive Board of Baader Bank AG is obliged to provide a report regarding the relationships with affiliated companies pursuant to Section 312 AktG, which concludes with the following declaration:

"According to the circumstances known to the Executive Board at the time, Baader Bank AG received appropriate consideration for the legal transactions or other measures undertaken or omitted and listed in the report regarding the relationships with affiliated companies. The company was not disadvantaged by the measures taken or omitted. All reportable transactions were resolved by the Executive Board and, if required by the Articles of Association or rules of procedure of Baader Bank AG, also approved by the Supervisory Board and presented in this dependency report."

Unterschleißheim, 15 March 2017

Baader Bank AG
The Executive Board

Nico Baader Dieter Brichmann Christian Bacherl Oliver Riedel

Report by the Supervisory Board

General
In the reporting year 2016, the Supervisory Board discharged the duties required of it by law and the Articles of Association. It received regular reports from the Executive Board on the position of Baader Bank Aktiengesellschaft and the Group, whilst monitoring and supporting the work of the Executive Board.

The Executive Board informed and discussed with the Supervisory Board, promptly and comprehensively, in writing and orally, issues relating to the business strategy and fundamental issues of future management, the financial position and strategic further development, the risk situation and risk management as well as significant transactions and important individual events. Any deviations of the company's plans and targets to the ordinary course of business and earnings were promptly discussed in detail and reviewed by the Supervisory Board. The Supervisory Board was included in all decisions of major importance.

Important topics and meetings of the Supervisory Board
In 2016, the Supervisory Board of Baader Bank held five meetings. The supervisory body focused on issues relating to the strategic further development of the Baader Bank and its business model. In addition, the effects of important regulatory and legal regulations such as MiFID II/MiFIR [Markets in Financial Instruments Directive II / Markets in Financial Instruments Regulation], the German Financial Market Amendment Act [Finanzmarktnovellierungsgesetz], and the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems [Institutsvergütungsverordnung] were discussed. Discussions also focused on the development of the result of operations and cost levels. Furthermore, significant projects and individual loan commitments were important points in the discussions between the Supervisory Board and the Executive Board in 2016. The Executive Board also informed the Supervisory Board of projects that were of particular significance between meetings.

In its monthly reports, the Executive Board provided information on key financial performance indicators and the risk position of Baader Bank Aktiengesellschaft and the Group to the Supervisory Board on an ongoing basis. The regular discussions focused on company figures, the Group's earnings performance and employment trends including those of its subsidiaries and equity investments, and the performance of all business segments.

If the Supervisory Board's consent was required for individual measures based on a law, the Articles of Association or the rules of procedure, a resolution was passed in this regard after thorough review and consultation. In principle, the Supervisory Board passes resolutions in meetings. If required, resolutions can also be passed outside of meetings by way of a written circular if directed by the Chairman of the Supervisory Board.

At the Supervisory Board meeting held on 20 December 2016, the future business and risk strategy as well as the corporate planning of Baader Bank was discussed in detail.

The Compliance Officer presented their detailed reports twice a year and the Head of Internal Audit presented their detailed annual review to the Chairman of the Supervisory Board. In addition, the Chairman of the Supervisory Board requests reports on important decisions and particular business transactions at regular meetings with the Executive Board. The Chairman of the Supervisory Board received the minutes of the Executive Board meetings in good time.

Audit of the annual financial statements and consolidated financial statements
The Executive Board of Baader Bank Aktiengesellschaft prepared the annual financial statements, the consolidated financial statements and the combined Group management report for financial year 2016 in accordance with the regulations of the German Commercial Code [Handelsgesetzbuch], the German Stock Corporation Act [Aktiengesetz] as well as the German Regulation on Accounting by Banks [Verordnung über die Rechnungslegung der Kreditinstitute].

The auditors of the annual financial statements and consolidated financial statements elected by the General Meeting of Shareholders, PriceWaterhouseCoopers Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the financial statements and the management report. The auditor conducted its audit of the annual financial statements in compliance with the German generally accepted accounting standards laid down by the German Institute of Public [Auditors Institut der Wirtschaftsprüfer (IDW)].

The Supervisory Board examined the aforementioned documents in detail. All the documents relating to the financial statements and the auditor's audit reports were provided to the members of the Supervisory Board in good time. The Supervisory Board discussed the documents relating to the financial statements in detail in the presence of the responsible auditor. The auditor reported on the significant results of the audit. Furthermore, the auditor detailed the scope and focal points of the audit.

The Supervisory Board acknowledged and endorsed the results of the audit and, after completing its own review, determined that it had no objections to raise. The Supervisory Board approved the annual financial statements, consolidated financial statements and combined Group management report prepared by the Executive Board and audited by the auditor in its meeting held on 28 March 2017. The annual financial statements are therefore adopted.

Appropriation of profits
Lastly, the Supervisory Board reviewed the Executive Board's proposal for the appropriation of profits and agreed with this proposal after having taken into consideration the net profit for the year as well as the liquidity situation and financial planning of the company.

Subordinate status report
In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive Board prepared a report on the company's relationships with affiliated companies. The auditor, PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, reviewed the subordinate status report of the Executive Board in compliance with the legal regulations and issued the following unqualified audit opinion:

"In accordance with our mandatory audit and in our opinion, we confirm that

1. the factual disclosures in the report are correct and
2. the company's payments for the legal transactions set out in the report are not inappropriate in amount, and
3. the measures detailed in the report do not support a judgement materially different to that reached by the Executive Board."

The Supervisory Board acknowledged and endorsed the results of the audit of the final report and, after completing its own review, determined that it had no objections to raise.

Composition of the Executive Board and Supervisory Board
No changes were made to the composition of the Executive Board and Supervisory Board in financial year 2016.

Thanks to the Executive Board and employees
In conclusion, the Supervisory Board of Baader Bank thanks the Executive Board and all the company's employees for their motivated, constructive and responsible work in the past financial year.

Unterschleißheim, 28 March 2017
The Supervisory Board

Dr. Horst Schiessl
Chairman

Consolidated financial statements

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Consolidated Statement of Financial Position

as as of 31. December 2016

Assets in EUR		**31.12.2016**		**31.12.2015**
1. Cash reserves				
a) Cash on hand	214.07		688.35	
b) Credit balances with central banks	74,310,403.40	**74,310,617.47**	14,591,844.40	14,592,532.75
of which:				
with the German Bundesbank EUR 74,310,403.40 (previous year: EUR 14,591,844.40)				
2. Loans and advances to banks				
a) Due on demand	74,328,257.67		98,203,620.07	
b) Other loans and advances	20,838,042.40	**95,166,300.07**	18,863,236.90	117,066,856.97
3. Loans and advances to customers		**34,988,108.50**		30,252,520.34
4. Debt securities and other fixed income securities				
a) Bonds and debt securities				
aa) From public issuers	53,192,518.87		39,188,707.13	
of which:				
Acceptable as collateral with the German Bundesbank EUR 53,192,518.87 (previous year: EUR 39,188,707.13)				
ab) From other issuers	151,709,728.15	**204,902,247.02**	185,814,685.32	225,003,392.45
of which:				
Acceptable as collateral with the German Bundesbank EUR 79,757,298.45 (previous year: EUR 102,349,359.54)				
5. Equities and other variable-income securities		**23,534,164.50**		27,123,977.09
5a. Trading portfolio		**54,301,142.86**		59,994,930.69
6. Equity investments		**233,947.33**		233,947.00
of which:				
in financial services institutions 231,336.00 (previous year: EUR 231,336.00)				
7. Investments in associated companies		**5,283,558.44**		5,733,856.84
8. Intangible assets				
a) Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	15,334,932.04		18,732,272.04	
b) Goodwill	5,358,600.27		7,920,158.91	
c) Advance payments made	308,657.58	**21,002,189.89**	353,914.62	27,006,345.57
9. Property, plant and equipment		**41,907,770.07**		43,979,769.16
10. Other assets		**13,595,076.48**		15,986,427.47
11. Prepaid expenses and deferred charges		**2,515,321.17**		2,606,394.35
12. Excess of plan assets over pension liabilities		**6,795,656.92**		6,748,804.08
Total assets		**578,536,100.72**		**576,329,754.76**

Equity and liabilities in EUR			**31.12.2016**		**31.12.2015**
1. Bank loans and advances					
a) Due on demand		15,523,736.98		21,213,409.89	
b) With agreed term or notice period		45,650,324.87	**61,174,061.85**	32,009,051.65	53,222,461.54
2. Payables to customers					
a) Other liabilities					
aa) Due on demand		182,893,013.52		154,536,003.46	
ab) With agreed term or notice period		199,981,665.11	**382,874,678.63**	231,494,758.92	386,030,762.38
3. Trading portfolio			**2,115,622.75**		1,686,026.66
4. Other liabilities			**4,658,532.56**		4,929,258.22
5. Provisions					
a) Provisions for pensions and similar obligations		1,595,426.35		1,588,796.51	
b) Tax provisions		636,623.40		264,942.88	
c) Other provisions		7,346,477.21	**9,578,526.96**	6,916,527.46	8,770,266.85
6. Fund for general banking risks					
of which:					
Special item pursuant to Section 340e (4) HGB		22,120,000.00	**22,120,000.00**	21,536,000.00	**21,536,000.00**
8. 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	23,312,827.22			26,689,372.29	
cb) Difference in equity due to currency conversion	1,252,110.92	24,564,938.14		1,540,992.51	
d) Minority interests		1,028,993.31		1,408,002.91	
e) Consolidated net loss		−6,642,205.09	**96,014,677.97**	−6,546,340.21	100,154,979.11
Total shareholders' equity and liabilities			**578,536,100.72**		**576,329,754.76**
Contingent liabilities					
a) Liabilities from guarantees and indemnity agreements			**13,255,293.85**		5,340.00
Other obligations					
a) Irrevocable loan commitments			**12,197,309.65**		10,096,585.66

Consolidated Income Statement

FOR THE PERIOD FROM 1. JANUAR 2016 TO 31. DEZEMBER 2016

in EUR			31.12.2016		31.12.2015
1. Interest income from					
a) Credit and money market transactions	436,522.70			624,220.89	
b) Fixed-income securities and debt register claims	8,604,546.07	9,041,068.77		9,124,501.75	
2. Interest expenses		−6,953,736.11	**2,087,332.66**	−9,169,569.06	579,153.58
3. Current income from					
a) Equities and other variable-yield securities		1,120,381.54		1,851,269.83	
b) Equity interests		19,278.00	**1,139,659.54**	64,504.80	1,915,774.63
4. Commission income		61,895,528.90		74,500,201.66	
5. Commission expenses		−21,148,850.19	**40,746,678.71**	−24,352,687.37	50,147,514.29
6. Net profit from trading portfolio			**52,808,369.72**		52,552,521.43
7. Other operating income			**2,328,363.00**		5,088,405.06
8. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries	−45,455,974.21			−44,670,470.54	
ab) Social security, pension and other benefit expenses	−4,833,405.62	−50,289,379.83		−9,538,899.19	
thereof:					
for pensions EUR 859,680.45 (previous year: EUR −3,498,724.48)					
b) Other administrative expenses		−38,329,613.04	**−88,618,992.87**	−39,942,306.93	−94,151,676.66
9. Depreciation, amortization and impairments of intangible assets and property, plant and equipment			**−9,942,558.00**		−10,990,932.55
10. Other operating expenses			**−3,014,529.48**		−2,299,423.64
11. Value adjustments and impairments of receivables and certain securities, and appropriations to credit risk provisions			**0.00**		−6,704,386.62
Amount carried forward			**−2,465,676.72**		−3,863,050.48

in EUR		**31.12.2016**		**31.12.2015**
Amount carried forward		**−2,465,676.72**		−3,863,050.48
12. Income from the write-up of receivables and certain securities as well as the reversal of provisions in the lending business		**1,366,527.63**		0.00
13. Depreciation, amortisation and write-downs on equity investments, shares in affiliated companies and securities treated as assets		**0.00**		−2,884,114.64
14. Net income from interests in associates		**−450,298.40**		−2,559,774.61
15. Expenses from the allocation of the Fund for general banking risks		**−584,000.00**		0.00
of which:				
additions pursuant to Section 340e (4) HGB EUR −584,000.00 (previous year: EUR 0.00)				
16. Income from the liquidation of the fund for general banking risks		**0.00**		1,714,000.00
of which:				
Reversals pursuant to Section 340e (4) HGB EUR 0.00 (previous year: EUR 1,714,000.00)				
17. Profit/loss on ordinary activities		**−2,133,447.49**		−7,592,939.73
18. Taxes on income		**−969,599.61**		−636,517.93
19. Other taxes not recognised under item 10		**−515,755.96**		−166,822.75
20. Consolidated net profit before minority interests		**−3,618,803.06**		−8,396,280.41
21. Minority interest in net income		**137,383.65**		19,148.27
22. Profit / loss of the parent company brought forward		**−6,546,340.21**		918,189.00
23. Withdrawals from retained earnings				
a) from other retained earnings	9,540,837.17	**9,540,837.17**	4,846,822.69	4,846,822.69
24. Transfers to retained earnings				
a) to other retained earnings	−6,155,282.64	**−6,155,282.64**	−3,934,219.76	−3,934,219.76
25. Consolidated net loss		**−6,642,205.09**		**−6,546,340.21**

Statement of Changes in Equity of the Baader Bank Group

AS OF 31.12.2015 AND 31.12.2016

Financial year 2016			**Parent company**	
	Subscribed capital		**Consolidated earnings**	
in EUR '000	**Ordinary shares**	**Capital reserve**	**Retained earnings**	**Balance sheet profit / loss**
As at 1 January 2016	**45,909**	**31,431**	**26,689**	**−6,546**
Purchase / withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	0
Change in group of consolidated companies	0	0	138	0
Other changes	0	0	−129	0
Consolidated net profit for the year	0	0	0	−3,481
Other consolidated income	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**−3,481**
Transfer to / withdrawal from reserves	0	0	−3,385	3,385
As at 31 December 2016	**45,909**	**31,431**	**23,313**	**−6,642**

Financial year 2015			**Parent company**	
	Subscribed capital		**Consolidated earnings**	
in EUR '000	**Ordinary shares**	**Capital reserve**	**Retained earnings**	**Balance sheet profit / loss**
As at 1 January 2015	**45,909**	**31,431**	**27,781**	**1,374**
Purchase / withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	−456
Change in group of consolidated companies	0	0	0	0
Other changes	0	0	−179	0
Consolidated net profit for the year	0	0	0	−8,377
Other consolidated income	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**−8,377**
Transfer to / withdrawal from reserves	0	0	−913	913
As at 31 December 2015	**45,909**	**31,431**	**26,689**	**−6,546**

Treasury shares	Equity	Difference in equity due to currency conversion	Minority interests Minority equity	Consolidated equity
−277	**97,206**	**1,541**	**1,408**	**100,155**
0	0	0	0	0
0	0	0	−313	−313
0	138	−293	71	−84
0	−129	0	0	−129
0	−3,481	0	−137	−3,618
0	0	4	0	4
0	**−3,481**	**4**	**−137**	**−3,614**
0	0	0	0	0
−277	**93,734**	**1,252**	**1,029**	**96,015**

Treasury shares	Equity	Difference in equity due to currency conversion	Minority interests Minority equity	Consolidated equity
−277	**106,218**	**534**	**1,996**	**108,748**
0	0	0	0	0
0	−456	0	−569	−1,025
0	0	0	0	0
0	−179	0	0	−179
0	−8,377	0	−19	−8,396
0	0	1,007	0	1,007
0	**−8,377**	**1,007**	**−19**	**−7,389**
0	0	0	0	0
−277	**97,206**	**1,541**	**1,408**	**100,155**

Cash flow statement of the Baader Bank Group

in EUR '000	2016	2015
1. Net income/loss for the period (incl. shares of minority interests)	**−3,619**	**−8,396**
Non-cash items and reconciliation to the cash flow from ordinary activities included in net income/loss for the period:		
2. Amortisation and depreciation, write-downs and write-ups on receivables and fixed assets	4,735	24,194
3. Change in provisions	808	−2,502
4. Other non-cash expenses/income	1,597	−5,682
5. Gains and losses from the disposal of fixed assets	8	191
6. Other adjustments (net)	−4,172	595
7. Sub-total	**−643**	**8,400**
Change in assets and liabilities from ordinary activities:		
8. Loans and advances		
8a. to banks	21,782	81,335
8b. to customers	−5,018	6,925
9. Securities (unless fixed assets)	34,873	−9,772
10. Other assets from operating activities	2,436	−2,786
11. Bank loans		
11a. Bank loans	7,972	−34,300
11b. Payables to customers	−2,743	−30,474
12. Liabilities held for trading	430	−6,998
13. Other liabilities from operating activities	−271	−2,087
14. Interest and dividends received	11,626	9,933
15. Interest paid	−7,377	−8,982
16. Income tax payments	−77	−1,545
17. Cash flow from operating activities	**62,990**	**9,649**
18. Proceeds from the disposal of		
18a. financial assets	0	1,096
19. Payments made for investments in		
19a. financial assets	−987	0
19b. Property, plant and equipment and intangible assets	−1,874	−4,548
20. Payments made for the acquisition of consolidated companies and other business units	0	0
21. Cash flow from investing activities	**−2,861**	**−3,452**
22. Payments to business owners and minority interests		
22a. Dividend payments	0	−456
22b. Other payments	0	0
23. Changes in cash flow from other loan capital (net)	−313	−569
24. Cash flow from financing activities	**−313**	**−1,025**
25. Net change in cash and cash equivalents (the sum of 17, 21 and 24)	**59,816**	**5,172**
26. Effects of changes in exchange rates, group of consolidated companies and measurement on cash and cash equivalents	−388	996
27. Cash and cash equivalents at start of period	**25,726** [1]	**19,558** [1]
28. Cash and cash equivalents at end of period	**85,154**	**25,726**

1 Sight deposits are included if they are used to meet short-term payment obligations.

Notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

I. Basis of preparation

The consolidated financial statements of Baader Bank AG for financial year 2016 were 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 e.V. – DRSC) and published by the German Ministry of Justice (Bundesministerium der Justiz – BMJ) pursuant to Section 342 (2) HGB.

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

For the purposes of clarity, all amounts are reported in thousands of euros. For computational reasons, rounding differences of +/- one unit can occur in the tables.

The balance sheet date is 31 December 2016. The financial year is the same as the calendar year. Baader Bank Aktiengesellschaft, with registered office in Unterschleißheim, is registered at the Munich Local Court under commercial register number HRB 121537.

II. Accounting policies

When measuring assets and liabilities reported in the consolidated financial statements, the general measurement principles (Sections 252 et seqq. HGB), the special provisions for companies (Sections 264 et seqq. HGB) and the supplementary provisions applying to banks and financial services institutions (Sections 340 et seqq. HGB) were observed.

In the interests of better clarity and ease of understanding, the notes optionally required on the balance sheet, income statement and notes to the annual financial statements are presented in the notes to the annual financial statements. 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 were recognised at the nominal amount.

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 pursuant to Section 340f (3) 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) 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) HGB). Offsetting permitted pursuant to Section 340c (2) HGB is applied. The measurement option pursuant to Section 340e (1) Sentence 3 HGB in conjunction with Section 253 (3) Sentence 6 HGB is not exercised.

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 their acquisition cost or lower stock market value or lower fair value under the strict lower of cost or market principle pursuant to Section 253 (1) and (4) HGB.

Fair value in accordance with Section 255 (4) HGB generally corresponds to the market price. If no market price can be determined as at the balance sheet date, the fair value is determined in accordance with recognised valuation models. If no fair value can be calculated, the acquisition cost is amortised as set out in Section 255 (4) Sentence 4 HGB.

Trading portfolio

Financial instruments in the trading portfolio are initially measured at the acquisition cost. Subsequent measurement is carried out in accordance with Section 340e (3) HGB in conjunction with IDW RS BFA Statements 2 and 5 at fair value less a risk discount for financial assets, or plus a risk premium for financial liabilities. If there is no daily market valuation for derivative financial instruments, the fair value for options is determined by means of the Black Scholes model; the arbitrage-free valuation model is used for futures. Baader Bank AG values American options using Barone-Adesi/Whaley approximation (1987). Foreign currency options are valued using the Garman/Kohlhagen model (1983).

The starting point for calculating the risk discount 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 to calculate the market price risk. For the subsidiaries included in the consolidated financial statements, the risk assessment is carried out based on sensitivity (delta-normal method). A confidence level of 99% is assumed for the calculation and the required parameters (volatilities, correlations, etc.) are estimated on the basis of historical data. Holding periods relevant to the portfolio of between 6 hours and 10 days are used for the calculation as at 31 December 2016. The determination of the holding period is updated on a quarterly basis.

Value at risk is calculated at the end of every month for all proprietary trading portfolios.

The risk discount was determined for all portfolios held for trading – assets and liabilities. As it is not possible to correctly allocate this amount to the trading portfolio assets and liabilities for the individual classes, the risk discount is in general taken into account for the larger of the respective portfolios. As at 31 December 2016, the allocation of the trading portfolio assets and derivative positions was correctly allocated to the trading portfolio assets and liabilities.

There were no changes to the criteria set by the Bank for including financial instruments in the trading portfolio in financial year 2016.

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) 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 2016 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 accounted for at their nominal amount as other assets.

- Margin liabilities from futures transactions are accounted for at their nominal amount as other liabilities.

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. Banks' business activities in the context of the banking book generally do not allow direct allocation of individual financial instruments to each other. 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 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 has made use of the option not to include the directly allocable refinancing of non-interest-bearing assets or the corresponding assets. Baader Bank 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. There is no excess liability for the Baader Bank Group as at the balance sheet date. 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 and associates are accounted for in accordance with the regulations applicable to assets regarding amortised cost. If an impairment appears to be permanent, unscheduled depreciation is undertaken. 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. Standardised Group accounting and valuation principles were not applied to the associated companies if the effects on assets and earnings resulting from not carrying out any modifications were not material.

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 scheduled amortisation. If an impairment appears to be permanent, unscheduled depreciation is undertaken.

The goodwill arising from mergers and acquired order books is, in principle, written down according to the individual useful life. If an impairment appears to be permanent, unscheduled depreciation is undertaken.

Property, plant and equipment are measured at their acquisition costs less scheduled straight-line depreciation. Depreciation is calculated on a pro rata basis. Low-value assets with a value of up to EUR 150.00 (net) are recognised immediately as expenses through the income statement. In addition, low-value assets with a value of up to EUR 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 the low-value assets combined in the collective item, or their disposals, 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 amounts.

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 (10-year average). As at the reporting date, the Deutsche Bundesbank (the German central bank) had set this interest rate at 4.01%. The comparative interest rate used for the required disclosures in the notes to the annual financial statements (7-year average) is 3.24% and is also set by the Deutsche Bundesbank.

Assets used exclusively for meeting pension obligations are settled at this rate in accordance with Section 246 (2) sentence 2 HGB.

Other provisions are measured at their required settlement amount arising in compliance with Section 253 (1) HGB in accordance with the principles of prudent commercial judgement. 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.

Fund for general banking risks
The fund for general banking risks includes amounts required to secure against general banking risks, in accordance with prudent commercial judgement. Independently of this, separate allocations are also made to the fund out of net income from the trading portfolio, pursuant to Section 340e (4) HGB.

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 under Section 274 (1) HGB, the resulting asset surplus is not recognised on the balance sheet.

Acquisition of treasury shares
The nominal value of treasury shares acquired is shown in the first column as a separate line item to 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 the Treasury shares are sold again, they are not deducted in the first column. Any difference exceeding the imputed value arising from the disposal proceeds is transferred to the respective reserve up to the amount offset against freely available reserves. Any further difference is allocated to the capital reserve, while any loss arising on sale is charged to retained earnings.

Currency translation
Gains or losses from foreign currency translation are treated depending on whether the foreign currency transactions are allocated to the trading portfolio or covered specifically. There was no specific cover as at the balance sheet date. If the gains or losses are allocated to the trading portfolio, both the expenses and the income from the foreign currency translation are recognised through the income statement and shown under net trading income. However, for foreign currency items with a remaining term of more than one year, only the expenses from the foreign currency translation are taken into account through the income statement in accordance with the imparity principle and recognised under other operating expenses. For foreign currency items with a remaining year term of up to one year, gross expenses and income are recognised under other operating income.

Net interest
Negative interest from the lending business is included in interest income. Interest income includes the interest income realised during the course of the financial year reduced by negative interest. Corresponding to this, negative interest from deposit-taking transactions reduces the interest expense accordingly.

III. Changes in accounting policies

There were no changes in accounting policies in the 2016 financial year.

IV. Group of consolidated companies

The consolidated financial statements as at 31 December 2016 include Baader Bank AG as the parent company and a total of six subsidiaries (previous year: seven subsidiaries) (Baader Bank Group). Baader Bank AG holds more than 50% of the shares in these subsidiaries, directly or indirectly, or exercises control over them. Three of these companies are based in Germany, and three are headquartered abroad.

The following companies were included in the consolidated financial statements as at 31 December 2016, and were consolidated in full: → Table 10

During the past financial year, changes to the group of consolidated companies arose due to the liquidation of **Conservative Concept AG, Zug.** Until the date of liquidation, Baader Bank AG had an indirect investment in the company via **Conservative Concept Portfolio Management AG, Frankfurt am Main.** During the course of the liquidation, all the assets and liabilities were transferred to **Conservative Concept Portfolio Management AG.** In compliance with Section 294 (2) HGB, there were no material changes due to the liquidation that would affect the comparability of the net assets, financial position and results of operations of the consolidated financial statements in consecutive financial years. A liquidation gain in the amount of EUR 83 thousand arose from the company's liquidation.

Baader Bank AG's direct investment is unchanged at 100% of the shares in **Baader Helvea AG, Zurich,** (formerly: **Helvea SA, Geneva**). In the past financial year, its registered office were moved to Zurich (Switzerland) and the name was changed to **Baader Helvea AG, Zurich.** The company was entered in the commercial register in May 2016.

In addition, subsequent acquisition costs in the amount of EUR 131 thousand arising from contractual side agreements were recognised in financial year 2016.

In **Baader Unterstützungskasse e.V., Unterschleissheim,** Baader Bank AG maintains a special purpose vehicle within the meaning of Section 290 (2) number 4 HGB for which there is, in principle, an obligation to include same in the consolidated financial statements. However, due to immateriality it was not consolidated on 31 December 2016, as permitted by Section 296 (2) Sentence 1 HGB.

The following associated companies were included in the consolidated financial statements: → Table 11

As at 31 December 2016, Baader Bank AG continues 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 Executive Board in financial year 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 EUR 1.00.

Table 10 Group of consolidated companies in EUR '000

Name / Registered office	Share of capital in %	Share capital	Equity	Total assets	Net profit / loss for the year	Initial consolidation
Baader Helvea AG (formerly: Helvea SA), Zurich (Switzerland) [3]	100.00	4,967	6,460	9,276	1,162	31 August 2013
Baader Helvea Inc. (formerly: Helvea Inc.), New York (United States of America) [1, 4]	100.00	277	3,620	4,032	−1,436	31 August 2013
Baader Helvea Ltd. (formerly: Helvea Ltd.), London (United Kingdom) [1, 5]	100.00	943	613	900	−1,348	31 August 2013
SKALIS Asset Management AG, Unterschleissheim [2]	100.00	50	497	605	−905	31 December 2003
Baader & Heins Capital Management AG, Unterschleissheim	75.00	50	3,998	6,195	152	1 January 2005
Conservative Concept Portfolio Management AG, Frankfurt am Main	66.07	140	2,449	2,830	141	1 October 2006

1 Indirect holding via the investment in Baader Helvea AG (formerly: Helvea SA, Geneva (Switzerland)).
2 Indirect holding via the investment in Baader & Heins Capital Management AG, Unterschleissheim.
3 The figures for the financial year as at 31 December 2016 have been translated (EUR/CHF 1.07390).
4 The figures for the financial year as at 31 December 2016 have been translated (EUR/USD 1.05410).
5 The figures for the financial year as at 31 December 2016 have been translated (EUR/GBP 0.85618).

Table 11 Associated companies in EUR '000

Name / Registered office	Share of capital in %	Carrying amount of the shares	Equity	Total assets	Net profit / loss for the year	Market value of the shares
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	30.00	4,178	16,426 [1]	23,055 [1]	−827 [1]	n/a [3]
Ophirum ETP GmbH, Frankfurt am Main	50.00	1,106	383 [2]	4,523 [2]	−142 [2]	n/a [3]

1 Figures based on the unaudited annual financial statements for the period ending 31 December 2016. Equity, total assets and net profit for the financial year have been translated (EUR/OMR 0.4049).
2 Figures based on the annual financial statements for the period ending 31 December 2016.
3 No published market price available as at 31 December 2016.

V. Consolidation methods

The consolidated financial statements include financial information of 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 the subsidiaries if it can determine their financial and business policies. This is generally assumed if 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. Likewise, any organisational changes are taken into account immediately. Besides changes in ownership, these also include any changes to the Group's existing contractual obligations and any new obligations entered into with an entity.

The financial statements of the subsidiaries included in the Baader Bank Group are prepared according to uniform accounting policies.

Subsidiaries are generally fully consolidated in accordance with the principles set out in Sections 300 et seq. 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 amount method for the capital consolidation of subsidiaries (acquired before 31 December 2009), depending on the method of acquisition. In addition, pursuant to Section 301 (1) HGB it is mandatory to use the revaluation method for acquisitions from 1 January 2010.

The Baader Bank Group makes use of this option and continues to use the carrying amount method for all subsidiaries acquired up to 31 December 2008. The revaluation method is used for subsidiaries acquired from 1 January 2009.

Carrying amount method

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

The difference between the proportional equity and the carrying amount 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 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 recognised on the balance sheet, assets and liabilities that have not yet been recognised are also recorded. The revaluation of the assets and liabilities results in 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 these written down in accordance with the individual useful life.

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 as at 1 January of each financial year, the items in the subsidiary's income statement are fully incorporated into the consolidated income statement. If a subsidiary is consolidated for the first time during the course of the year, the items 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) HGB). Refer also to the "Equity investments" section for more information.

Due to immateriality, one special-purpose vehicle was not consolidated as at 31 December 2016. As the Bank's intention was to dispose of a subsidiary, it was not included in the consolidated financial statements in compliance with Section 296 (1) number 3 HGB. More information is available in the "Group of consolidated companies" section.

Associates

An associate is a company over which the Group exercises 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.

In accordance with Section 311 (1) 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 the equity value exceeds the fair value, unscheduled amortisation is undertaken. If the reason for the unscheduled amortisation ceases to exist, the write-down is reversed.

Goodwill these written down in accordance with the individual useful life. 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 disposes of the interests in an associated company, in whole or in part, the gain or loss on disposal is determined by offsetting the disposal proceeds realised against the equity value attributable to the outgoing interest. 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 associated companies remained unchanged in financial year 2016. In addition, the Group continued to have significant influence over its associates as at 31 December 2016.

Table 12 Foreign currency holdings in EUR '000

Currency	Loans and advances (customers and banks)	Securities, equity investments and associates	Other assets	Payables (customers and banks)	Other liabilities
AUD	141	0	0	142	0
BRL	216	0	0	226	0
CAD	168	340	0	500	0
CHF	4,663	12	744	1,019	753
CZK	0	0	0	0	0
DKK	0	2	0	2	0
GBP	970	5	241	462	328
HKD	971	0	0	951	12
HUF	0	0	0	0	0
INR	19	0	0	0	0
JPY	3,223	185	0	3,370	28
MYR	2	0	0	0	0
NOK	106	0	0	95	0
NZD	162	0	12	174	0
OMR	40	4,178	0	39	0
PLN	19	0	0	25	0
SEK	81	0	0	81	0
SGD	0	0	0	0	0
THB	0	0	0	6	0
TRY	0	0	0	0	0
USD	41,930	24,855	327	53,629	479
ZAR	0	233	0	233	0
	52,711	**29,810**	**1,324**	**60,954**	**1,600**

VI. Notes to the balance sheet

Foreign currency holdings

As at the balance sheet date, assets in foreign currency amounted to (translated) EUR 83,845 thousand (previous year: EUR 83,701 thousand). Liabilities denominated in foreign currency totalled EUR 62,554 thousand (previous year EUR 58,981 thousand). This involved the following balance sheet items: → **Table 12**

The foreign currency translation resulted in expenses amounting to EUR 39 thousand (previous year: EUR 519 thousand) which are recognised under other operating expenses, and income in the amount of EUR 0 thousand (previous year: EUR 102 thousand) recognised under other operating income. The expenses arising from foreign currency translation relating to the trading portfolio amounted to EUR 44 thousand (previous year: EUR 794 thousand) and are recognised under net income from the trading portfolio.

Loans and advances to banks

Loans and advances to banks comprise bank balances due on demand in the amount of EUR 43,501 thousand (previous year: EUR 70,208 thousand) as well as loans and advances due on demand and other loans and advances in the amount of EUR 51,665 thousand (previous year: EUR 46,859 thousand).

Loans and advances to customers

Loans and advances to customers amount to EUR 34,988 thousand (previous year: EUR 30,253 thousand).

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities totalled EUR 204,902 thousand and did not include any loans and advances to affiliated companies. → **Table 13**

Table 13 Debt securities and other fixed-income securities in EUR '000

	31/12/2016	31/12/2015
Bonds and debt securities	201,339	220,161
Accrued interest	3,563	4,842
Debt securities and other fixed-income securities	**204,902**	**225,003**

In the coming year, bonds and debt securities totalling EUR 24,935 thousand will fall due.

Equities and other variable-income securities

As at 31 December 2016, Baader Bank AG recognises a class allocated to the category "assets treated as fixed assets" under equities and other variable-income securities. A market price on an active market was not available as at 31 December 2016. Baader Bank AG determined the fair value pursuant to Section 255 (4) HGB using a DCF model as at the balance sheet date. They were no signs of a permanent impairment that would result in further amortisation (previous year: EUR 2,774 thousand).

Breakdown of residual maturities

The maturities of the loans and advances and liabilities reported in the balance sheet are as follows: → **Table 14**

Breakdown of marketable securities by listed and unlisted securities: → **Table 15**

Fixed assets

The recognised goodwill arising from the merger between DBM Deutsche Börsenmakler GmbH and Baader Service Bank GmbH is written down on a straight-line basis over 10 years.

Taking into account the actual benefit of the customer business acquired and transferred to Baader Bank AG due to the merger, as well as due to the actual useful lives of the goodwill acquired in the past, it is clear that a useful life of 5 years is entirely insufficient.

The same applies to the goodwill recognised due to fully consolidated and associated companies arising from the takeover of **Helvea Holding SA, Geneva,** and the investment in **Ophirum ETP GmbH, Frankfurt am Main** from financial year 2013.

All the land and buildings recognised in the schedule of fixed assets are used by the Baader Bank Group in the context of its activities. No intangible assets produced in-house were recognised.

The movements in and composition of fixed assets are shown in the following schedule of fixed assets: → **Table 16**

Other assets

Other liabilities include: → **Table 17**

Table 17 Other assets in EUR '000

	31/12/2016	31/12/2015
Equity interests	8,848	8,829
Other tax receivables	2,754	3,491
Corporate tax credit	1,479	2,952
Other receivables	276	375
Receivables from brokerage fees, exchange rate differences and transaction fees	195	168
Reinsurance claims from life insurance policies	43	20
VAT receivables	0	151
Other assets	**13,595**	**15,986**

Other assets primarily include available-for-sale equity holdings that the Baader Bank Group acquired in financial year 2015 as part of a loan commitment restructuring due to the waiver of a claim arising from a loan agreement. There are no receivables from members of the Executive Board and the Supervisory Board.

Table 14 Breakdown of residual maturities in EUR '000

	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	2,269	10,569	0	8,000
Loans and advances to customers	24,678	3,270	179	6,861
Bank loans and advances with an agreed term or notice period	10,906	9,987	4,992	19,765
Payables to customers with an agreed term or notice period	12,639	32,843	79,500	75,000

Table 15 Breakdown of marketable securities in EUR '000

	Non-marketable securities	Marketable securities		Marketable securities not measured at the lower of cost or market value
		Listed	Unlisted	
Bonds and debt securities	0	204,902	0	0
Equities and other variable-income securities	0	23,160	374	0
Investments in associated companies	5,284	0	0	–
Equity investments	3	0	231	–

Table 16 Fixed assets in EUR '000

	Cost of acquisition or production				
	As at 01/01/2016	Additions	Pro rata result	Transfers	Disposals
A. Intangible assets					
1. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	66,198	1,110	0	161	−329
2. Goodwill	26,442	130	0	0	0
3. Advance payments for intangible assets	354	116	0	−161	0
	92,994	**1,356**	**0**	**0**	**−329**
B. Property, plant and equipment					
1. Land and buildings	55,848	173	0	238	0
2. Furniture and office equipment	7,918	106	0	2	−303
3. Advance payments for property, plant and equipment and assets under construction	0	240	0	−240	0
	63,766	**519**	**0**	**0**	**−303**
C. Financial assets					
1. Equity investments	2,449	0	0	0	0
2. Associates	8,333	0	−319	0	0
3. Securities held as fixed assets	14,608	986	0	0	0
	25,390	**986**	**−319**	**0**	**0**

Prepaid expenses and deferred charges
Prepaid expenses and deferred charges relate to an amount of EUR 63 thousand (previous year: EUR 74 thousand) in differences from the issue of promissory note loans recognised on the assets side pursuant to Section 250 (3) HGB. This difference is released pro-rata over the remaining term on a straight-line basis.

Bank loans and advances
Bank loans and advances are primarily used to finance the office building in Unterschleissheim and to refinance the securities trading business.

Payables to customers
As at the balance sheet date, customer deposits due on demand amounted to EUR 182,893 thousand (previous year: EUR 154,536 thousand) and payables to customers with an agreed term or notice period amounted to EUR 199,982 thousand (previous year: EUR 231,495 thousand) which were primarily attributed to promissory note loans issued.

Other liabilities
Other liabilities include: → **Table 18**

Table 18 Other liabilities in EUR '000

	31/12/2016	31/12/2015
Trade payables	1,829	2,261
Tax liabilities	1,900	1,222
Other liabilities	930	1,446
Other liabilities	**4,659**	**4,929**

Pension provisions
As at 31 December 2016, pension provisions amounted to EUR 14,330 thousand (previous year: EUR 15,592 thousand) and are determined using the procedure described in the "Liabilities and provisions" section. For the reinsurance of liabilities, bank accounts, custody accounts and reinsurance policies are available.

The actuarial calculations are based on the following parameters: → **Table 19**

In compliance with Section 253 (6) HGB, a difference of EUR 898 thousand arises between the recognition of provisions using the relevant average market interest rate of the past 10 financial years and the recognition of the provision using the relevant average market interest rate of the past 7 financial years.

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 2016.

Plan assets
→ **Table 20**

Table 20 Plan assets in EUR '000

	31/12/2016	31/12/2015
Cost	19,902	14,456
Fair value	19,530	20,752
Offset liabilities	12,734	14,003

Bank deposits, reinsurance policies and securities accounts qualifying as plan assets are netted against the pension obligations. In addition, an excess of plan assets over pension liabilities totalling EUR 6,796 thousand is reported within assets (previous year: EUR 6,749 thousand). On a net basis, this results in a balance sheet recognition of pension provisions in the amount of EUR 1,595 (previous year: EUR 1,589 thousand). Income and expenses from the offset assets are recognised in the net amount of EUR 1,669 thousand in compliance with Section 246 (2) HGB under the item "other operating income". Expenses in the amount of EUR 1,793 thousand were offset against income in the amount of EUR 124 thousand under application of Section 246 (2) sentence 2 HGB.

Table 19 Actuarial calculations in %

	31/12/2016	31/12/2015
Actuarial interest rate	4.01	3.88 bzw. 3.89
Changes in salaries	2.00 bis 3.00	2.00 bis 3.00
Pension adjustments	1.80 bis 2.00	1.80 bis 2.00

Depreciation and amortisation				Carrying amount	
As at 01/01/2016	of which 2016	of which disposals	As at 31/12/2016	As at 31/12/2016	As at 31/12/2015
−47,466	−4,663	324	−51,805	15,335	18,732
−18,522	−2,692	0	−21,214	5,358	7,920
0	0	0	0	309	354
−65,988	**−7,355**	**324**	**−73,019**	**21,002**	**27,006**
−14,374	−1,906	0	−16,280	39,979	41,474
−5,412	−682	300	−5,795	1,929	2,506
0	0	0	0	0	0
−19,786	**−2,588**	**300**	**−22,075**	**41,908**	**43,980**
−2,215	0	0	−2,215	234	234
−2,599	−131	0	−2,730	5,284	5,734
−2,774	0	0	−2,774	12,820	11,834
−7,588	**−131**	**0**	**−7,719**	**18,338**	**17,802**

Other provisions
Other provisions are comprised as follows: → **Table 21**

Fund for general banking risks
Under Section 340e (4) HGB, banks are required to create a special "Fund for general banking risks" item in accordance with Section 340g HGB. Ten percent 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).

During the financial year, an amount of EUR 584 thousand was added to the special item in compliance with Section 340e (4) HGB.

Trading portfolio
Assets and liabilities held for trading as at 31 December 2016 were as follows: → **Table 22**

Valuation units
No valuation units as defined by Section 254 HGB were created in the 2016 financial year.

Derivative financial instruments
As at the balance sheet date of 31 December 2016, Baader Bank AG held index-related derivative financial instruments in its trading portfolio. These transactions relate to futures.

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

Forward contracts
At the reporting date, outstanding forward contracts consist solely of forward exchange contracts as defined by Section 36 no. 1 RechKredV. → **Table 23**

The transactions shown relate solely to customer-originated forward transactions as well as spot transactions not fulfilled as at the balance sheet 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:

Liabilities held for trading
→ **Table 24**

Table 21 Other provisions in EUR '000

	31/12/2016	31/12/2015
Personnel provisions	3,561	3,889
Administrative expenses	2,633	1,545
Legal and consulting costs	516	473
Other provisions	636	1,010
Other provisions	**7,346**	**6,917**

Table 22 Assets and liabilities held for trading in EUR '000

Assets held for trading	**31/12/2016**	**31/12/2015**
Derivative financial instruments	0	33
Debt securities and other fixed-income securities	1,045	1,003
Equities and other variable-income securities	53,915	59,829
Risk discount	−659	−870
Assets held for trading on the balance sheet	**54,301**	**59,995**

Liabilities held for trading	**31/12/2016**	**31/12/2015**
Derivative financial instruments	279	3
Bank loans	1,837	1,683
Liabilities held for trading on the balance sheet	**2,116**	**1,686**

Table 23 Forward contracts in EUR '000

Term	Currency	Nominal
29 December 2016 to 03 January 2017	CAD	−7
29 December 2016 to 03 January 2017	CHF	−19
29 December 2016 to 04 January 2017	JPY	0
30 December 2016 to 04 January 2017	JPY	−1
30 December 2016 to 05 January 2017	JPY	−8
29 December 2016 to 03 January 2017	NOK	−11
30 December 2016 to 03 January 2017	USD	3
29 December 2016 to 03 January 2017	USD	170
30 December 2016 to 03 January 2017	USD	−60
29 December 2016 to 03 January 2017	USD	−193
30 December 2016 to 03 January 2017	USD	−10,074

Table 24 Liabilities held for trading in EUR

Portfolio	Description	Category	Maturity	Market price	Contracts	Market value	Carrying amount
Eurex FH FW	DAX® Future (FDAX)	Equity index future - Eurex	March 2017	11,465.00	4 Units	1,146,500.00	1,142,997.80
Eurex TSY	Euro-Bobl Future 5 years (FGBM)	Fixed Income Future	March 2017	133.63	229 Units	30,601,270.00	30,392,822.75

Table 25 Interests in investment funds in EUR '000

Instrument	Investment objective	Volume	Market value	Carrying amount	Dividend in 2016
SKALIS Evolution Flex AK S (ISIN: DE000A1W9A02) [1]	Hybrid fund with defensive profile	103,300 Units	10,266	10,456	78
SKALIS Evolution Flex AK R (ISIN: DE000A1W9AA8) [1]	Hybrid fund with defensive profile	10,000 Units	974	1,000	4
SKALIS Evolution Flex AK I (ISIN: DE000A1W9AZ5) [1]	Hybrid fund with defensive profile	10,000 Units	984	1,000	6
SKALIS Evolution Defensive AK R (ISIN: DE000A12BPG3) [1]	Hybrid fund with defensive profile	20,000 Units	1,891	2,000	10
SKALIS Evolution Defensive AK I (ISIN: DE000A12BPH1) [1]	Hybrid fund with defensive profile	80,000 Units	7,606	7,976	61
TRISTONE UI AK I (ISIN: DE000A1XDWV2) [1]	Hybrid fund	36,000 Units	3,002	3,600	0
TRISTONE UI AK Q (ISIN: DE000A12BPJ7) [1]	Hybrid fund	5,000 Units	376	374	0
ATHENA UI AK I (ISIN: DE000A0Q2SF3) [1]	Derivative	11,820 Units	1,265	1,288	0
SWISS HEDGE TWINTRADE AK D-EUR (ISIN: LU0700553844) [1]	Hybrid fund with defensive profile	10,775 Units	1,035	997	0

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

Interests in investment funds
As at 31 December 2016, the Baader Bank Group has an interest of more than 10% in the following domestic investment funds as defined by Section 1 of the German Investment Act or similar foreign investment interests as defined by 2 (9) of the German Investment Act: → **Table 25**

The shares in the investment fund (EUR 27,399 thousand) were allocated to the liquidity reserve in the amount of EUR 25,835 thousand.

The investment fund shares can be returned daily.

Assets transferred as collateral
For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2016: → **Table 26**

Table 26 Assets transferred as collateral in EUR '000

	Mortgages	Securities (liquidity reserve)	Bank deposits
Bank loans and advances	26,200	0	4,676

Deferred taxes
Deferred taxes are determined on the differences between commercial and tax law in the recognition of pension provisions (deferred tax assets) and goodwill for tax purposes, plan assets, recognised order books and for the discounting of other provisions (deferred tax liabilities). The tax rate used is 28.51%. In accordance with the option under Section 274 (1) sentence 2 HGB, the resulting asset surplus is not recognised on the balance sheet.

Cash flow statement of the Baader Bank Group
1. Share capital
The company's share capital amounted to EUR 45,909 thousand as at 31 December 2016. It is subdivided into 45,908,682 no par bearer shares (ordinary shares).

2. Authorised capital
a) Authorised capital 2011
The company's shareholder meeting created authorised capital 2011 by means of the resolution dated 30 June 2011 having the following content:

Risk factors	Cash flows
Cash flow fluctuations arise mainly due to the change in value of the DAX index (25 euros per index point)	– Daily: difference settlement. – Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arose mainly from the change in value of the BRD medium-term debt securities (multiplier of 1,000)	– Daily: settlement price (volume-weighted average price of all transactions at 5:14 p.m. if more than five transactions were carried out) – Fulfilment by delivery

The Executive Board was authorised, with the consent of the Supervisory Board, to increase the company's share capital by up to a total of EUR 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 a non-cash consideration. The shareholders must, in principle, be granted a subscription right. However, the Executive Board may exclude the shareholders' subscription right under certain conditions with the consent of the Supervisory Board.

Authorised capital 2011 was not used in the reporting year and expired on 29 June 2016.

b) Authorised capital 2016
The company's shareholder meeting created authorised capital 2016 by means of the resolution dated 22 June 2016 having the following content:

The Executive Board was authorised, with the consent of the Supervisory Board, to increase the company's share capital by up to a total of EUR 22,954 thousand by 21 June 2021 via the issue of new shares on one or more occasions in return for cash and/or a non-cash consideration (subscribed capital 2016). When using authorised capital 2016, shareholders must be granted a subscription right. The Executive Board is authorised to exclude the shareholders' statutory subscription rights with the consent of the Supervisory Board,

a) in order to exclude fractions from the subscription right;
b) if the new shares are issued for cash deposits at an issue amount that does not significantly fall below (as defined by Section 186 (3) sentence 4 AktG [German Stock Corporation Act]) the share price of the already listed shares at the time the issue price is finally determined, and if the total number of shares issued since the authorisation pursuant to Section 186 (3) sentence 4 AktG does not exceed 10% of the share capital at the time the authorisation becomes effective or – if this value is lower – at the time the authorisation is utilised. Shares that are issued or sold under exclusion of the shareholders' subscription right during the effectiveness of this authorisation until the date the respective authorisation is exercised, in direct or corresponding application of Section 186 (3) sentence 4 AktG must be included in this 10% threshold. Also included must be the shares that were issued or could still be issued by the company based on the convertible debt securities and/or warrants issued at the time of the respective exercise of the authorisation if the convertible debt securities and/or warrants were issued by the company or its Group companies after the effectiveness of this authorisation in direct or corresponding application of Section 186 (3) sentence 4 AktG under exclusion of the shareholders' subscription right;
c) in order to issue shares against contributions in kind to acquire companies, investments in companies or company divisions or assets – including by means of share swaps – and in the event of business combinations.

The decision to create authorised capital 2016 was submitted for entry in the commercial register on 29 August 2016. It was entered in the commercial register on 19 December 2016.

Authorised capital 2016 was not used in the reporting year.

c) Other authorised capital
There was no other authorised capital in financial year 2016.

3. Contingent capital

a) Contingent capital 2007

The company's shareholder meeting created contingent capital 2007 by means of the resolution dated 26 June 2007 having the following content:

The share capital is conditionally increased up to a nominal EUR 1,600 thousand. The contingent capital increase is only carried out through the issue of up to 1,600,000 new, no par bearer shares with a dividend entitlement from the beginning of the financial year of their issue and only to the extent that the holders of options that were issued in the context of the share option plan 2006 of Baader Wertpapierhandelsbank AG based on the authorisation issued on 19 July 2006 exercise their options.

b) Contingent capital 2012

The company's shareholder meeting created contingent capital 2012 by means of the resolution dated 29 June 2012 having the following content:

The company's share capital is conditionally increased by up to EUR 20,754 thousand by means of the issue of up to 20,754,341 new no par bearer shares (contingent capital 2012). The contingent capital is designed to grant rights to holders or creditors of convertible debt securities and/or warrants from partial debt securities that are issued by 28 June 2017, 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 shareholders meeting held on 29 June 2012. The contingent capital can also be used to issue shares, in accordance with the conditions for the convertible bonds, to holders of convertible debt securities that have conversion obligations. The new shares are issued at the conversion or option price determined with the authorising resolution.

The contingent capital increase will only take place to the extent that the holders of the convertible debt securities and/or warrants that the company 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 the 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 relating to the execution of the contingent capital increase.

The resolutions regarding the contingent capital were not used in the financial year.

c) Other contingent capital

There was no other contingent capital in financial year 2016.

4. Treasury shares

a) Authorisations to buy treasury shares

The company's shareholder meeting passed the following resolution on 1 July 2014:

a) Pursuant to Section 71 (1) no. 7 AktG, the company 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 company.

b) Pursuant to Section 71 (1) no. 8 AktG, the company is authorised to acquire shares of the company, in particular so as to be able to

– offer them to third parties in the context of the acquisition of companies, company divisions, 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 Baader Bank AG's share option plan 2006 in accordance with the authorisation of the shareholders meeting held on 19 July 2006; or

– withdraw 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 is valid until 30 June 2019.

Acquisition is via the stock exchange. The price paid by Baader Bank AG per share may not exceed the average closing price for the no par value shares of Baader Bank AG in floor trading on the Frankfurt Stock Exchange during the last 5 trading days prior to the purchase of the shares (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 company's own shares, acquired on the basis of this authorisation, for purchase by holders of options under the share option plan 2006 approved by the shareholders meeting.

Shareholders' rights to subscribe these treasury shares are excluded to the extent 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 shareholders meeting. The withdrawal authorisation may be exercised in whole or in part.

b) Number of treasury shares

The company held 276,996 treasury shares as at 31 December 2016.

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.

Balance sheet profit/loss

→ **Table 27**

Table 27 Balance sheet profit/loss in EUR '000

	31/12/2016	31/12/2015
Consolidated net profit before minority interests	−3,619	−8,396
Minority interest in net income	137	19
Consolidated net income	**−3,482**	**−8,377**
Profit / loss of the parent company brought forward	−6,546	918
Withdrawals from retained earnings	9,541	4,847
Transfers to retained earnings	−6,155	−3,934
Consolidated net profit / loss	**−6,642**	**−6,546**

The net profit for financial year 2016 of Baader Bank AG as the parent company amounts to negative EUR 96 thousand. If the profit brought forward from the previous years is taken into account, a balance sheet loss in the amount of EUR 6,642 thousand arises.

A proposal to bring the balance sheet loss forward to the new account is submitted to the shareholders meeting.

Treasury shares

During the reporting year no treasury shares were allocated to persons eligible for the Baader Bank AG's share option plans. The company held 276,996 treasury shares as at 31 December 2016.

The number of treasury shares held did not change during the reporting period, and represents 0.60% of share capital. The share capital held as treasury shares amounts to EUR 277 thousand. → **Table 28**

Table 28 Treasury shares

Balance on 31/12/2015	Additions (Number)	∅-price in EUR	Disposals (Number)	∅-price in EUR	Balance on 31/12/2016
276,996	0	0	0	0	276,996

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

Contingent liabilities

Contingent liabilities are a result of guarantees given to members of the Executive Board and, as at the balance sheet date, amount to EUR 203 thousand (previous year: EUR 5 thousand) as well as the assumption of a contract performance guarantee in the amount of EUR 13,052 thousand (previous year: EUR 0 thousand), which do not result in any financial risks due to underlying credit balances in the same amount.

Other obligations

There are irrevocable open loan commitments to customers totalling EUR 12,197 thousand (previous year: EUR 10,097 thousand).

This item includes open loan commitments to members of the Executive Board totalling EUR 398 thousand, EUR 203 thousand of which has been drawn.

VII. Transactions not included in the balance sheet

Disclosures pursuant to Section 314 (1) no. 2a HGB

During the course of its normal business activities, the Baader Bank Group has entered into financial commitments in addition to the liabilities shown in the balance sheet as at 31 December 2016, as shown in the following table: → **Table 29**

Table 29 Financial commitments in EUR '000

	Remaining term in months	Financial obligation
Future payments from lease agreements for office space, usable areas and parking spaces	3 to 90	5,083
Future payments from vehicle lease agreements and lease agreements for furniture and office equipment	3 to 47	3,367
Future payments from other service agreements	3 to 12	873

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.

Disclosures pursuant to Section 314 (1) no. 2 HGB

There are no other significant financial obligations that are not included in the balance sheet and that are required to be reported under Section 314 (1) no. 2 HGB.

VIII. Explanations to the income statement

Interest income and interest expenses

The item "interest income" from lending and money market transactions includes negative interest on credit balances on current accounts in the amount of EUR 168 thousand as well as from term and customer deposits in the amount of EUR 17 thousand.

Negative interest in the amount of EUR 114 thousand resulting from customer and term deposits is recognised under the item "interest expenses" as are expenses in the amount of EUR 9 thousand (previous year: EUR 16 thousand) from the interest cost of other provisions.

Other operating income

Other operating income in the amount of EUR 2,328 thousand (previous year: EUR 5,088 thousand) primarily comprises income from the reversal of provisions (EUR 499 thousand), income from fringe benefits (company car) (EUR 433 thousand) as well as out-of-period income (EUR 65 thousand).

Furthermore, the item includes other income in the amount of EUR 1,140 thousand that is primarily due to pass-through project costs mainly in the context of support for capital market services.

The out-of-period income mainly relates to reimbursements from an energy provider due to overpayments made in previous years.

Other operating expenses

Other operating expenses in the amount of EUR 3,015 thousand (previous year: EUR 2,299 thousand) primarily comprise expenses from the discounting of pension provisions set off against expenses and income from the plan assets in compliance with Section 246 (2) HGB in the amount of EUR 1,669 thousand, other expenses in the amount of EUR 820 thousand, the majority of which are due to expenses for project costs paid as well as out-of-period expenses in the amount of EUR 493 thousand.

The out-of-period expenses many relate to expenses for services purchased in the previous year.

Taxes on income

The tax expense reported in financial year 2016 of EUR 970 thousand essentially comprises income taxes for the past financial year amounting to EUR 1,038 thousand and tax refunds from previous years of EUR 92 thousand.

Table 31 Appointments pursuant to Section 340a (4) no. 1 HGB

Appointee	Company/institution in which appointment held	Appointment
Mr Nico Baader	Baader & Heins Capital Management AG, Unterschleissheim	Member of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main	Member of the Supervisory Board
	U.C.A. AG, Munich	Member of the Supervisory Board
Mr Dieter Brichmann	Baader & Heins Capital Management AG, Unterschleissheim	Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main	Chairman of the Supervisory Board
	Skalis Asset Management AG, Unterschleissheim	Deputy Chairman of the Supervisory Board
	Ophirum ETP GmbH, Frankfurt am Main (since 15 July 2016)	Chairman of the Audit Committee
Mr Christian Bacherl	Baader Helvea AG (formerly: Helvea SA), Zurich (Switzerland)	Member of the Managing Board
Mr Oliver Riedel	Baader Helvea AG (formerly: Helvea SA), Zurich (Switzerland)	Chairman of the Managing Board
	Baader Helvea Limited (formerly: Helvea Ltd.), London (UK)	Member of the Supervisory Board of Directors
	Baader Helvea Inc. (formerly: Helvea Inc.), New York (USA)	Member of the Supervisory Board of Directors
	Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	Member of the Managing Board
Mr Lukas Burkart	Baader Helvea Limited (formerly: Helvea Ltd.), London (UK)	Member of the Supervisory Board of Directors
Mr Sebastian Niedermayer	Baader Helvea Inc. (formerly: Helvea Inc.), New York (USA)	Member of the Supervisory Board of Directors

IX. Additional disclosures

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

Employees
In financial year 2016, the average number of staff employed was 454 (previous year: 459). 47 of these employees held executive positions.

Total remuneration of the Executive Board and Supervisory Board
The total remuneration of the Executive Board members for their activity during the financial year amounted to EUR 1,718 thousand.

The total remuneration of the Supervisory Board members for their activity during the financial year amounted to EUR 158 thousand.

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

The fees for financial year 2016 can be broken down as follows: → **Table 30**

Table 30 Audit fees for the Baader Bank Group in EUR '000

Baader Bank Group	2016	2015
Annual audit	516	513
Other confirmation services	141	118
Tax consulting services	10	12
Other services	25	111
Total fees	**692**	**754**

Executive bodies of the Baader Bank Group

Executive Board
Mr Nico Baader, Gräfelfing (Chairman)
Occupation: Banker
Responsibility: Keynote presentation and investor relations, Executive Committee for Market Making, Legal & Corporate Finance Execution, Capital Market Analysis, Market Making Equities Stuttgart, Market Making Equities Frankfurt / Berlin / Munich / OTC, Market Making Funds/ ETFs, Market Making Securitised Derivatives, Market Making Bonds, Treasury

Mr Dieter Brichmann, Penzberg (Deputy Chairman)
Occupation: Dipl. Kaufmann [Business Administrator]
Responsibility: Risk management & regulatory reporting, Compliance / Anti-money Laundering Officer, Internal Audit, Data Protection Officer, Operations, Lending, Accounting & Corporate Taxes / Controlling, Business Organisation / Human Resources

Mr Christian Bacherl, Baldham
Occupation: Dipl. Betriebswirt [Business Economist];
B.Sc. (Computer Sciences) (JMU)
Responsibility: Capital Markets, Equity Strategy, Equity Research, Publications Office

Mr Oliver Riedel, Lauf
Occupation: Banker
Responsibility: Equities & Derivatives Sales, Asset Management & Services, Middle-Office, Client Intelligence Group, Corporate Events / Roadshow Management

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

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

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

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

Ms Theresia Weber, Emmering (employee representative)
Bank employee in the Clearing & Settlement department of Baader Bank AG

Mr Jan Vrbsky, Darmstadt (employee representative)
Deputy Profit Centre Manager of Market Making Equities Frankfurt/Berlin/ Munich at Baader Bank AG

Appointments pursuant to Section 340a (4) no. 1 HGB
As at 31 December 2016, appointments on statutory supervisory committees of large incorporated companies were held. These and other noteworthy appointments are listed below: → **Table 31**

Table 32 More than 5% of the shares in the following companies in EUR'000

Name / Registered office	Share of capital in %	Last interim / annual financial statements	Equity (total)	Net profit/loss for the year
SELAN Holding GmbH, Unterschleissheim [1]	100.00	31 December 2016	8,519	−3
Parsoli Corporation Ltd., Mumbai (India)	21.93	No current data are available as at 31 December 2016.		
Trading Systems Portfolio Management AG, Bad Homburg	9.64	31 December 2015	1,041	9

1 Equity and the net profit for the financial year were disclosed on the basis of unaudited annual financial statements as at 31 December 2016.

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 included as subsidiaries or associates as at 31 December 2016: → **Table 32**

Baader Bank AG disposed of all its shares in U.C.A. AG Munich in November 2015. Until the disposal, Baader Bank AG had a total share of 13.81% in the company's share capital.

Unterschleissheim, 15 March 2017

Baader Bank AG
The Executive Board

Nico Baader Dieter Brichmann

Christian Bacherl Oliver Riedel

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, which is combined with the management report of the parent Company, for the business year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the combined 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 combined 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 (Institute of Public Auditors in Germany) (IDW). 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 combined 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 combined 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 combined 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 combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 15 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke	ppa. Axel Menge
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Legal notice

Published by
Baader Bank Aktiengesellschaft
Weihenstephaner Straße 4
85716 Unterschleissheim
Germany

T +49 89 5150 0
F +49 89 5150 1111

communications@baaderbank.de
www.baaderbank.de

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Weihenstephaner Straße 4
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