BAADER

Baader Bank AG

Your access to capital markets.

Annual Report 2017

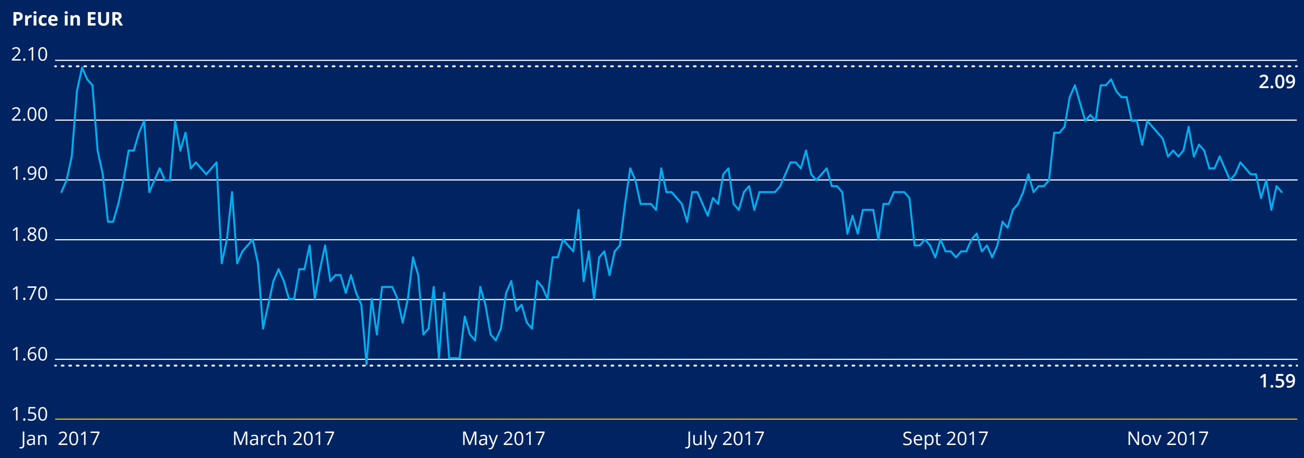
www.baaderbank.de

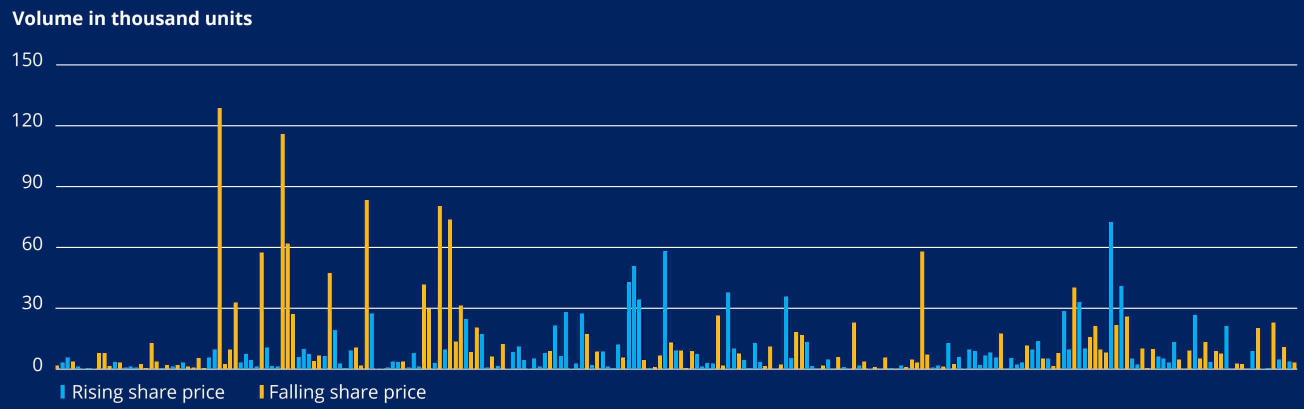
Key figures Baader Bank Group

	2017 EUR'000	2016 EUR'000	Change to the previous year absolute EUR'000	Change to the previous year relative %
Income	**121,317**	**100,477**	**20,840**	*20.7*
of which net interest income and current income	1,502	3,227	–1,725	*–53.5*
of which net commission income	46,539	40,747	5,792	*14.2*
of which net trading income	57,683	52,809	4,874	*9.2*
of which revenue	12,135	0	12,135	*100.0*
of which other income	3,458	3,694	–236	*–6.4*
Expenses	**–117,058**	**–102,610**	**–14,448**	*14.1*
of which personnel expenses	–54,702	–50,289	4,413	*8.8*
of which administrative expenses and other operating expenses	–42,586	–41,344	1,242	*3.0*
of which amortisation and depreciation	–18,344	–9,943	8,401	*84.5*
of which additions to the fund for general banking risks	0	–584	–584	*–100.0*
of which net income from interests in associates	–1,426	–450	976	*> 100.0*
Earnings before taxes (EBT)	**4,259**	**–2,133**	**6,392**	*–*
Operating result*	**7,650**	**–1,178**	**8,828**	*–*
Total assets	**764,844**	**578,536**	**186,308**	*32.2*

In accordance with the provisions of the German Commercial Code (HGB).

* Gross profit less personnel and other administrative expenses as well as depreciation and amortisation on intangible assets and property, plant and equipment





VISION

2022

35 Jahre | Years Baader


BAADER

Dear Shareholders, Business Partners and Employees,

The main theme of 2017 was one of pleasant surprises. Due to double-digit growth in corporate profits in many cases and the hope for additional impetus from the expected tax reform in the US, the international equity indices were able to continue the upward trend of previous years. The positive underlying mood in the capital markets and the consolidation of the Selan Group have visibly influenced the full year results for Baader Bank.

We have made progress in our business lines

Baader Bank's core business consists of providing high-quality services in the Market Making, Capital Markets and Multi Asset Brokerage segments. These core business lines are supplemented by the Banking Services, Asset Management Services and Research business lines, which cover the complementary business needs of customer groups from the respective core business lines. This basic structure of six customer- and product-focused business lines is the result of a redesign of all market-oriented sources of income carried out at the end of 2016 and continued over the course of 2017 in a structurally unchanged manner.

As a result of the market environment outlined above, and thanks to our good position in the market, trading and commission earnings are proving very dynamic.

Commission income improved by 14.2 % from 40.7 million euro to 46.5 million euro. This growth was mainly due to higher client commission income and higher income from the Multi Asset Brokerage and Capital Markets business lines compared to the previous year. Trading profit/loss also rose, albeit by somewhat less in total than net commission income, increasing from 52.8 million euro to 57.7 million euro. Market making equities was the main driver for this rise despite exchange turnover on the relevant stock markets not changing significantly.

We were able to increase our operating result at Group level by overall of 9.4 million euro to 7.7 million euro. Earnings before tax were 4.3 million euro, thus recording growth of 6.4 million euro. Group earnings after taxes reached 2.4 million euro.

Total assets on the reporting date amounted to 764.8 million euro. Baader Bank Group's equity ratio as at 31 December 2017 is 13 % and the modified equity ratio taking account of the fund for general banking risks is 16 %. Baader Bank AG's total capital ratio under supervisory law is approximately 17 % (previous year 15 %).

An important pillar of our success is organic growth, i.e. growth from our own resources

This growth is based primarily on our ability to innovate and the quality of our products and processes. We do not leave any of this to chance. That is why we have developed a long-term roadmap in order to meet the challenges of the future with targeted and innovative solutions. We call this roadmap „Vision 2022“. Global megatrends and the requirements on our products and the final products of our customers are in the forefront. The sustainability of our decisions is something we always keep in mind. It forms the basis of our decision-making process. The results of our strategy development will be published on our website. These are worth looking at.

With this clear focus on innovation and growth, we are confidently looking forward to the current year, 2018. The broad diversification of our business activities, our strong cost awareness and the recovery of the global markets will have a positive effect on our business development and growth.

VISION
2022

Christian Bacherl
Member of the Board of Directors

Responsibility: Capital Markets, Corporate Finance, Research

Nico Baader
Chairman of the Board of Directors

Responsibility: Market Making, Strategy, Legal, Treasury, Communication

35 Jahre | Years Baader

Dear Shareholders, dear Business Partners, dear Employees, we have reached our anniversary year, 2018, and can look back on 35 years of Baader Bank – 35 years in which we have achieved a great deal.

We have grown continuously, we have developed from a brokerage house to one of the leading investment banks in the German-speaking region and we have updated our processes and structures to be more in line with industry expectations while keeping the number of employees constant. We would like to thank you most warmly for accompanying us on this path and placing your trust in us. Please be assured that our goals for the next few years are no less ambitious.

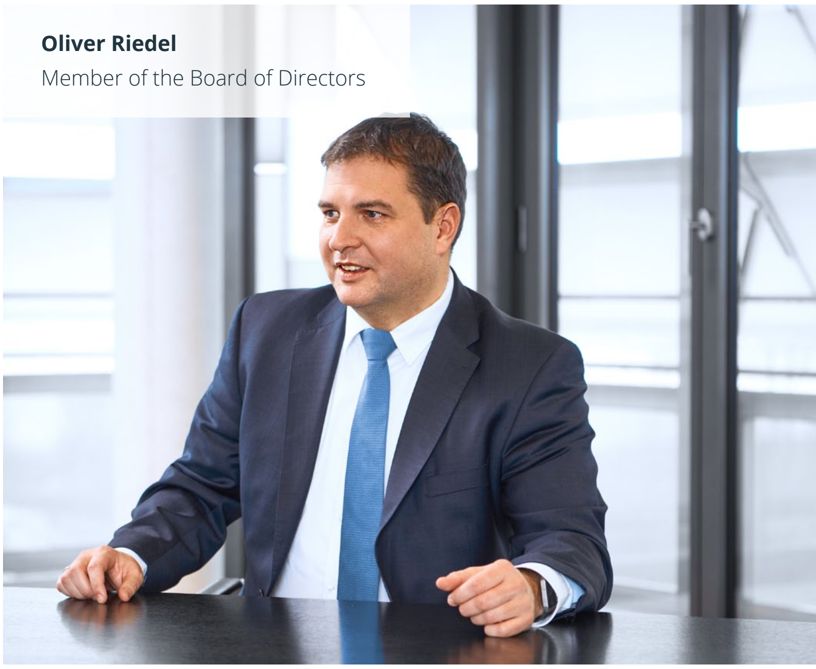
In the 2018 financial year, we will drive our business success forward, and that means investment. Investment in the future of the Baader Bank. Investment in your shares. We will not be proposing a dividend for the 2017 financial year at the Annual General Meeting on 25 June 2018 in Munich. We are working on changing this situation. In challenging times for banks and securities service providers, there is no doubt that we are superbly positioned, as shown by the contents of this annual report for 2017, and will continue to be so for 2018.

Best regards,

Nico Baader, Chairman of the Board of Directors, Baader Bank

Dieter Brichmann
Deputy Chairman of the Board of Directors

Responsibility: Finance, Human Resources, Credit, Operations



Oliver Riedel
Member of the Board of Directors

Responsibility: Brokerage, Banking Services, Asset Management Services

Key data and other information

WKN	508810
ISIN	DE0005088108
Reuters	BLMG.MU
Bloomberg	BWB@GR
Ticker	BWB (German Federal Office of Defence Technology and Producement)
Sector	Banks
Stock market listing	1/8/1994
Admission segment	Outside market
Home stock exchange	Munich / m:access
Other stock exchanges	Berlin
	Dusseldorf
	Frankfurt
	Hamburg
	Hannover
	Stuttgart
	XETRA

Board of Directors

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

Supervisory Board (as at 31/12/2017)

Dr Horst Schiessl (Chairman)
Dr Christoph Niemann (Deputy Chairman)
Karl-Ludwig Kamprath
Helmut Schreyer
Theresia Weber

Shareholder structure

- 31.29 % free float
- 0.30 % Uto Baader
- 5.43 % Baader Immobilienverwaltungs GmbH & Co. KG
- 62.98 % Baader Beteiligungs GmbH

Contents

Combined Management Report

1. General information about the Baader Bank Group

1.1 Organisational and legal structure

Baader Bank Aktiengesellschaft (Baader Bank or Baader Bank AG) is one of the leading family-run investment banks in the German-speaking region. Baader Bank has a full banking licence, is a member of the Association of German Banks (Bundesverband deutscher Banken e.V.), and is part of its deposit protection scheme.

As at the balance sheet date, the Baader Bank Group comprised the parent company and eight fully consolidated companies – of these, four are subsidiaries and four subsubsidiaries. The Group is headquarted in Unterschleissheim near Munich. Further German offices of Baader Bank are located in Frankfurt am Main, Stuttgart and Dusseldorf.

The subsidiary Baader & Heins Capital Management AG (Baader & Heins AG), in which Baader Bank has a 75 % interest and its wholly-owned subsidiary SKALIS Asset Management AG (SKALIS AG), both have their headquarters in the same building as the Group's headquarters in Unterschleissheim. Conservative Concept Portfolio Management AG (CCPM AG), in which Baader Bank holds 66.07 % of the shares, has its headquarters in Frankfurt am Main. Baader Helvea AG, the wholly-owned Swiss subsidiary of Baader Bank, has its headquarters in Zurich. Baader Helvea AG holds a 100 % interest in Baader Helvea Ltd. which has its headquarters in London and Baader Helvea Inc. which has its headquarters in New York and maintains offices in Montreal and Boston. Together with Baader Bank, these companies form the Baader Helvea Group.

Baader Bank also holds a 100 % interest in Selan Holding GmbH, with its headquarters in Unterschleissheim. The company holds shares in the Croatian wind park operator Selan d.o.o. and in Vjetropark Vratarusa d.o.o. Due to the no longer pursued intention to sell Selan d.o.o., it has been included in the Baader Bank consolidated financial statements as a fully consolidated subsidiary as of 1 January 2017 and together with Selan Holding GmbH forms the Selan Group. The intention to dispose the interest in Vjetropark Vratarusa d.o.o. remains unchanged. Therefore such interes is not included in the consolidated financial statements.

Baader Bank also has further interests in Gulf Baader Capital Markets S.A.O.C., Muscat/Oman, and Ophirum ETP GmbH, Frankfurt am Main. There were no corporate law reletaed changes with regard to these interests in 2017.

At the end of 2017, a total of 447 staff members were employed at the Baader Bank Group and 393 employees at Baader Bank AG.

The composition of Baader Bank's Board of Directors and the division of responsibilities remained unchanged in the past fiscal year 2017. The Chairman of the Board of Directors is Nico Baader; other members are Deputy Chairman Dieter Brichmann and further board members Christian Bacherl and Oliver Riedel. CEO Nico Baader's contract was extended in spring 2017 to 2022.
At the end of 2017, the other members of the Board of Directors were appointed until 2022.

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, Dusseldorf, Frankfurt am Main, Hamburg, Hanover and Stuttgart stock exchanges.

Baader Beteiligungs GmbH, Munich, holds a 62.98 % interest in Baader Bank, Baader Immobilienverwaltungs GmbH & Co. KG holds 5.43 %, 0.30 % is directly owned by the company's founders and the former Chairman of the Board of Directors, Uto Baader, and the remaining 31.29 % of the shares are held by free float shareholders.

1.2 Business model of the Baader Bank Group

Baader Bank's core business consists of providing high-quality services in the Market Making, Capital Markets and Multi Asset Brokerage business lines. These core business lines are supplemented by the business lines Banking Services, Asset Management Services and Research, which cover complementary business needs of customer groups from the respective core business lines. This basic structure of six customer- and product-focused business lines is the result of a redesign of all market-oriented sources of income carried out at the end of 2016 and continued over the course of 2017 in a structurally unchanged manner.

1.2.1 Core business lines

1.2.1.1 Market Making business line

As a market maker, Baader Bank undertakes intermediary activities on regulated exchanges, over-the-counter trading platforms and in over-the-counter securities trading.

Measured by the number of over 800,000 order books managed on German and foreign stock exchanges, Baader Bank is one of the leading market makers in the German-speaking region. Market making comprises 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 capacity, the Bank acts on regulated stock exchanges in Germany (Berlin Stock Exchange, Frankfurt Stock Exchange, StuttgartStock 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 continuously provide execution services at consistently high quality on all stock exchanges and in all classes of securities.

In OTC securities trading, Baader Bank cooperates with partner banks, usually direct banks or online brokers, quotes prices on OTC trading platforms as market makers during trading hours and enters into bilateral trading relationships as a counterparty. Trading partners' end customers, mainly private investors, generate trading revenue in equities, bonds, funds and ETPs.

1.2.1.2 Capital Markets business line

The services portfolio of Capital Markets comprises the provision of independent advice in capital market transactions and the structuring and execution of equity or debt transactions and hybrid financing alternarives. The independently offered Corporate Brokerage service package comprises the ongoing monitoring of the capital market presence of listed companies and their support within the framework of designated sponsoring. The technical execution services offered include the performance of capital measures, capital increases and decreases, the support of voluntary or mandatory takeover offers in respect of listed companies as well as squeeze-out procedures, and assumption of paying agent services.

The Capital Markets group provides all services relevant to customers in the secondary market with a focus on equities from the GSA region. The business line also acts for issuers and shareholders in the placement of primary market transactions.

1.2.1.3 Multi Asset Brokerage business line

One of Baader Bank's core services in this area is sales and trading for institutional investors. Specifically, this involves brokerage, i.e. order execution in shares, bonds, ETPs and derivatives for customers 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 institutional end customers and sells research products and trading ideas. The aim is to generate customer orders in financial instruments and to place primary market transactions. Sales trading includes the acceptance of customer orders, support and advice, for example in portfolio trading and the provision of further trading-related services such as clearing services and the management of research payment accounts (RPA) introduced in 2017 in view of the imminent entry into force of MiFID II.

1.2.2 Complementary business lines

1.2.2.1 Banking Services business line

The Banking Services business line of Baader Bank comprise the deposit, custody and credit business, whereby all primary banking functions and services are provided exclusively within the framework of B2B2C cooperation agreements with traditional asset management customers or fintechs.

Asset managers benefit from the trading connection, the modern infrastructure and the complete mapping of asset management processes, taking into account regulatory expertise and banking law aspects.

As a full-service bank and full-service provider, Baader Bank follows an intermediary approach and acts as a partner for asset managers in account and custody account management, the systematic processing of order management and reporting processes in compliance with MiFID II requirements and is part of a broad international trading network.

1.2.2.2 Asset Management Services business line

In the Asset Management Services business line, Baader Bank provides financial portfolio management services as defined under applicable regulatory requirements, and other services for institutional buyers in the white label business, which are therefore not offered under the Baader Bank brand name. As a bank partner for portfolio management companies, it supports the portfolio management of fund products such as UCITIS funds, special funds, offshore funds and derivatives overlay mandates. Baader Bank also assumes the buy-side trading desk function, numerous order management services and administrative pre- and post-trade processes.

1.2.2.3 Research business line

Within the framework of a fundamental, technical and quantitative top-down approach, Baader Bank's Equity Research team, consisting of around 20 analysts and equity strategists, develops index targets, analyses relevant macro topics, defines economic scenarios, makes statements on market timing (strategy research) and European sector trends.

At the individual value level, sector specialists regularly prepare detailed studies for investors and provide opinions and recommendations on sectors and individual stocks.

The focus is on analysing companies in Germany, Austria and Switzerland. Since the takeover of the Swiss broker Helvea in 2013, coverage under the Baader Helvea brand has been successively expanded to approximately 200 companies and 12 sectors.

In addition to equity research, Baader Bank's ETF research product supports institutional investors in making decisions on asset allocation and implementing active investment strategies.

The research product forms the interface between Baader Bank's two relevant customer groups, corporate customers, most of whom come from the GSA region, and international institutional investors who generate investment ideas and derive investment decisions from analyses.

1.2.3 Business lines 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 German-speaking region focussed capital markets products 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 domestic and foreign subsidiaries listed in Section 1.1. In addition, Ophirum ETP GmbH issues and sells bearer bonds in the form of ETPs for which precious metals are physically deposited as underlying. The Selan Group generates income from the supply of wind energy through the operation of Selan d.o.o. wind turbines located in Croatia.

1.3 Further development of the business lines

Baader Bank's strategy development in 2017 was dominated by a reformulation and structural redesign of the business lines that had already commenced at the end of 2016. The basic structure, consisting of six business lines (three core and three complementary business lines), which are clearly market-oriented sources of income, will, from now on, be continously further developed, taking into account the respective markets and general conditions for the products and services offered. Strategic and organisational measures can thus be clearly assigned and their implementation in the respective units better managed and monitored. Part of Baader Bank's strategy development process is the development of comprehensive sub-strategies, such as risk, IT, personnel, remuneration and investment strategies, which in turn correspond with the overall business strategy of the Bank.

As a whole, Baader Bank's business strategy has a predominantly customer and product-focused character, which, at the same time, gives considerable strategic importance to the administrative functions of the Bank.

2. Report on the economic position

2.1 Macroeconomic and sector-specific environment

2.1.1 Macroeconomic environment in fiscal year 2017

The acceleration in global economic growth, which began in the second half of 2016, became increasingly widespread in the course of 2017. The eurozone economy remained robust, while growth in the USA picked up significantly from spring 2017. After several years of declining growth rates, China also recorded a slight increase in GDP growth for the first time. The British economy remained robust overall in 2017 despite the bumpy course of the Brexit negotiations with the EU. In addition, many countries saw a gradual recovery after structural problems (Italy) or the decline in raw material prices in previous years (Brazil, Russia). Overall, the positive developments in the economic data clearly prevailed in 2017.

This was also due to the fact that the political risks discussed at the beginning of the year did not materialise as feared. After a series of unexpected political events in 2016 had caused uncertainty (including a successful Brexit referendum and the outcome of the elections in the USA), no comparable surprises emanated from the elections held in 2017.

On balance, the favourable macroeconomic conditions resulted in a sustained increase in raw material prices. Crude oil prices rose significantly year-on-year, due in part to the production restrictions imposed by OPEC and Russia in the previous year. This development led to a considerable increase in inflation in many countries. In the eurozone, the inflation rate even temporarily reached the level of 2 % which the ECB had been aspiring to.

Against this background, the central banks continued along the path of gradually normalising their monetary policy. In December 2016, the ECB extended its bond purchase programme at a reduced level (EUR 60 billion per month from April 2017 to December 2017) and in October 2017 announced a further reduction in volume (to EUR 30 billion per month from January 2018 to September 2018). In the USA, the Federal Reserve raised its key interest rate three times by 0.25 % in each case and also began to gradually reduce its bond portfolio in October. In the United Kingdom, the Bank of England also raised interest rates in November.

Despite increasing economic and inflation dynamics as well as the stimulus reduction by the central banks, yields on long-dated government bonds in both the eurozone and the USA developed sideways for long periods. On the currency side, however, there was a significant turnaround. Currencies that were under pressure in previous years recovered significantly against the US dollar. This applied to both the euro and the currencies of many emerging markets. However, as a classic safe-haven currency, the Swiss franc was unable to participate in this trend, which is why it weakened noticeably against the euro. By contrast, the gold price benefited from the gradual rise in inflation expectations.

The global share markets recorded significant price gains in 2017. Due to double-digit growth in corporate profits in many cases and the hope for additional impetus from the expected tax reform in the USA, the equity indices were able to continue the upward trend of previous years. The DAX achieved its sixth annual rise in a row and was even able to overcome its alltime high from 2015. Some other share markets, such as in the USA, Japan and Switzerland, recorded even stronger gains than the 12.5 % of the DAX. In euro terms, however, this picture was generally put into perspective and only emerging market equities again achieved a considerably higher performance in this respect.

In Europe, equities with a high economic sensitivity performed above average. At sector level, technology, raw materials, financial services, industrial stocks, automobiles, tourism and chemicals performed best, while telecommunications, retail, media and oil shares fell slightly. However, the trend towards a significant excess return for secondtier companies with lower capitalisation continued.

The above-mentioned macroeconomic conditions on German and international markets can be used to derive those exogenous factors which, with a view to Baader Bank's respective business lines, have varying degrees of influence on the success of a business period. For example, positive economic data and rising economic growth are basically resurgent sentiment indicators in the perception of those market participants whose investment behaviour and willingness to invest can increase earnings potential in securities trading as well as in the brokerage and capital market business. Prosperous share markets, persistently low interest rates, geopolitical changes and uncertainties, as well as the resulting or absent market volatility have had different effects on the respective business lines and more or less significantly influenced their earnings components. Details on the relevance of macroeconomic conditions for Baader Bank's performance and earnings drivers are provided in Section 2.2.

2.1.2 Business, market position, and changes in competitive position

Order book-keeping market makers in German-speaking countries, including Baader Bank, operate in a highly competitive and increasingly fragmented market environment. In addition to the market models of closed order books operated on German floor exchanges, in which only one specialist is responsible for quoting securities orders at a time, so-called multi-market maker models are increasingly appearing. The latter create an open competitive situation within the management of an order book between several quoting brokers, who are permanently valued with regard to speed and the narrowest possible spreads of their quotes.

In the area of capital market services, the same competitive situation as in previous years continues to endure. Competition for capital market mandates that influence profits, driven by competition in prices and services, characterises the market landscape. However, this does 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.

In the view of Baader Bank, there is major potential in intensifying business relationships with asset managers, family offices and fintechs. 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 major 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 key performance and profit drivers

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

In the first half of 2017, there were signs of a moderate increase in trading volumes on German stock exchanges in which Baader Bank is active. In the summer months in the run-up to the Bundestag elections, the market showed noticeable restraint. In line with the DAX development in this period, Baader Bank's trading revenues also remained at a constant level with no significant volatile movements. Only in the fourth quarter did there appear to be signs of an upturn in the market, particularly in equity trading, which resukted in a positive development of the trading profits in this segment. The brokerage of securitised derivatives generated hardly any revenue growth over the entire reporting period, which is attributable to the low volatility. Within European interest rate policy, no reversal occurred in 2017, with the result that there was no further revival in the bond trading market.

The earnings components of net commission income also developed positively overall. In the first half of 2017 in particular, there was a noticeable upturn in orders for capital market transactions. In the Multi Asset Brokerage business line in particular, an increase in earnings was achieved, not least due to the positive market response to the expanded trade-related services and sales-only activities.

2.2.2 Business development in the core business lines

2.2.2.1 Market Making business line

In 2017, Baader Bank was mandated to act as a specialist for a total of six IPOs in the Prime Standard segment of the Frankfurt Stock Exchange. It took over the order book management for Vapiano SE, Delivery Hero AG, Jost Werke AG, VARTA AG, BEFESA SE and HelloFresh SE. Most of these IPOs took place in the second half of 2017.

A significant change for Baader Bank's business operations in securities trading was the conversion of the Xetra trading platform to the new T7 system environment in mid-2017. This was accompanied by technical and procedural adjustments which, however, could be carried out smoothly and without significant impairment of trading transactions. In its efforts to maintain its market share also on trading venues outside Germany, Baader Bank commenced trading in German and US shares in the new „global market" segment of the Vienna Stock Exchange in the second quarter of 2017. As part of this Austrian trading partnership, the important groundwork for the transition to trading in open order books was laid.

In over-the-counter trading, Baader Bank was unable to record any discernible growth within Germany in 2017, but was able to continue its existing cooperations with partner institutions in a positive manner. The activities in cooperation with online and direct banks participating in Baader Bank's quote, trading and settlement systems will in future also extend to non-German markets to ensure constant order flow income.

2.2.2.2 Capital Markets business line

In the first half of 2017, Baader Bank benefited from a general revival of the order situation in the capital markets business. As expected, the market environment was more favourable than in the previous year which was reflected in both the number and total volume of transactions the Bank assisted with. In the 2017 fiscal year, Baader Bank assisted with 13 transactions having a total volume of approximately EUR 1.93 billion.

The IPO of the Bern pharmaceutical group, Galenica Santé AG, in April 2017, measured by the transaction volume of more than CHF 1.5 billion, is the largest capital markets transaction to date that Baader Bank assisted in and is simultaneously its first transaction in Switzerland that it successfully assisted with as co-lead manager. Among other things, it acted in the role of a sole bookrunner in the placement of All for One Steeb AG and in the capital increases of Allgeier SE and Heidelberg Pharma AG. The Bank acted as a joint bookrunner in the secondary placement of shares of Brain AG as well as the capital increases of the Corestate Group and Medigene AG. Baader Bank assisted with the combined cash capital increase and capital increase against contribution in kind of AlzChem Softmatic AG in the capacities of Sole Financial Advisor and Sole Process Agent.

In the 2017 equity league tables, Baader Bank ranked second in Germany measured on placed volumes up to EUR 100 million. The institution ranked third for transaction volumes up to EUR 250 million. Including the entire GSA region, Baader Bank ranked sixth in volumes of up to EUR 100 million (2016: seventh).

Baader Bank was once more able to prove its qualitative strengths in securities services and in 2017 was able to show a broad spectrum of high-quality services in numerous mandates. In the first half of 2017, it held notable securities service mandates for Msg life AG, Evotec AG, Biotest AG and Syngis AG, among others. A number of other mandates followed in the second half of the year, including WCM AG, Softship AG, IVG Immobilien AG, Meyer Burger Technology AG and the EQS Group. Thus, a new record turnover for securities service transactions within the range of a volume between EUR 0.5 million and EUR 1 billion was achieved.

2.2.2.3 Multi Asset Brokerage business line

In this year's Extel Survey 2017, Europe's most significant external ranking institutional equities broker, Baader Helvea again received top rankings for research, sales and trading/execution services. In the core regions of Germany and Switzerland, Baader Helvea took first place in the important segments of "Trading/Execution", "Small&Mid Cap Sales" and "Trading", as well as second and third places as "Leading Broker 2017" and specifically for "Small&Mid Cap Research", "Small&Mid Cap Trading" and "Equity Sales". Baader Helvea achieved an excellent second place as "Leading Broker/Country Research 2017" for Austria.

In preparation for the regulatory implications arising from MiFID II, Baader Bank pushed ahead with the separation of Research and Execution Services in 2017. In addition, the product range was expanded in 2017, in anticipation of the MiFiD II implementation, by so-called Research Payment Accounts, i.e. accounts for the administration of research payments for institutional customers.

2.2.3 Business development in the complementary business lines

2.2.3.1 Banking Services business line

The increase in online investment advisers in the German-speaking market already observed in the previous year continued in 2017. The online offers and attractive pricing models offered by fintechs continue to compete 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. With the increase in account and custody clients, the need for additional services and interface solutions displaying the entire asset management process grew.

As a provider of banking services, Baader Bank benefited from this market development in the past fiscal year, and significantly expanded its cooperation with asset managers, family offices and large institutional investors.

The number of client deposits increased to approximately 14,500 with a deposit volume of approximately EUR 2.5 billion (56 % increase in comparison to the previous year).

2.2.3.2 Asset Management Services business line

After doubling the volume of assets managed by Asset Mangement Services as portfolio managers for capital management companies between 2015 and 2016 (total volume as at 31/12/2016: EUR 5.35 billion), an increase of 14.02 % to EUR 6.10 billion was recorded over the year 2017. The number of fund mandates remained alsmost unchanged at 55 mandates (fund mandates as at 31/12/2016: 56).

Since 2016, Baader Bank has been offering the takeover of the buy-side trading desk. As at the balance sheet date in 2017, it held 159 mandates for funds for which it renders this service. This means a considerable increase of approximately 66 % in comparison to the previous year (96 fund mandates).

2.2.3.3 Research business line

The results of the Thomson Reuters Analyst Awards 2017 were very positive for the Baader Helvea Equity Research team. The global ranking list created by Thomson Reuters is a recognised quality award and an indicator for the services of sell-side analysts. In the overall category "Top Brokers", the Baader Helvea analysts were awarded second place and were among the best institutions in the sector selection seven times.

In June 2017, Baader Helvea became the research partner of the Stage Programme of SIX Swiss Exchange (SIX), reinforcing its leading position in Switzerland. The Stage Program was launched by SIX in 2016 to increase the visibility of listed companies in the capital market.

Similar to other Baader Bank business lines, in the past fiscal year the Research business line faced structural market changes with the entry into force of MiFID II, which will have a significant impact on existing and potential Baader Bank client relationships due to unbundling – the separation of research from other brokerage services. (see Section 3.2.3.3).

Measures taken in 2017 related primarily to the revision of the contractual framework conditions of Baader Bank's sales and sales trading units. There were no changes in 2017 with regard to the sector and company universe of the Research business line with a focus on around 200 listed companies from German-speaking countries. 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.

2.2.4 Conferences and events

At the 13th Baader Helvea Swiss Equities Conference in Bad Ragaz, which took place in January 2017, 57 leading Swiss companies and 270 institutional investors from 20 countries were hosted.

The Baader Investment Conference in September 2017, also held once a year and for the sixth time last year in Munich, this time covered four (previously three) conference days. With approximately 750 investors from 33 countries and 175 listed companies from Germany, Switzerland and Austria, we reached a new participant record. In addition to the opportunity to present and deepen contacts between companies and international investors in approximately 3,000 individual and small group discussions, panels and forums offered a knowledge platform on regulation topics relevant to the industry, above all MiFID II.

The strategically important target group of asset managers and family offices took part in an event at the premises of Baader Bank in Unterschleissheim in July 2017. The event format originated in 2016 and is a further opportunity to network and reinforce client relationships.

2.2.5 Development of the business of the subsidiaries

The portfolio management income of the financial services provider ***CCPM AG*** is mainly determined by the assets under management (AuM), the agreed management fees, and the earned performance fees.

CCPM AG's business performance for the 2017 fiscal year was stagnant overall, with revenues slightly down on the previous year, with a reduction in AuM under management, which is the most important basis for CCPM AG's planning and management purposes. The income forecasts made for the past fiscal year based on the management fee could not, or could only partially, be met for both the Athena and TriStone funds. With regard to the performance fee, the earnings expectations were clearly missed. AuM decreased by approx. 5 % to EUR 387,721 thousand compared to the previous year.

One reason for this development was the almost uninterrupted rise in the US stock market since the beginning of the year under review, with correspondingly negative effects on the Athena strategy. However, the low-risk premiums in the second traded market, the EuroStoxx50, and the low volatility also resulted in an unfavourable market environment for CCPM AG's trading strategies, which led to net losses. The decline in administrative expenses and other operating expenses could not compensate for the reduction in commission income.

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 2017 fiscal year, net commission income increased, which significantly exceeded expectations from the earnings planning for 2017. Despite the renewed write-down of shares in the wholly-owned subsidiary SKALIS AG in the amount of EUR 2,375 thousand, the company recorded an increase in earnings before taxes of around 30 %.

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. Due to a significant reduction in the managed AuMs, revenues fell considerably, with the company therefore reporting a negative result.

With a share purchase agreement dated 28 November 2017, Baader & Heins AG sold 75.1 % of its shares in SKALIS AG to a group of buyers. The execution of the purchase agreement is dependent on the positive outcome of an owner control procedure with the Federal Financial Supervisory Authority. If this condition is not fulfilled by 31 March 2018, the parties are entitled to with-draw from the contract.

The ***Baader Helvea Group*** has had business connections with institutional investors worldwide for more than ten years, focusing on the United Kingdom, Switzerland and the USA. With the acquisition of the Baader Helvea Group, Baader Bank became one of the largest local brokers in German, Austrian and Swiss shares.

The designation of Baader Helvea as a partner in the SIX Stage Programme in 2017 represents a valuable strategic tool to support corporate customers who should benefit from greater awareness and appropriate evaluation in the market.

In contrast to the previous year, Baader Helvea was again able to make a positive contribution of EUR 776 thousand to the Group result through the acquisition of new customers.

The main earnings drivers of the ***Selan Group*** are the feed-in tariffs for wind energy achieved by the wind farm operator Selan d.o.o., which depend to a large extent on wind conditions and the technical availability of the wind turbines in the course of a business period.

Despite a below-average wind volume, the operating company Selan d.o.o. achieved a total annual result of EUR 3,676 thousand in 2017, which was above the forecast values of the wind reports. In the past fiscal year, the average wind speed at the wind farm site in Senj, Croatia was only 8.2 m/s, which was below the average value of the previous eight years. Nevertheless, at 116.5 million kWh, the second highest wind yield since the wind farm went into operation was achieved. The reason for this was that the investment activity carried out in 2017 resulted in a continuous improvement of the technical availability and the optimisation of control measures in the shutdown control of the wind turbines.

2.2.6 Comparison of actual business performance in 2017 with the forecasts published in the previous year

As expected, the international financial markets picked up significantly in 2017, from which Baader Bank benefited in the form of moderately rising securities turnover. Despite the continued low volatility over several months, net trading income increased by 9 % to EUR 57,683 thousand, which is exclusively attributable to the corresponding profit contribution of Baader Bank AG.

The previous year's forecasts of individual income components relating to commission income were met, and in some cases even exceeded, so that an overall increase of 14 % to EUR 46,539 thousand at Group level (Baader Bank AG: increase of 17 % to EUR 24,831 thousand) was achieved. Significantly higher turnover and transaction volumes as a result of mandate gains in the Capital Markets business line compared to the previous year were one of the decisive factors here. There was also considerable growth in brokerage and cash equity activities and in complementary banking services. Following the losses of the previous year, the subsidiary Baader Helvea again made a higher contribution to the commission income of the Baader Bank Group.

The forecast increase in gross profit of at least 10 % was also exceeded at Group level with an increase of 22 % to EUR 117,859 thousand. Excluding the sales revenue from the first-time consolidation of the Selan Group, the increase amounts to 9.2 % (Baader Bank AG: increase of 10 % to EUR 86,002 thousand).

By contrast, expenses increased against expectations. This is essentially also attributable to the initial consolidation of the Selan Group and unplanned restructuring costs in market making and therefore not an indication of falling cost efficiency in banking operations.

Overall, a positive result from ordinary activities was achieved at Group level in line with the previous year's forecast.

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 fiscal 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 fiscal year 2017 will be published in the electronic Federal Gazette.

2.3.2 Results of operations

The earnings position of the Baader Bank Group in the past fiscal year was clearly positive with earnings before taxes of EUR 4,259 thousand (previous year: EUR –2,133 thousand). This is also directly reflected in the performance and earnings drivers shown in the operating areas, where the operating result and thus the Group's performance could be significantly increased. The results of operations of the Baader Bank Group as well as Baader Bank AG in fiscal year 2017 compared to the previous years 2015 and 2016 were as follows (see next page):

Table 1: Indicators for the results of operations of the Baader Bank Group

	2015 EUR'000	2016 EUR'000	2017 EUR'000	Change to the previous year „Absolute EUR'000"	*„Relative %"*
Income	**111,997**	**100,477**	**121,317**	**20,840**	*21 %*
of which net interest income[1] and current income	2,495	3,227	1,502	–1,725	*–53 %*
including net interest income	579	2,087	–338	–	*–*
including current income	1,916	1,140	1,840	700	*61 %*
Share of income	*2 %*	*3 %*	*1 %*		
of which net commission income[1]	50,147	40,747	46,539	5,792	*14 %*
including commission income	74,500	61,896	71,907	10,011	*16 %*
including commission expenses	24,353	21,149	25,368	4,219	*20 %*
Share of income	*45 %*	*41 %*	*38 %*		
of which net trading income[1, 2]	52,553	52,809	57,683	4,874	*9 %*
Share of income	*47 %*	*53 %*	*48 %*		
of which revenue	0	0	12,135	12,135	*100 %*
Share of income	*0 %*	*0 %*	*10 %*		
of which other income	6,802	3,694	3,458	–236	*–6 %*
including other operating income	5,088	2,328	3,458	1,130	*49 %*
including income from write-ups[3] and income from the reversal of provisions in the lending business	0	1,366	0	–1,366	*–100 %*
including income from the liquidation of the fund for general banking risks	1,714	0	0	0	*0 %*
Share of income	*6 %*	*4 %*	*3 %*		
Expenses	**119,590**	**102,610**	**117,058**	**14,448**	*14 %*
of which personnel expenses	54,209	50,289	54,702	4,413	*9 %*
Share of expenses	*45 %*	*49 %*	*47 %*		
of which administrative expenses and other operating expenses	42,242	41,344	42,586	1,242	*3 %*
including other administrative expenses	39,943	38,329	41,386	3,057	*8 %*
including other operating expenses	2,299	3,015	1,200	–1,815	*–60 %*
Share of expenses	*35 %*	*40 %*	*36 %*		
of which amortisation and depreciation	20,579	9,943	18,344	8,401	*84 %*
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	10,991	9,943	14,121	4,178	*42 %*
including other depreciation, amortisation and write-downs[4] as well as additions to provisions in the lending business	9,588	0	4,223	4,223	*100 %*
Share of expenses	*17 %*	*10 %*	*16 %*		
of which additions to the fund for general banking risks	0	584	0	–584	*–100 %*
Share of expenses	*0 %*	*1 %*	*0 %*		
of which net income from interests in associates	2,560	450	1,426	976	*> 100 %*
Share of expenses	*2 %*	*0 %*	*1 %*		
Earnings before taxes (EBT)	**–7,593**	**–2,133**	**4,259**	**–**	*–*
Taxes	803	1,486	1,977	491	*33 %*
Tax ratio	*–11 %*	*–70 %*	*46 %*		
Consolidated net profit before minority interests	**–8,396**	**–3,619**	**2,282**	**–**	*–*
Minority interest in net income	**19**	**137**	**120**	**–17**	*–12 %*
Consolidated net profit for the year	**–8,377**	**–3,482**	**2,402**	**–**	*–*
Net profit / loss of the parent company brought forward	**918**	**–6,546**	**–6,642**	**–96**	*–1 %*
Transfers to / withdrawals from retained earnings	**913**	**3,386**	**–6,796**	**–**	*–*
Consolidated net retained profit / loss	**–6,546**	**–6,642**	**–11,036**	**–4,394**	*–66 %*
Key figures					
Gross profit (revenue)[5]	105,195	96,783	117,859	21,076	*22 %*
Operating result[6]	52	–1,778	7,650	9,428	*> 100 %*
Expense-income ratio	107 %	102 %	96 %		
Personnel expenses ratio[7]	52 %	52 %	46 %		
Administrative expenses ratio[8]	38 %	40 %	35 %		
Return on equity before taxes[9]	–8 %	–2 %	4 %		

[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, net trading income and revenue | [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 expenses as a % of revenue or gross profit | [8] Administrative expenses 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

	2015 EUR'000	2016 EUR'000	2017 EUR'000	Change to the previous year „Absolute EUR'000"	Change to the previous year *„Relative %"*
Income	**92,253**	**85,152**	**92,199**	**7,047**	*8 %*
of which net interest income[1] and current income	4,168	4,201	3,488	–713	*–17 %*
including net interest income	635	2,150	1,585	–565	*–26 %*
including current income	3,533	2,051	1,903	–148	*–7 %*
Share of income	*5 %*	*5 %*	*4 %*		
of which net commission income[1]	25,064	21,287	24,831	3,544	*17 %*
Share of income	*27 %*	*25 %*	*27 %*		
of which net trading income[1, 2]	52,553	52,809	57,683	4,874	*9 %*
Share of income	*57 %*	*62 %*	*63 %*		
of which other income	10,468	6,855	6,197	–658	*–10 %*
including other operating income	8,827	5,489	6,197	708	*13 %*
including income from write-ups[3] and income from the reversal of provisions in the lending business	0	1,366	0	–1,366	*–100 %*
including income from the liquidation of the fund for general banking risks	1,641	0	0	0	*0 %*
Share of income	*11 %*	*8 %*	*7 %*		
Expenses	**99,763**	**85,148**	**96,476**	**11,328**	*13 %*
of which personnel expenses	40,110	37,721	43,188	5,467	*14 %*
Share of expenses	*40 %*	*44 %*	*45 %*		
of which administrative expenses and other operating expenses	37,533	38,049	36,146	–1,903	*–5 %*
including other administrative expenses	35,640	35,055	35,039	–16	*0 %*
including other operating expenses	1,893	2,994	1,107	–1,887	*–63 %*
Share of expenses	*38 %*	*45 %*	*37 %*		
of which amortisation and depreciation	22,120	8,752	17,142	8,390	*96 %*
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	9,757	8,752	8,793	41	*0 %*
including other depreciation, amortisation and write-downs[4] as well as additions to provisions in the lending business	12,363	0	8,349	8,349	*100 %*
Share of expenses	*22 %*	*10 %*	*18 %*		
of which other expenses	0	626	0	–626	*–100 %*
of which income from the addition of the fund for general banking risks	0	626	0	–626	*–100 %*
Share of expenses					
Earnings before taxes (EBT)	**–7,510**	**4**	**–4,277**	**–**	*–*
Taxes	–46	100	117	17	*17 %*
Tax ratio	*–1 %*	*> 100 %*	*3 %*		
Net profit (NP) / -loss for the year	**–7,464**	**–96**	**–4,394**	**–4,298**	*> –100 %*
Retained earnings/losses from the previous year	918	–6,546	–6,642	–96	*–1 %*
Balance sheet profit / loss	**–6,546**	**–6,642**	**–11,036**	**–4,394**	*–66 %*

Key figures	2015	2016	2017	Absolute	Relative
Gross profit (revenue)[5]	81,785	78,297	86,002	7,705	*10 %*
Operating result[6]	–3,722	–3,231	–1,018	2,213	*68 %*
Expense-income ratio	108 %	100 %	105 %		
Personnel expenses ratio[7]	49 %	48 %	50 %		
Administrative expenses ratio[8]	44 %	45 %	41 %		
Return on equity before taxes[9]	–7 %	0 %	–4 %		

[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 interests in affiliated companies and securities held as assets | [4] Depreciation, amortisation and write-downs on receivables and certain securities as well as equity investments, and Interests in affiliated companies 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 expenses as a % of revenue or gross profit | [8] Administrative expenses as a % of revenue or gross profit | [9] EBT as a % of equity

While current income increased by EUR 700 thousand to EUR 1,840 thousand due to higher dividend income compared to the previous year (Baader Bank AG: EUR 148 thousand decrease to EUR 1,903 thousand), net interest income was negative at EUR 338 thousand in the past fiscal year. In Baader Bank AG's individual financial statements, net interest income also declined by EUR 565 thousand, but was positive overall at EUR 1,585 thousand. Net interest income was mainly characterised by interest income from fixed-interest securities (EUR 7,313 thousand), correspondingly interest expenses from the issue of own promissory note loans (EUR 5,501 thousand) and the refinancing of the Group headquarters in Unterschleissheim (Baader Bank AG): EUR 815 thousand). New additions and the reason for the overall negative earnings contribution in the Group are above all the interest expenses from the external financing of the wind farm at Selan d.o.o. in the amount of EUR 1,682 thousand. With a share in total earnings amounting to 1 % (Baader Bank AG: 4 %), net interest income and current income – unchanged to the previous year – is of minor importance for the Group's results of operations.

At EUR 46,539 thousand (Baader Bank AG: EUR 24,831 thousand), net commission income made a significant contribution, as in the previous year, and represents 38 % of the Group's earnings (Baader Bank AG: 27 %). Overall, the Group's net commission income was 14 % or EUR 5,792 thousand higher than in the previous year (Baader Bank AG: 17 % or EUR 3,544 thousand). In addition to a EUR 860 thousand increase in the brokerage and transaction result of EUR 11,503 thousand, higher placement volumes, a revival of the market environment, an intensification of existing customer relationships and an increase in the number of internationally operating investors led to the significant increase. Net commission income from capital market services increased by EUR 2,229 thousand to EUR 6,308 thousand (Baader Bank AG: by EUR 1,705 thousand to EUR 5,313 thousand). Considerable increases in earnings were also achieved in the cash equity business. Net commission income from the order routing and commission business increased by EUR 1,204 thousand to EUR 26,601 thousand (Baader Bank AG: by EUR 729 thousand to EUR 19,357 thousand).

Net commission income was also positively influenced by the result from agency commissions (+ EUR 2,151 thousand) (Baader Bank AG: + EUR 940 thousand), other commission income (+ EUR 1,046 thousand) (Baader Bank AG: + EUR 706 thousand) and the higher result from management and performance fees (+ EUR 217 thousand) (Baader Bank AG: + EUR 515 thousand). By contrast, due to the higher trading volume, settlement and exchange fees rose only disproportionately less (+ EUR 1,912 thousand) (Baader Bank AG: + EUR 1,913 thousand).

Trading profit at Group level rose by EUR 4,874 thousand to EUR 57,683 thousand in the past fiscal year and resulted entirely from Baader Bank AG as the trading book institution and contributed 48 % of the Group's total income (Baader Bank AG: 63 %). As in the previous year, the core business line Market Making made a considerable contribution to this. The past fiscal year was marked overall by a moderate increase in securities turnover with general restraint on the part of market players in the run-up to the Bundestag elections. Only in the fourth quarter of the fiscal year were there positive signals in share trading, which Baader Bank AG was able to take advantage of.

The new revenues item (EUR 12,135 thousand) to be recognised due to the inclusion of the Selan Group is fully attributable to the feed-in remuneration for electricity generated by the wind farm. The level of revenue in total income amounts to 10 %. This is offset by operating costs for the wind farm (EUR 2,606 thousand), refinancing costs (EUR 1,682 thousand) and depreciation of these amounting to EUR 3,496 thousand.

Other income decreased by EUR 236 thousand to EUR 3,458 thousand (Baader Bank AG: by EUR 658 thousand to EUR 6,197 thousand). Other operating income increased by a total of EUR 1,130 thousand due to the netting of income and expenses from plan assets in connection with pension provisions and other current operating income. In addition, valuation gains from the non-trading book of Baader Bank AG were reported under other income in the previous year. The total item amounted to EUR 1,366 thousand.

Expenses increased significantly by 14 % or EUR 14,448 thousand to a total of EUR 117,058 thousand (Baader Bank AG: by 13 % or EUR 11,328 thousand to EUR 96,476 thousand). The personnel, administrative and other operating expenses increased compared to the previous year. Personnel expenses increased by EUR 4,413 thousand to EUR 54,702 thousand (Baader Bank AG: by EUR 5,467 thousand to EUR 43,188 thousand). In addition to allocations to pension provisions, this was mainly due to changes in the remuneration systems during the implementation of the new institutional remuneration ordinance and to restructuring costs in market making.

Other administrative expenses also increased at Group level by EUR 3,057 thousand to EUR 41,386 thousand (Baader Bank AG: decrease of EUR 16 thousand to EUR 35,039 thousand). Taking into account the first-time inclusion of the operating costs for the Selan Group's wind farm (EUR 2,606 thousand), however, this increase is relative, with the result that costs were kept at a relatively constant level from an overall perspective.

Gross profit increased on the whole by 22 % or EUR 21,076 thousand to EUR 117,859 thousand (Baader Bank AG: 10 % or EUR 7,705 thousand to EUR 86,002 thousand). As a result, operating earnings before depreciation and taxes increased by EUR 9,428 thousand and EUR 2,213 thousand at both the consolidated and individual financial statement level.

Depreciation in the Baader Bank Group rose by a total of EUR 8,401 thousand to EUR 18,344 thousand. Of this, EUR 14,121 thousand relates to depreciation and value adjustments on intangible assets and property, plant and equipment and EUR 4,223 thousand to amortisation and value adjustments on receivables and certain securities. Of the amortisation and value adjustments on intangible assets and tangible assets, EUR 6,010 thousand are attributable to tangible assets (land and buildings EUR 1,987 thousand, operating and office equipment EUR 3,922 thousand, low-value assets EUR 101 thousand) and EUR 8,111 thousand to intangible assets (goodwill EUR 3,390 thousand, order books EUR 2,689 thousand, software EUR 1,954 thousand, licences and industrial property rights EUR 78 thousand). In addition, valuation and disposal losses of EUR 1,820 thousand and EUR 2,569 thousand in the non-trading book were reflected in write-downs and value adjustments on receivables and certain securities and thus contributed on a net basis to the total contribution of EUR 4,223 thousand.

Depreciation and amortisation at Baader Bank AG rose by a total of EUR 8,390 thousand to EUR 17,142 thousand. In addition to almost constant amortisation of intangible assets and depreciation of property, plant and equipment of EUR 8,793 thousand compared to the previous year, the increase of EUR 4,215 thousand results from write-downs and value adjustments on receivables and certain securities as well as EUR 4,134 thousand from write-downs on investments and shares in affiliated companies.

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, consolidated net income after taxes was positive at EUR 2,402 thousand (previous year: EUR –3,482 thousand). Baader Bank AG reported a net loss for the year of EUR –4,394 thousand, down EUR 4,298 thousand on the previous year.

2.3.3 Financial position and net assets

As at the balance sheet date, total assets amounted to EUR 764,844 thousand, and, with an increase of EUR 186,308 thousand are, on the whole, higher than the previous year's level (Baader Bank AG: increase of EUR 142,465 thousand to EUR 724,604 thousand). The balance sheet structure of the Baader Bank Group has undergone significant changes on both the assets and liabilities side. The changes in assets mainly result from a balance sheet date-related increase of EUR 143,197 thousand in balances with central banks and an increase in property, plant and equipment by a total of EUR 44,399 thousand due to the initial consolidation of the Selan Group. On the liabilities side, bank loans and advances and loans and advances to customers increased significantly by EUR 182,414 thousand due to higher sight deposits, loans in connection with the refinancing of the wind farm and time deposit transactions. The balance sheet equity ratio remains unchanged at 13 % both for the Group and Baader Bank AG.

The net assets and balance sheet item changes of the Baader Bank Group and Baader Bank AG as at the balance sheet date are detailed as follows (see next page):

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

	2015 EUR'000	2016 EUR'000	2017 EUR'000	Change to the previous year „Absolute EUR'000 "	Change to the previous year „Relative %"
Current assets	**492,627**	**503,312**	**645,750**	**142,438**	*28 %*
Share of current assets in net assets	*85 %*	*87 %*	*84 %*		
of which cash reserves	14,593	74,311	217,508	143,197	*> 100 %*
of which loans and advances to banks	117,067	95,166	90,251	–4,915	*–5 %*
including due on demand	98,204	74,328	79,763	5,435	*7 %*
including other loans and advances	18,863	20,838	10,488	–10,350	*–50 %*
of which loans and advances to customers	30,253	34,988	31,555	–3,433	*–10 %*
of which debt securities and other fixed-income securities	225,003	204,902	225,730	20,828	*10 %*
of which equities and other variable-income securities	27,124	23,534	19,017	–4,517	*–19 %*
of which trading portfolio	59,995	54,301	55,761	1,460	*3 %*
of which other assets and prepaid expenses and deferred charges	18,592	16,110	5,928	–10,182	*–63 %*
of which other assets	15,986	13,595	2,850	–10,745	*–79 %*
of which prepaid expenses and deferred charges	2,606	2,515	3,078	563	*22 %*
Non-current assets	**83,703**	**75,224**	**119,094**	**43,870**	*58 %*
Share of non-current assets in net assets	*15 %*	*13 %*	*16 %*		
of which equity investments and interests in affiliated companies	5,968	5,518	4,092	–1,426	*–26 %*
of which intangible assets	27,006	21,002	21,292	290	*1 %*
of which property, plant and equipment	43,980	41,908	86,307	44,399	*> 100 %*
of which excess of plan assets over pension liabilities	6,749	6,796	7,403	607	*9 %*
including pension obligations	–7,158	–10,132	–10,542	410	*4 %*
including fair value of plan assets[1]	13,907	16,928	17,945	1,017	*6 %*
Total assets	**576,330**	**578,536**	**764,844**	**186,308**	*32 %*
External financing	**444,183**	**448,707**	**633,404**	**184,697**	*41 %*
External financing ratio	*77 %*	*78 %*	*83 %*		
of which bank loans and advances	53,223	61,174	115,660	54,486	*89 %*
including due on demand	21,214	15,524	30,490	14,966	*96 %*
including with agreed term or notice period	32,009	45,650	85,170	39,520	*87 %*
of which payables to customers	386,031	382,874	510,802	127,928	*33 %*
including due on demand	154,536	182,893	349,369	166,476	*91 %*
including with agreed term or notice period	231,495	199,981	161,433	–38,548	*–19 %*
of which other liabilities	4,929	4,659	6,942	2,283	*49 %*
Other refinancing funds	**31,992**	**33,814**	**33,984**	**170**	*1 %*
Other refinancing ratio	*6 %*	*6 %*	*4 %*		
of which trading portfolio	1,686	2,116	2,898	782	*37 %*
of which provisions	8,770	9,578	8,966	–612	*–6 %*
of which fund for general banking risks	21,536	22,120	22,120	0	*0 %*
of which deferred income	0	0	0	0	*0 %*
Balance sheet equity	**100,155**	**96,015**	**97,456**	**1,441**	*2 %*
Balance sheet equity ratio	*17 %*	*17 %*	*13 %*		
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	28,230	24,565	30,568	6,003	*24 %*
of which minority interests	1,408	1,029	861	–168	*–16 %*
of which balance sheet profit / loss	–6,546	–6,642	–11,036	–4,394	*–66 %*
Off-balance-sheet commitments	**10,102**	**25,452**	**10,716**	**–14,736**	*–58 %*
of which contingent liabilities from guarantees and indemnity agreements	5	13,255	208	–13,047	*–98 %*
of which obligations from loan commitments	10,097	12,197	10,508	–1,689	*–14 %*
Key figures					
Liquid funds[2]	112,797	148,639	297,271	148,632	*100 %*
Balance sheet liquidity surplus[3]	257,202	247,037	224,610	–22,427	*–9 %*
Modified equity ratio[4]	21 %	20 %	16 %		

[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

	2015 EUR'000	2016 EUR'000	2017 EUR'000	Change to the previous year „Absolute EUR'000 "	„*Relative %*"
Current assets	**479,184**	**489,612**	**633,726**	**144,114**	*29 %*
Share of current assets in net assets	*83 %*	*84 %*	*87 %*		
of which cash reserves	14,592	74,310	217,507	143,197	*> 100 %*
of which loans and advances to banks	103,748	81,913	75,393	–6,520	*–8 %*
including due on demand	87,473	63,644	67,122	3,478	*5 %*
including other loans and advances	16,275	18,269	8,271	–9,998	*–55 %*
of which loans and advances to customers	32,392	37,231	37,722	491	*1 %*
of which debt securities and other fixed-income securities	225,003	204,902	225,730	20,828	*10 %*
of which equities and other variable-income securities	25,502	21,950	16,485	–5,465	*–25 %*
of which trading portfolio	59,995	54,301	55,761	1,460	*3 %*
of which other assets and prepaid expenses and deferred charges	17,952	15,005	5,128	–9,877	*–66 %*
of which other assets	15,796	13,395	2,800	–10,595	*–79 %*
of which prepaid expenses and deferred charges	2,156	1,610	2,328	718	*45 %*
Non-current assets	**99,436**	**92,527**	**90,878**	**–1,649**	*–2 %*
Share of non-current assets in net assets	*17 %*	*16 %*	*13 %*		
of which equity investments and interests in associates	26,745	26,876	31,588	4,712	*18 %*
of which intangible assets	22,436	17,257	12,358	–4,899	*–28 %*
of which property, plant and equipment	43,506	41,598	39,529	–2,069	*–5 %*
of which excess of plan assets over pension liabilities	6,749	6,796	7,403	607	*9 %*
including pension obligations	–7,158	–10,132	–10,542	410	*4 %*
including fair value of plan assets[1]	13,907	16,928	17,945	1,017	*6 %*
Total assets	**578,620**	**582,139**	**724,604**	**142,465**	*24 %*
External financing	**449,625**	**450,758**	**597,887**	**147,129**	*33 %*
External financing ratio	*78 %*	*77 %*	*83 %*		
of which bank loans and advances	53,222	61,174	80,230	19,056	*31 %*
including due on demand	21,213	15,524	30,490	14,966	*96 %*
including with agreed term or notice period	32,009	45,650	49,740	4,090	*9 %*
of which payables to customers	392,221	385,585	512,872	127,287	*33 %*
including due on demand	160,726	185,603	353,186	167,583	*90 %*
including with agreed term or notice period	231,495	199,982	159,686	–40,296	*–20 %*
of which other liabilities	4,182	3,999	4,785	786	*20 %*
Other refinancing funds	**28,383**	**30,865**	**30,595**	**–270**	*–1 %*
Other refinancing ratio	*5 %*	*5 %*	*4 %*		
of which trading portfolio	1,686	2,116	2,898	782	*37 %*
of which provisions	5,188	6,614	5,562	–1,052	*–16 %*
of which fund for general banking risks	21,509	22,135	22,135	0	*0 %*
Balance sheet equity	**100,612**	**100,516**	**96,122**	**–4,394**	*–4 %*
Balance sheet equity ratio	*17 %*	*17 %*	*13 %*		
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	30,095	30,095	30,095	0	*0 %*
of which balance sheet profit / loss	–6,546	–6,642	–11,036	–4,394	*–66 %*
Off-balance-sheet commitments	**10,102**	**25,452**	**10,716**	**–14,736**	*–58 %*
of which contingent liabilities from guarantees and indemnity agreements	5	13,255	208	–13,047	*–98 %*
of which obligations from loan commitments	10,097	12,197	10,508	–1,689	*–14 %*
Key figures					
Liquid funds[2]	102,065	137,954	284,629	146,675	*> 100 %*
Balance sheet liquidity surplus[3]	241,626	235,038	214,068	–20,970	*–9 %*
Modified equity ratio[4]	21 %	21 %	16 %		

[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 book value of loans and advances to banks decreased by EUR 4,915 thousand to EUR 90,251 thousand (Baader Bank AG: by EUR 6,520 thousand to EUR 75,393 thousand) with a simultaneous increase in the credit balances with central banks of EUR 143,197 thousand to EUR 217,508 thousand. The increase in the portfolio of bonds and other fixed-interest securities resulted from a slight increase of 11 % and 10 %, respectively, in bonds issued by public and 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 225,730 thousand mainly comprised corporate bonds (as in previous years) of EUR 166,496 thousand. The trading portfolio decreased slightly by EUR 1,460 thousand or 3 % to EUR 55,761 thousand on the closing date.

After the considerable reduction, the securities portfolio contained a low level of bonds and debt securities (at market values) from issuers in the “GIIPS” countries (Greece, Italy, Ireland, Portugal and Spain) in the following amounts as at 31 December 2017. Of this, EUR 4,056 thousand is mainly attributable to Ireland (public issuers).

Other assets and prepaid expenses and deferred charges decreased by EUR 10,182 thousand to EUR 5,928 thousand (Baader Bank AG: by EUR 9,877 to EUR 5,128 thousand). This is mainly due to the decrease in other assets in the amount of EUR 10,745 thousand (Baader Bank AG: EUR 10,595 thousand). In addition to the last repayment of corporate income tax credits, the significant change results from the initial inclusion of the Selan Group in the consolidated financial statements by way of full consolidation. Baader Bank AG acquired the shares in fiscal year 2015 as part of a restructuring of a loan commitment due to the conversion of a loan receivable, and reported these shares in the previous year as shares held for sale under other assets at EUR 8,829 thousand.

The excess of plan assets over pension liabilities increased by EUR 607 thousand to a total of EUR 7,403 thousand. The reason for this was essentially the plan assets measured at fair value that increased to EUR 17,945 thousand. Plan assets consisted of EUR 14,959 thousand in loans and advances to banks and EUR 2,986 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 1,426 thousand during the fiscal year to EUR 4,092 thousand. This is due to the negative earnings development of the associated companies.

At Baader Bank AG, the equity investments and interests in affiliated companies increased by EUR 4,712 thousand to EUR 31,588 thousand. By far the largest effect in the amount of EUR 8,829 thousand relates to the changed reporting of the Selan Group, which was still held for sale in the previous year and reported under other assets.

2.3.3.3 Intangible assets and property, plant and equipment

As a result of the initial consolidation of the Selan Group as of 1 January 2017 and the associated inclusion of the wind farm in the consolidated financial statements of Baader Bank AG, the property, plant and equipment doubled in total. These increased by EUR 44,399 thousand to a total of EUR 86,307 thousand. Intangible assets remained almost at the previous year‘s level with EUR 21,292 thousand.

At Baader Bank AG, property, plant and equipment and intangible assets declined by EUR 6,968 thousand to EUR 51,887 thousand. This is due to the scheduled depreciation of EUR 8,793 thousand in the fiscal year, which was offset by investments including reclassifications from pre-payments made in the amount of EUR 1,937 thousand.

Additions to intangible assets mainly related to goodwill (EUR 6,837 thousand) and IT software (EUR 1,345 thousand). By far the largest share of EUR 6,820 thousand relates to the goodwill of the Selan Group. In the area of IT software, existing applications were expanded for the most part and new software products were purchased.

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 (increase of EUR 184,696 thousand) and amounted to EUR 633,403 thousand (Baader Bank AG: increase of EUR 147,129 thousand to EUR 597,887 thousand) as at the balance sheet date. The reason for the strong growth is primarily due to the increase in loans and advances to customers due on demand of EUR 166,476 thousand (Baader Bank AG: 167,583 thousand) and the increase in liabilities to banks with agreed maturities (increase of EUR 35,428 thousand) resulting from the loan to refinance the wind farm, with simultaneous repayment of own promissory notes issued. In the past fiscal year, these decreased by EUR 20,390 thousand to EUR 157,286 thousand.

As at the balance sheet date, other liabilities increased by EUR 2,283 thousand to EUR 6,942 thousand (Baader Bank AG: by EUR 786 thousand to EUR 4,785 thousand).

2.3.3.5 Other refinancing funds

Other refinancing funds increased slightly in the year under review by EUR 170 thousand to EUR 33,984 thousand (Baader Bank AG: decrease of EUR 270 thousand to EUR 30,595 thousand). The increase is mainly due to higher trading portfolio liabilities of Baader Bank AG (increase of EUR 782 thousand) and lower provisions (decrease of EUR 612 thousand) as a result of the reporting date. Due to lower allocations to provisions for administrative costs and commission expenses, these decreased at Baader Bank AG by a total of EUR 1,052 thousand. The special item for the fund for general banking risks amounted to EUR 22,120 thousand as at the balance sheet date, unchanged from the previous year (Baader Bank AG: EUR 22,135 thousand).

2.3.3.6 Balance sheet equity

In the current fiscal year 2017, there were no changes to the subscribed capital and capital reserves. The increase in equity of EUR 1,441 thousand to EUR 97,456 thousand is primarily due to the consolidated net profit before minority interests (+ EUR 2,282 thousand), dividend payments (EUR –48 thousand) as well as effects from currency translation (EUR –793 thousand). Baader Bank AG's equity decreased by EUR 4,394 thousand to EUR 96,122 thousand due to the net loss for the year. The balance sheet equity ratio amounted to 13 % (Baader Bank AG: 13 %), and, taking into account the fund for general banking risks, the modified equity ratio amounted to 16 % (Baader Bank AG: 16 %). Baader Bank AG's total regulatory capital ratio is around 17 % (previous year: 15 %).

For disclosures in accordance with Section 315 (2) HGB in conjunction with 160 (1) No. 2 AktG, please refer to the notes to the consolidated financial statements of Baader Bank for fiscal year 2017.

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 208 thousand as well as outstanding irrevocable loan commitments to customers in the amount of EUR 10,508 thousand.

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 previous years, was also maintained at a consistently high level in the past fiscal year. The balance sheet liquidity surplus decreased slightly by 9 % or EUR 22,427 thousand to EUR 224,610 thousand (Baader Bank AG: decrease of 9 % or EUR 20,970 thousand to EUR 214,068 thousand).

Baader Bank AG's regulatory liquidity ratio was 4.98 as at 31 December 2017 (previous year: 4.69). 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 decreased from 452 in the previous year to 447 as at the balance sheet date. There are 127 female employees and 320 male employees in the Group, from a total of 30 countries.

The number of employees at Baader Bank AG as at 31 December 2016 was unchanged from the previous year. The 393 employees, 112 of whom are female and 281 male, come from 23 nations.

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 2017 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

Baader Bank and its subsidiaries do not carry out any business transactions that have a 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 performance of the Baader Bank Group for the 2017 fiscal year is positive overall. Due to a significant increase in gross profit and thus a positive operating result compared to the previous year, there was a considerable increase in earnings. The decision taken in the course of the fiscal year to abandon the intention to sell Selan d.o.o. has been positively confirmed. The Selan Group makes a significant contribution to the Group's overall result.

In line with the revival of the market environment, Baader Bank AG was once again able to hold its own against the competition and steadily expand its position as a market participant. Write-downs and value adjustments on investments and shares in affiliated companies as well as restructuring costs ultimately led nevertheless to a negative result for Baader Bank AG in the fiscal year.

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

CCPM AG's overall business performance was somewhat more restrained than in the previous year, but also closed the fiscal year with a slightly positive overall contribution to the Group.

Both at SKALIS AG and CCPM AG, the business development is also highly dependent on the development of AuM and the performance realised in the management of these assets. Despite the slight year-on-year decline in the AuM, CCPM AG's AuMs are still well above the average level of the fiscal year 2015. At SKALIS AG, on the other hand, there were in part significant outflows in the AuMs, which, together with the below-average performance of the funds, ultimately led to another net loss for the year for the company.

The factors described (see Section 2.2.1) in the Multi Asset Brokerage business line also led to a considerable increase in business activities in the Baader Helvea Group and thus to an increase in net commission income. On the whole, the Group therefore made a positive contribution to the overall result of the Group.

Looking back, the Baader Bank Group's fiscal year was positive. Its excellent positioning in the market, its international focus and the recognition expressed in the customer portfolio as well as, last but not least, the reorganisation of the business lines, are seen as positive for the upcoming fiscal years by the Board of Directors.

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.

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 2017. As the business activities of Baader Bank AG have to date constituted the largest and thus a significant share of risk in the Baader Bank Group, the risk management structures and processes are 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. As at 31/12/2017, the analysis showed a considerable increase in the deviation, which can now be classified as significant. The bank will thus develop a separate limit system for Baader Bank AG in the first quarter of the new year and implement appropriate monitoring and related reporting.

The statements below, in the first instance, relate to risk management within the Baader Bank Group. Where they deviate, Baader Bank AG's figures are always provided in addition 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 Board of Directors has therefore established a comprehensive risk management system. It is designed to meet both the regulatory requirements as set out in the relevant guidelines 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-sensitive 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 Board of Directors 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.

3.1.3 Risk-bearing capacity

The Group's risk-bearing capacity is regularly reviewed by the Risk Management department of the parent company Baader Bank AG, which is responsible for risk management 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 2017 are shown in the table below:

Table 5: Summary of equity requirements

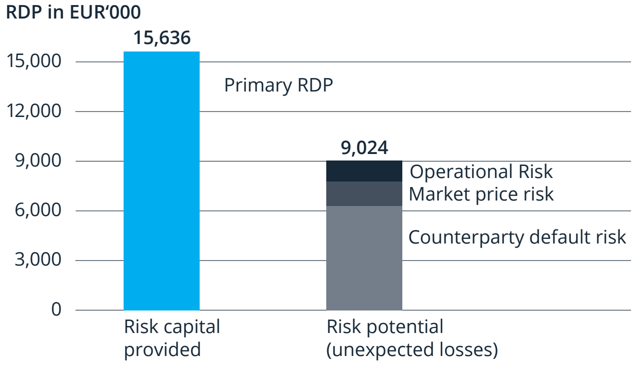
	Baader Bank AG		Baader Bank Group	
in EUR'000	**31/12/2016**	**31/12/2017**	**31/12/2016**	**31/12/2017**
Equity	102,369	103,708	95,518	94,628
Risk assets	676,282	629,282	671,178	625,728
Equity requirements	58,329	59,782	57,889	59,444

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 twelve months 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 for the primary risk coverage capital for determining the risk-bearing capacity as at 31 December 2017. Depending on current business developments, the underlying plan figures may also be adjusted to the normal or worst case during the course of a fiscal 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. This is always performed on the basis of a rolling 12-month horizon. Since expected losses are already taken into account in the forecast results, only unexpected losses are quantified when determining the risk potential. As of 31 December 2017, the Board of Directors had set an upper loss limit of EUR 15,636 thousand, which was utilised as follows due to the risk potential:

Figure 1: Risk-bearing capacity in the Baader Bank Group as at 31 December 2017



The Baader Bank Group's total risk is limited by the available risk coverage potential. As a general rule, the Group's management uses 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 Management 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 4.3.3, 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 going 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. Plan values, on the other hand, are not taken into account. 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 fiscal year 2017 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 fiscal 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. At the Baader Bank Group it is performed by Baader Bank AG's Risk Management 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 Management 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 fiscal year:

Figure 2: Overview of the risks of Baader Bank

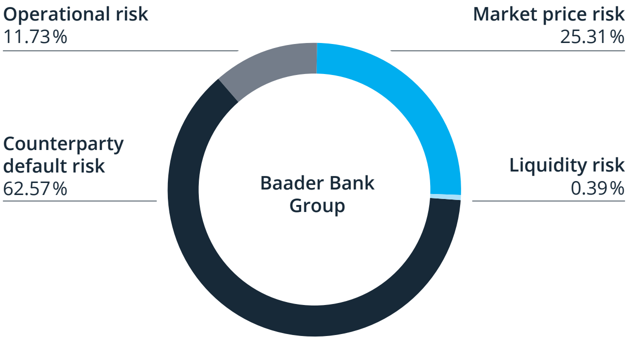
Baader Bank				
Significant risk types / in the context of the risk-bearing capacity				
Market price risk	Counterparty default risk	Operational risk	Liquidity risk	Business risk
▪ Price risk (Including market liquidity risk) ▪ Interest rate risk ▪ Currency risk	▪ Credit risk ▪ Counterparty risk ▪ Issuer risk (Including migration risk) ▪ Equity investment	▪ Material damage ▪ External fraud ▪ Internal fraud ▪ Customers, products and business practices ▪ Employment practice and occupational safety ▪ Execution, delivery and process management ▪ Business interruptions and system failures	▪ Structural liquidity risk	▪ Unexpected decreases in earnings ▪ Negative deviations to the plans

Significant risk types / not in the context of the risk-bearing capacity
Mandatory liquidity risk

Structural limits to avoid concentration risks			
Individual counterparty risk	Credit risk	Sector risk	Country risk

The risk strategy established as a result of this process is divided into substrategies 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. Based on a risk cover amount of EUR 92,069 thousand (Baader Bank AG: EUR 98,878 thousand), risk capital in the form of an upper loss limit of EUR 12,786 thousand was provided by the Board of Directors for the 2018 fiscal year. The risk capital for the Baader Bank Group is allocated to the individual risk types as follows:

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



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 Management 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 re-viewed on a regular basis. Furthermore, Baader Bank AG's Risk Management 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 Management 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.

Risks in the Baader Bank Group are managed using a system of limits to limit the respective 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 Management department to conduct adequate **monitoring.** The Risk Management 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 Board of Directors then decides on a measure to be taken and informs the market area concerned and Risk Management. Subsequently, the Risk Management department monitors execution of the agreed action, and in the event that the measure is not implemented, initiates an escalation process. The Risk Management 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 Management 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 Management department conducts **stress tests** for all significant risk types at least every quarter. As part of the stress tests, the Risk Management 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 worstcase scenario. As of 31 December 2017, additional interest rate scenarios were introduced to calculate the interest rate sensitivities of the profit centres' market price risk positions. 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 2017, the worst-case loss for the Baader Bank Group amounted to EUR 36,162 thousand (previous year: EUR 39,962 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 major changes were made to the models employed by the Risk Management department in 2017:

Counterparty default risk
In calculating credit spread VaR, the methodology was improved from quarterly risk measurement to automatic, daily Monte Carlo simulation in Decide. The model was changed from the historical to the Monte-Carlo simulation. The methodology was changed from the duration to the full valuation approach.

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.

Market price risk
Various model validations were also carried out for the market price risk in the past fiscal year. Based on the results, the Risk Management 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.

Operational risk
Reputational risk and model risk have been included under operational risk since the past fiscal year. Since the cause of losses from these types of risk is usually assigned to one of the seven risk categories of operational risk, this procedure is justifiable and also sensible.

Liquidity risk
In the fourth quarter of the past fiscal year, market liquidity risk was integrated into market price risk. Since this date, the risk has not been quantified separately. With this change, the Risk Management department followed current market practice (see also „Practice of liquidity risk management in selected German credit institutions" (BaFin 28/01/2008)). Market liquidity risk is taken into account in the market price risk by controlling the holding period assumptions when calculating the value-at-risk, which are based on the maximum expected period of liquidation.

3.1.7 Risks of the Baader Bank Group

The significant risks identified in the past fiscal year were unchanged market price risks, counter-party default risks, operational 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 addition, the market liquidity risk was integrated into the market price risk in the past fiscal year. The market liquidity risk can become more specific, particularly in the case of low-liquid securities. A low level of market liquidity in individual trading products means that transactions in these products are impaired. This risk is taken into account by increasing the holding period, if necessary, when calculating the VaR for the portfolios concerned.

In principle, the market price risks described are restricted to proprietary trading activities and do not arise from brokerage business. As a result, the trading portfolios of the departments Market Making, the Board of Directors and Treasury are particularly exposed to this risk. As at year end, the Bank had the following exposures to positions entailing market price risks:

Table 6: Summary of holdings of the Baader Bank Group / Baader Bank AG as at 31 December 2017

Market risk positions in EUR'000	Baader Bank Group		Baader Bank AG	
	2017	2016	2017	2016
Shares	20,440	13,621	20,440	13,621
Bonds	225,122	203,844	225,122	203,844
Securitised derivatives	122	797	122	797
Funds, index certificates and fund-like certificates	22,671	52,265	20,108	50,700
Options	6	1	6	1
Futures	–216	–31,748	–216	–31,748
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 business line exclusively 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 2017, the value-at-risk for the position entailing market price risk amounted to EUR 1,487 thousand, previous year: 1,854 (Baader Bank AG: EUR 1,471 thousand, previous year: 1,837) at a limit utilisation of 36.40 % (previous year: 37.81 %).

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 Management 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 Management 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 Management department and its implementation is monitored.

The average level of market price risk at the Baader Bank Group fell considerably over the past fiscal 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 insolvencyrelated 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 Management department. The Risk Management 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 Management department reports the limit overrun to the Board of Directors member responsible for markets and the Board of Directors member in charge of monitoring and recommends an appropriate action. The Board of Directors then resolves an action to be taken and informs the market area and the Risk Management department of the resolved action. The Risk Management department then monitors the implementation of the resolved action. In addition, overruns of the counterparty default risk limit are reported to the Board of Directors 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 Board of Directors 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 customer credit 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 2017, a risk in the amount of EUR 87 thousand was incurred for the customer lending business (previous year: EUR 475 thousand (Baader Bank AG: EUR 285 thousand) resulting from unsecured overdrafts or unsecured loans as of the reporting date. The difference between Baader Bank AG and the Baader Bank Group is due to loans issued by Baader Bank AG to two subsidiaries.

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 2017, a risk provision for customer credits existed in the total amount of EUR 115 thousand (previous year: EUR 132 thousand).

Furthermore, as part of the lending business the Treasury department makes money market investments at banks. On the whole, as at 31 December 2017, loans and advances to banks incurred risk in the amount of EUR 1,797 thousand (previous year: EUR 1,269 thousand (Baader Bank AG: EUR 1,489 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 2017, a risk of EUR 167 thousand was incurred for the replacement risk as well as from own holdings in derivatives for hedging purpose in the Market Making business line as well as from customer holdings in derivatives (previous year: EUR 142 thousand).

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 2017, a risk in the amount of EUR 3,733 thousand was incurred for the issuer risk, in particular from treasury holdings (previous year: EUR 5,492 thousand). The decline in risk potential is due in particular to the model change in quantifying the credit spread VaR and the previous overestimation of risk, which has already been explained.

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 2017, a risk in the amount of EUR 460 thousand was incurred for the equity investment risk (previous year: EUR 567 thousand). In contrast, at Baader Bank AG the risk amounted to EUR 1,708 thousand (previous year: EUR 1,591 thousand). The difference between the Baader Bank Group and Baader Bank AG can be attributed in particular to the subsidiaries, which are not to be taken into account in a Group analysis. The VaR figures as at 31 December 2017 compared to the previous year are shown in the table:

Table 7: Counterparty risk of the Baader Bank Group / Baader Bank AG as at 31 December 2017

	Baader Bank Group		Baader Bank AG	
in EUR'000	2017	2016	2017	2016
Credit risk KU	87	475	285	572
Credit risk KI	1,797	1,269	1,489	1,108
Counterparty rsik	167	142	167	142
Issuer risk	3,733	5,492	3,733	5,492
Equity investment risk	460	567	1,708	1,591
Total	**6,244**	**7,945**	**7,382**	**8,905**

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 Management department and reported to the Board of Directors once daily. If a limit is exceeded during the course of a trading day, the Risk Management 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 Management 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 2017 compared to the prior reporting date in the table below:

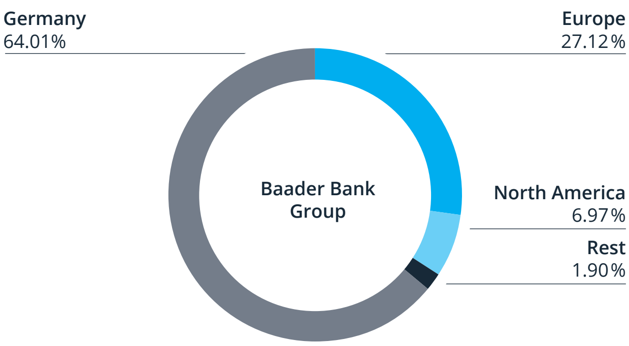
Table 8: Breakdown of exposures by credit rating category as at 31 December 2017

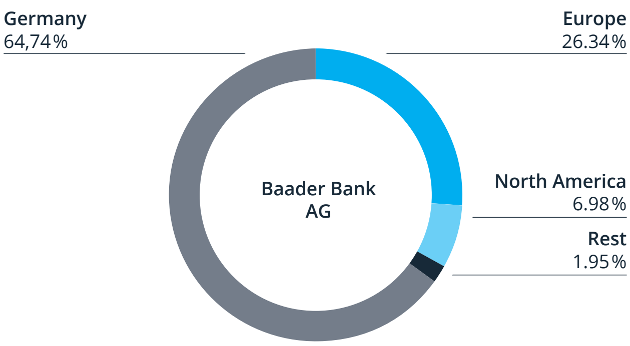
	Baader Bank Group				Baader Bank AG			
	2017		2016		2017		2016	
	EUR'000	%	EUR'000	%	EUR'000	%	EUR'000	%
Credit rating category 1	233,296	*45.32*	131,981	*32.61*	233,296	*46.46*	131,981	*33.78*
Credit rating category 2	80,453	*15.63*	93,281	*23.04*	73,717	*14.68*	85,981	*22.00*
Credit rating category 3	141,426	*27.47*	124,577	*30.78*	138,842	*27.65*	117,849	*30.16*
Credit rating category 4	58,254	*11.32*	39,180	*9.68*	55,002	*10.95*	39,180	*10.03*
Credit rating category 5	1,321	*0.26*	15,757	*3.89*	1,321	*0.26*	15,757	*4.03*
Total	**514,750**	**100.00**	**404.776**	***100.00***	**502,178**	**100.00**	**390,748**	***100.00***

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. The largest share of the sector distribution results from the „central banks" sector (35.64 %), which only includes balances with Deutsche Bundesbank. The differences between the Baader Bank Group and Baader Bank AG are mainly due to the subsidiaries' money market investments and are limited to the "banks, savings banks, and financial institutions" sector.

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 2017 is shown below:

Figure 4: Breakdown of exposures by country at the Baader Bank Group as at 31 December 2017

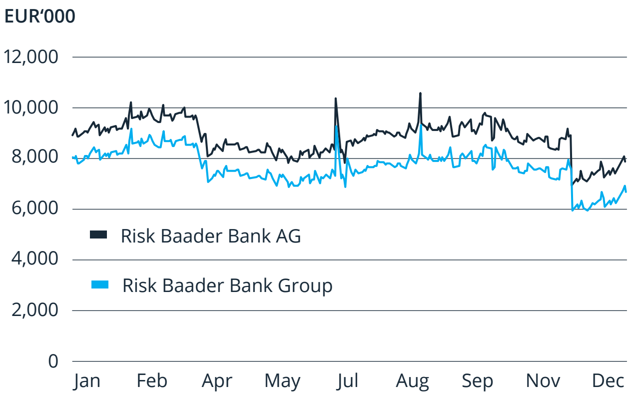




Country risk is mainly inherent in the bond holdings of the treasury portfolio. The domicile of the respective parent company is the determining factor here.

The development of the bank's counterparty default risk during the course of fiscal year 2017 is additionally presented below:

Figure 5: Development of the counterparty default risk in 2017



As at 31 December 2017, the value-at-risk for the entire counterparty default risk amounted to EUR 6,244 thousand (previous year: EUR 7,944 thousand) with a limit utilisation of 62.44 % (previous year: 72.22 %). 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 2017 for Baader Bank AG: EUR 7,382 thousand).

Despite an increase in exposure, the counterparty risk of the Baader Bank Group declined over 2017. The reasons for this are, on the one hand, slight improvements in the creditworthiness of the existing portfolio and the already described increase in the accuracy of the quantification model. As part of the Board of Directors' risk strategy, it is also planned to continuously improve the credit ratings of the bonds in the Treasury portfolio in particular and thus further reduce the counterparty risk.

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 Management 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 Management 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 Board of Directors 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 Management has been ordered to report losses to the Chairman of the Security Committee.

Beyond this, there was only one significant legal dispute at the end of the 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 2017, the value-at-risk amounted to EUR 1,292 thousand (previous year: EUR 1,307 thousand (Baader Bank AG: EUR 1,151 thousand) with a limit utilisation of 86.16 %.

The Board of Directors also makes a specific amount of risk capital available to limit operational risks. The Risk Management 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 Board of Directors.

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 fiscal year 2017, losses totalling EUR 811 thousand were reported. This represents a significant increase compared to the previous year (previous year: EUR 692 thousand), which is attributable in particular to a claim in the category „execution, delivery and process management". The loss event was discussed in detail in the Security Committee and the necessary measures to prevent such loss events were initiated. For this reason, the Risk Management 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 fiscal 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 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 segments work closely with the Treasury and Payments departments to ensure that daily cash flows are coordinated between these areas. Unusual liquidity streams 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 Management 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 Board of Directors. Furthermore, the Treasury department submits a daily liquidity report detailing the current liquidity situation to the Risk Management 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 nature of the dispositive liquidity risk, it is not possible to limit this risk by means of risk coverage potential and therefore quantification is not expedient (MaRisk AT 4.1 para. 4). 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 less favourable 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 of 31 December 2017, a value at risk of EUR 0 thousand was calculated for the structural liquidity risk (previous year: EUR 0 thousand), as there was no liquidity shortfall and refinancing was therefore not required.

The Risk Management department carries out daily reviews to ensure that the risk capital provided is sufficient to cover unexpected losses arising from liquidity risks. As at 31 December 2017, the limit utilisation for the liquidity risk was 0 % (previous year: 68.64 %). As already explained, the serious change compared to the previous year is due to the reallocation of market liquidity risk to market price risk.

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 Board of Directors and are taken into consideration when reviewing the risk-bearing capacity.

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. Business risk is taken into account within the framework of the P&L plan recognitions for the primary risk cover amount. Depending on the respective planning assumptions, a distinction is made between the normal and worst case net income expected for the year. The worst case here is understood to be a negative deviation from the expected earnings development. In addition, a middle case (difference between normal and worst case) is created. In the planning, 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. 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, these are taken into account in the context of the risk-bearing capacity. In addition, the Board of Directors decides to switch to the middle or worst case plan figures if the current business development makes this necessary.

In order to validate the quality of the plan figures used, the Bank carries out a backtesting analysis for the past fiscal years. On the basis of the results of the last analysis, the target figures can be regarded as valid and take the business risk of the bank into account accordingly.

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.

The Baader Bank Group continues to strive for greater diversification of sources of income in order to avoid corresponding concentrations of risk on the income side. To achieve this, the Board of Directors has decided on a comprehensive package of measures as part of its business and risk strategy.

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 at an early stage. The central Risk Management 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 Board of Directors of the Baader Bank Group allocated only part of the available risk capital to cover unexpected losses in fiscal year 2017, as in previous years. The breakdown and intra-year 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. Baader Bank's risk-bearing capacity was guaranteed at all times in the past fiscal year, even taking into account the worst-case scenario from the stress tests, despite the premise that the regulatory minimum capital requirements in accordance with CRR may not be put at risk. As part of the capital planning process, the analysis horizon for risk-bearing capacity was extended by three years to 2020. Here too, there are no signs of a bottleneck in the risk-bearing capacity of the Baader Bank Group. Consequently, Baader Bank's overall risk situation is classified as appropriate.

3.2 Forecast and opportunities report

3.2.1 Expected development of the general economic conditions and conditions for the financial industry

The recovery in global economic growth that began in mid-2016 is likely to initially continue in 2018. However, as most global leading indicators are already at very high levels, the economic stimuli for the financial markets are likely to become more mixed over the course of the year. Even if there are no signs of a more pronounced slowdown in the global economy at present, it can be assumed that growth momentum will approach an interim peak in 2018. Possible triggers for this could be, for example, that the growth impulses coming from the US tax reform do not materialise as hoped, or that the targeted reforms in environmental protection and the credit system in China lead to a renewed slowdown in growth. These developments could negatively affect the business expectations of companies, which could result in a reduction in inventories and a decline in the investment activities.

In regional terms, too, the globally very synchronous development recently could become more selective again. Under the influence of the reviving euro exchange rate, a reduction in monetary policy stimulus measures by the US central bank and the ECB and the emergence of new political risks, for example with the result of the parliamentary elections in Italy in March 2018, the economy in the eurozone could become more cautious, at least temporarily. Concerns about China could be reflected in falling commodity prices and, above all, more vulnerable emerging countries could be negatively affected by declining export prospects. Even if these developments remain moderate and selective, there is room for disappointment due to the comparatively high growth expectations for 2018.

Should these risks actually materialise in the course of 2018, this could at least temporarily trigger growing concerns about a more sustainable dip in growth. From today's perspective, however, it is more likely that there will be no abrupt change in the global economy. Overall, 2018 should therefore be a transitional year in which the limits of the achievable economic momentum should become clear, but in which global growth rates are likely to be roughly at the 2017 level, despite worries that have arisen in the meantime.

On balance, the upward trends in the stock indices should continue into the spring of 2018, with some countries and regions expected to slightly exceed their highs achieved last year. A consolidation is then expected from spring onwards (sideways/slightly downwards). In addition, further tightening of monetary policy should lead to a less expansionary monetary environment. In view of slightly declining early economic indicators, profit and growth expectations should therefore increasingly be scrutinised. An uncertain outlook for Chinese growth could again weigh on this. Against this background, a seasonally difficult environment is once again expected in the autumn. Of the annual highs, a decline of 10 % is quite realistic, as the stronger US dollar and falling commodity prices are also likely to lead to global tensions, especially in the emerging markets. The S&P 500 could again correct by 10 % for the first time since Q1/2016, which is likely to have a negative impact on global equity markets. A recovery starting in Q4 is likely to improve the annual balance, but many blue-chip indices may end the year as a whole unchanged or only slightly up.

Seasonally advantaged, the share prices of mid & small caps are likely to still outperform at the beginning of the year, but a stock market environment that will become more volatile in the course of 2018 and increasing selectivity argue against further sustained relative strength. As a result, only neutral performance is expected from the spring of 2018, while underperformance can be expected in the second half of the year. Due to an increasingly selective index development and increasing risk of setbacks, volatility is rising again towards long-term average levels, although temporary peaks are once again reaching higher levels than in the past. In this environment in particular, quality stocks with stable income and high returns on equity are again likely to be able to benefit from their defensive qualities, while cyclical sectors will likely tend to underperform.

The capital market should generally remain receptive in 2018 during the usual seasonal windows. This is particularly true until the second quarter, when new highs start to appear on the share markets as expected. In principle, the window will remain open from spring onwards, but it could become somewhat more difficult for more specific securities with low trading liquidity, a more volatile business model or a more unusual equity story. Due to the expected correction phase, the transaction environment in Q3 will then be much more difficult, which is however commonly seasonal. A recovery can then be expected in Q4, which should apply in particular to clearly defined and defensive business models (e.g. real estate). In general, companies that benefit from low capital market interest rates (defensive or growth companies) are likely to be increasingly in demand over the course of the year, while securities that are more dependent on the economic cycle or very small and market-tight securities are likely to be seen increasingly sceptically.

3.2.2 Outlook for the core business lines

3.2.2.1 Market Making business line

In 2018, the financial performance of the Market Making business line 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. Compared to the previous year, higher volatilities in securities trading can be expected in 2018. In all probability, these factors will 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 the trading income.

Given the increasing technical and regulatory requirements, market makers on German stock exchanges continue to be in a consolidation phase which could result in new competitive landscape and which puts at risk the continued existence of smaller, less well capitalised market players.

The conversion from the traditional price determination with closed order books structures to differentiated pricing models in the multi-market-maker and quote request process is associated with a shift of trading volumes to the platforms that operate these market-maker models. After the conversion of the Xetra trading system to the new T7 system environment in 2017, Baader Bank believes that significant infrastructural conditions for trading in open order books have been created. The cooperation with the Vienna Stock Exchange is regarded as trend-setting in this respect, especially as it represents an initial test for quoting in open order books and Baader Bank can prove its newly built expertise. On the domestic market, too, the new trading procedure in various asset classes is to be gradually adopted on the basis of T7.

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. The medium- and longer-term strategic goals of the Market Making business line are to secure the current market position on German-speaking stock exchanges and to expand its presence in OTC securities trading.

Risks to be considered are the possible shift of order volumes to market places in which Baader Bank has little or no market share, as well as the entry of new competitors who are benefiting from the changed market configuration of the exchange operators. In addition, there are dependencies from cooperations whose non-renewal would have a negative effect on Baader Bank due to the consolidation trend in on-exchange-trading described above.

Further expansion outside of Germany might not be realisable to the expected extent for over-the-counter trading. The Bank would thus remain dependent on the German market.

Furthermore, the end of the ECB bond purchase programme expected in September 2018 and the key interest rate hikes in the US and the UK preceding that in 2017 are only expected to have a delayed effect on the low interest rate phase in the eurozone, which has continued for years, which is why a short-term market recovery in bond trading cannot be expected.

3.2.2.2 Capital Markets business line

The significant drivers for the order situation in the Capital Markets business line are the general developments on the share market in terms of trading volumes as well as the prevailing volatility on the secondary markets. According to the very positive forecasts for a receptive capital market in 2018, the revived positive environment for equity capital markets transactions can be expected to continue.

The benchmark for a solid positioning in the competitive environment is the ranking of market-dominating institutions in the Equity League Tables. The objective of occupying the leading position in German-speaking countries for transactions of up to EUR 150 million, a position among the top three for transactions of up to EUR 250 million and a firm standing among the ten best capital market service providers for transactions of up to EUR 500 million still seems desirable and realistic. Baader Bank intends to maintain its current solid position as a provider of high-quality securities technology services that are largely independent of the general economic sentiment.

One limiting factor for market opportunities in the equity Capital Markets business line, especially in large-volume transactions with guarantee components, is Baader Bank‘s lower balance sheet volume in relation to larger banks. Accordingly, the competition for mandates in traditional equity transactions will remain intense in 2018. Irrespective thereof, the Board of Directors of Baader Bank will continue to pursue the objective of continuously gaining mandates and generating steadily growing sales and income volumes in this core business line also in 2018.

3.2.2.3 Multi Asset Brokerage business line

Similar to the Market Making and Capital Markets business lines, the major earnings drivers of the Multi Asset Brokerage business line, are the prevailing mood underlying the economy, the general developments in the equity market as well as volatile movements in the secondary markets.

Furthermore, Baader Bank recognises both opportunities and risks for institutional customers following the introduction of MiFID II and the associated changes in the contractual setting. Within their brokerage activities, the unbundling of research services to be priced separately from order execution could have a negative impact in the form of a reduction in customers and orders. Baader Bank intends to counteract this by strengthening its international acquisition activities, increasing the total number of brokerage customers and making targeted use of newly created potential in the execution area, its order routing and trading services. In view of the expected further increase in competitive pressure in research, the expansion of services to include research payment accounts and targeted sales in this area should make a positive contribution to customer acquisition and retention.

Overall, it can be assumed that multi-asset brokerage will gain additional market share while at the same time slowing down the pace of growth. In addition to its proven brokerage activities in electronic trading, sales and sales trading/execution, Baader Bank will increasingly focus on offering complementary services such as clearing services, especially derivatives clearing, in 2018.

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 line.

3.2.3 Outlook for the complementary business lines

3.2.3.1 Banking Services business line

Baader Bank hopes that the further expansion of its cooperations with traditional and digital asset managers will open up high market opportunities, especially in the provision of banking and trading services for online asset managers and their end customers in the area of account and securities account management. An increasing share of the order volume is to be generated via a continuously frequented market interface also in 2018, with the acquisition of new customers being concentrated primarily on asset managers located in German-speaking countries, and Baader Bank‘s banking services being provided while maintaining the B2B2C configuration.

3.2.3.2 Asset Management Services business line

Baader Bank has significant competitive advantages for its business activities in the Asset Management Services business line. These include the speed and quality of trading, the diversity of execution venues and tradeable securities. For the current fiscal 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 addition to its trading and regulatory expertise, Baader Bank is continuing its efforts to create added value for customers through complementary banking services and at the same time to ensure efficient utilisation of the existing infrastructure in its supporting segments by acquiring the buyside trading desk.

3.2.3.3 Research business line

Baader Bank‘s Equity Research will be significantly impaired in 2018 by the consequences following the introduction of MiFID II at the beginning of the year. The exclusive offer of Research and the separation from further brokerage services could result in a sensitive price batlle between individual providers of research services. The effects of this far-reaching regulatory reform on the needs of customers, combined with the appropriate design of the product range, are not yet fully foreseeable.

In Baader Bank‘s view, the new market situation, in which research forms its own source of income, also offers considerable potential opportunities. Positive effects of the structural changes were recognised in good time and can now prove useful through market-driven pricing and adjusted marketing activities. Baader Bank can thus continue to defend its high quality standards and considers itself to be in a competitive starting position on the basis of the existing sector and securities setup with around 200 securities under coverage and its focus on the GSA region. As a result, there will be no change in the fundamental approach and sector orientation, but there will be a strengthening of marketing activities with simultaneous adjustment of structural framework conditions such as the provision of a digital content system and appropriate research controlling instruments.

Baader Bank‘s Equity Research remains an important link between German-speaking corporate customers and international investors. The strong presence at international investor conferences will be maintained and added value for customers created by setting up research payment accounts as an additional service for the smooth processing of the payment process.

3.2.4 Outlook for the business development of subsidiaries

The management of CCPM AG assumes that the existing sources of income, management fee and performance fee will continue to largely depend on the development of assets under management (AuM) in 2018, which in turn will largely depend on the performance of the managed funds. The increase in volatility forecast for 2018 could, if implemented accordingly by the portfolio management of CCPM AG, lead to a favourable performance of the funds and thus constant AuM in the 2018 fiscal year. Dependencies continue to exist due to a high proportion of AuMs managed by a relatively small number of large customers. The management of CCPM AG is adhering to its goal of achieving an annual result at the previous year's level.

The most important goal of ***Baader & Heins AG*** in 2018 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. Should the ECB continue its low interest rate policy as expected in 2018, no decisive effects on the investment behaviour of investors, whose focus shifted increasingly to shares, funds and investments in real estate in the past business periods, are to be expected. Accordingly, a decline in transactions or business deals and the volume brokered cannot be ruled out. Although net commission income in 2017 was again maintained at the previous year's level, the brokerage commissions as well as the resulting net commission income for 2018 is lower by approximately 45 % due to the continuing more cautious assessment of business opportunities.

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 fiscal year 2018.

The majority of the shares in SKALIS AG were sold by way of a share purchase agreement dated 28 November 2017. Further business development after the sale is not yet foreseeable. If the closing under the share purchase agreement does not occur due to a lack of regulatory approvals, the continued existence of the company is currently still uncertain.

The ***Baader Helvea Group*** will also make an important contribution to the successful support of its international customers in 2018 and therefore represents an important element of Baader Bank's consolidated Group-wide investment banking strategy in German-speaking countries.

Baader Helvea's locations in Zurich, London and North America will continue to strengthen Baader Bank's investment banking activities, which are fully integrated into the Multi Asset Brokerage, Capital Markets and Research business lines, through its broad investor access in core international markets. This network proves to be valuable both in terms of winning mandates for capital market transactions and generating order volumes via international market access. This represents a significant competitive advantage for Baader Helvea, which, especially after the introduction of MiFID II, would like to underpin its standing as an attractive trading partner that meets the higher market regulation requirements.

In 2017, the ***Selan Group*** and its wind farm operator Selan d.o.o. made a positive contribution to Group earnings. In the future, constant to slightly higher wind returns are to be expected under stable wind conditions and due to the technical improvements made. As these services are remunerated relatively constantly by contractually indexed feed-in prices, management expects a corresponding moderate increase in earnings in the 2018 fiscal year.

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

A consolidation trend within the securities trading institutions will continue in the 2018 fiscal year. The entry into force of MiFID II at the beginning of the year has a direct influence on the general conditions in those markets in which Baader Bank is active. Due to the rising costs for regulatory measures and the introduction of new technologies, smaller providers in particular are facing increasingly cut-throat competition in Baader Bank's market environment.

On the basis of its existing core and complementary business lines, Baader Bank will continue to be in a position to compensate for market fluctuations on the basis of diversified sources of income. Retail-related services from complementary segments, which round off the product range, are are intended to address changing customer needs from a regulatory perspective and are continuously monitored with regard to their profitability.

Baader Bank addresses the ongoing digitalisation in the financial sector with a targeted further development of processes in production and administration and is ensuring a continuous increase in efficiency in the networking of its operational core systems.

With a view to the coming business periods, the Board of Directors believes that a continued positive development of sales and transaction volumes is realistic if the forecast conditions on the international financial markets materialise in 2018.

For the individual earnings components, this would mean a moderate increase in net commission income as well as a slight increase in trading profit.

After gross profit increased as expected in 2017, a further improvement in gross profit of at least 7 % can be expected for 2018.

In relation to this, administrative expenses are likely to increase only slightly, with the result that the Baader Bank Group is expected to record orvall a significantly higher positive result from ordinary business activities for the 2018 fiscal year. Baader Bank AG is expectetd to reach profitability level again.

Given the uncertain, exogenous influencing factors, the Board of Directors is of the opinion that reliable forecasts for the business development can only be made subject to qulaifications. 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 balance sheet date.

4. Other disclosures

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

On 28 September 2015, the Board of Directors passed a resolution on the determination of target quotas for the proportion of women at the two management levels below the Board of Directors pursuant to Section 76 (4) AktG. Based on such resolution, by 30 June 2017, the proportion of women should reach 3.6 % on the first management level („Managing Director") and 12 % on the second management level („Executive Director").

With a proportion of women on the first management level of 9.5 % in June 2017, the first target quota was achieved or exceeded. At the same time, the proportion of women on the second management level was 8 %, thus below the set target quota. The main reason for this was the change of female managers from the second to the first management level.

The circumstances described prompted the Executive Management to pass new resolutions on target quota for the respective proportions of women at the first and second management levels. For the first management level, the target was raised to 12 %, for the second management level, the target was left at 12 %. The date by which the two targets would be achieved was set as 30 June 2022.

On 28 September 2015, the Supervisory Board adopted a resolution setting target quotas for the proportion of women on the Board of Directors and Supervisory Board in accordance with Section 111 (5) AktG, which included the targets of 0 % for the proportion of women on the Board of Directors and 16.67 % on the Supervisory Board of Baader Bank. Both targets had been achieved by 30 June 2017. In June 2017, the Supervisory Board was able to report a proportion of women of 16.67 %.

4.2 Closing statement on the dependency report pursuant to Section 312 AktG

Baader Bank Aktiengesellschaft (Baader Bank AG) is controlled by Baader Beteiligungs GmbH, Unterschleissheim (Baader GmbH). Baader GmbH has a shareholding of 62.88 % in Baader Bank AG. As no domination agreement has been concluded between the companies, the Board of Directors 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 Board of Directors 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 Board of Directors 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, 21 March 2018

Baader Bank AG
Board of Directors

Nico Baader　　Dieter Brichmann

Christian Bacherl　　Oliver Riedel

Supervisory Board's Report

General topics

In the 2017 reporting year, the Supervisory Board discharged the duties required of it by law and the Articles of Association. It received regular reports from the Board of Directors on the situation of Baader Bank Aktiengesellschaft and the Group, whilst monitoring and supporting the work of the Board of Directors.

The Board of Directors informed and discussed with the Supervisory Board, promptly and comprehensively, in writing and orally, matters relating to the business strategy and fundamental issues of future management, the company's financial position and further strategic development, its risk situation and risk management, significant transactions and important one-off events. Any deviations from the company's plans and targets regarding its 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 great importance.

Important topics and meetings of the Supervisory Board

In 2017, the Supervisory Board of Baader Bank held five meetings.

The supervisory body was closely involved in the development of a vision for the future of the institution and the resulting strategic focal points over the next few years. Market potential, strategic concepts, business lines and business models for Baader Bank were all discussed in depth with the Board of Directors.

In addition, the effects of important regulatory and legal plans for the banking sector in Europe were reviewed for their potential impact on Baader Bank. The focal points for 2017 were also the subject of discussions on trends in operational income performance and the level of costs in the Group companies and at Group level. Furthermore, significant projects and individual loan commitments were important points in the discussions between the Supervisory Board and the Board of Directors in 2017. The Chairman of the Supervisory Board was informed at regular intervals of the general progress of the company and any particularly significant events by receiving the minutes of the Board of Directors meetings and through personal meetings between the chairmen of both boards.

In its monthly reports, the Board of Directors 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 lines.

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 2017, attended by the managers of each business line, the future business and risk strategy as well as the corporate planning of Baader Bank was discussed in detail.

The Compliance Officer presented his detailed reports twice a year and the Head of Internal Audit presented his 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 Board of Directors. The Chairman of the Supervisory Board received the minutes of the Board of Directors meetings in good time.

Audit of the Annual Financial Statements and Consolidated Financial Statements

The Board of Directors of Baader Bank Aktiengesellschaft prepared the annual financial statements, the consolidated financial statements and the combined Group management report for the 2017 Financial Year in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch), the German Stock Corporation Act (Aktiengesetz) and 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 GmbH Wirtschaftsprüfungsgesellschaft, 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 Wirtschaftspruefer – 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

Board of Directors and audited by the auditor in its meeting held on 10 April 2018. The annual financial statements have therefore been adopted.

The Supervisory Board, taking into account especially the company's annual results, the cash flow and the financial planning, supports the proposal by the Board of Directors to carry forward the accumulated losses on the balance sheet.

Subordinate status report

In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Board of Directors prepared a report on the company's relationships with affiliated companies. The auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, reviewed the subordinate status report of the Board of Directors 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, 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 Board of Directors."

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 Board of Directors and Supervisory Board for the Company

In 2017, the Supervisory Board of Baader Bank reappointed all members of the Board of Directors for the company until 2022. Mr Jan Vrbsky left the Supervisory Board due to his departure from Baader Bank as of 30 September 2017. A replacement will be elected as part of the regular partial elections planned for the Supervisory Board in 2018.

Thanks to the Board of Directors and the Employees of Baader Bank

In conclusion, the Supervisory Board of Baader Bank wishes to thank the Board of Directors and all the company's employees for their motivated, constructive and responsible work during the past financial year.

Unterschleissheim, 10 April 2018

The Supervisory Board

Dr. Horst Schiessl
Chairman

Consolidated Financial Statements

Consolidated balance sheet as at 31 December 2017

Assets in EUR		31/12/2017		31/12/2016
1. Cash reserves				
a) Cash on hand	837.46		214.07	
b) Credit balances with central banks	217,506,694.63	**217,507,532.09**	74,310,403.40	74,310,617.47
of which: at Deutsche Bundesbank EUR 217,506,694.63 (previous year: EUR 74,310,403.40)				
2. Loans and advances to banks				
a) Due on demand	79,762,673.42		74,328,257.67	
b) Other loans and advances	10,488,356.82	**90,251,030.24**	20,838,042.40	95,166,300.07
3. Loans and advances to customers		**31,555,335.49**		34,988,108.50
4. Debt securities and other fixed-income securities				
a) Bonds and debt securities				
aa) From public issuers	59,233,500.28		53,192,518.87	
of which: eligible as collateral at Deutsche Bundesbank EUR 59,233,500.28 (previous year: EUR 53,192,518.87)				
ab) From other issuers	166,496,106.40	**225,729,606.68**	151,709,728.15	204,902,247.02
of which: eligible as collateral at Deutsche Bundesbank EUR 92,024,575.74 (previous year: EUR 79,757,298.45)				
5. Equities and other variable-income securities		**19,017,076.11**		23,534,164.50
5a. Trading portfolio		**55,761,129.80**		54,301,142.86
6. Equity investments		**233,947.33**		233,947.33
of which: to financial services institutions EUR 231,336.00 (previous year: EUR 231,336.00)				
7. Investments in associated companies		**3,857,554.94**		5,283,558.44
8. Intangible assets				
a) Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	12,209,957.04		15,334,932.04	
b) Goodwill	8,806,074.44		5,358,600.27	
c) Advance payments made	275,477.96	**21,291,509.44**	308,657.58	21,002,189.89
9. Property, plant and equipment		**86,306,558.51**		41,907,770.07
10. Other assets		**2,850,539.96**		13,595,076.48
11. Prepaid expenses and deferred charges		**3,078,633.58**		2,515,321.17
12. Excess of plan assets over pension liabilities		**7,403,439.32**		6,795,656.92
Total assets		**764,843,893.49**		578,536,100.72

Equity and liabilities in EUR			31/12/2017		31/12/2016
1. Bank loans and advances					
a) Due on demand		30,489,851.22		15,523,736.98	
b) With agreed term or notice period		85,169,987.42	**115,659,838.64**	45,650,324.87	61,174,061.85
2. Payables to customers					
a) Other liabilities					
aa) Due on demand		349,368,316.18		182,893,013.52	
ab) With agreed term or notice period		161,433,298.99	**510,801,615.17**	199,981,665.11	382,874,678.63
3. Trading portfolio			**2,898,169.31**		2,115,622.75
4. Other liabilities			**6,941,466.46**		4,658,532.56
5. Provisions					
a) Provisions for pensions and similar obligations		1,737,948.34		1,595,426.35	
b) Tax provisions		1,381,360.89		636,623.40	
c) Other provisions		5,847,037.58	**8,966,346.81**	7,346,477.21	9,578,526.96
6. Fund for general banking risks					
of which: Special item pursuant to Section 340e (4) HGB		22,120,000.00	**22,120,000.00**	22,120,000.00	22,120,000.00
7. Equity					
a) Called up capital					
Subscribed capital	45,908,682.00			45,908,682.00	
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	30,109,006.52			23,312,827.22	
cb) Difference in equity due to currency conversion	459,307.67	30,568,314.19		1,252,110.92	
d) Minority interests		861,118.11		1,028,993.31	
e) Consolidated net loss		–11,035,926.81	**97,456,457.10**	–6,642,205.09	96,014,677.97
Total shareholders' equity and liabilities			**764,843,893.49**		578,536,100.72

1. Contingent liabilities		
a) Liabilities from guarantees and indemnity agreements	**208,070.00**	13,255,293.85
2. Other obligations		
a) Irrevocable loan commitments	**10,508,242.30**	12,197,309.65

Consolidated income statement

in EUR			2017		2016
1. Interest income from					
a) Lending and money market transactions	20,973.62			436,522.70	
b) Fixed-income securities and book-entry securities	7,313,407.50	7,334,381.12		8,604,546.07	
2. Interest expenses		–7,672,236.26	**–337,855.14**	–6,953,736.11	2,087,332.66
3. Current income from					
a) Equities and other variable-income securities		1,821,025.68		1,120,381.54	
b) Equity investments		19,278.00	**1,840,303.68**	19,278.00	1,139,659.54
4. Commission income		71,907,614.75		61,895,528.90	
5. Commission expenses		–25,368,407.06	**46,539,207.69**	–21,148,850.19	40,746,678.71
6. Net income from the trading portfolio			**57,682,687.02**		52,808,369.72
7. Revenue			**12,134,736.91**		0.00
8. Other operating income			**3,457,952.58**		2,328,363.00
9. General administrative expenses					
a) Personnel expenses					
aa) Salaries and wages	–47,849,293.34			–45,455,974.21	
ab) Social security and expenses for retirement benefits and for support	–6,853,156.90	–54,702,450.24		–4,833,405.62	
of which: for retirement benefits EUR –1,186,885.28 (previous year: EUR 859,680.45)					
b) Other administrative expenses		–41,385,460.44	**–96,087,910.68**	–38,329,613.04	–88,618,992.87
10. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment			**–14,120,594.45**		–9,942,558.00
11. Other operating expenses			**–1,200,074.17**		–3,014,529.48
12. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in the lending business			**–4,223,395.10**		0.00
13. Income from the write-up of receivables and certain securities as well as the reversal of provisions in the lending business			**0.00**		1,366,527.63
14. Net income from interests in associates			**–1,426,003.50**		–450,298.40
15. Expenses from the allocation of the Fund for general banking risks			**0.00**		–584,000.00
of which: Additions pursuant to Section 340e (4) HGB EUR 0.00 (previous year: EUR –584,000.00)					
16. Profit/loss on ordinary activities			**4,259,054.84**		–2,133,447.49

Continued on next page

for the period from 1 January 2017 to 31 December 2017

in EUR		2017		2016
17. Taxes on income		–1,884,435.66		–969,599.61
18. Other taxes not shown under item 11		–92,536.80		–515,755.96
19. Consolidated net profit before minority interests		2,282,082.38		–3,618,803.06
20. Minority interest in net income		120,375.20		137,383.65
21. Loss of the parent company brought forward		–6,642,205.09		–6,546,340.21
22. Withdrawals from retained earnings				
a) from other retained earnings	6,999,975.13	6,999,975.13	9,540,837.17	9,540,837.17
23. Transfers to retained earnings				
a) to other retained earnings	–13,796,154.43	–13,796,154.43	–6,155,282.64	–6,155,282.64
24. Consolidated net loss		–11,035,926.81		–6,642,205.09

Statement of changes in equity as at 31 December 2017

in EUR'000	Parent company			
			Consolidated earnings	
	Subscribed capital / Ordinary shares	Capital reserve	Retained earnings	Balance sheet profit / loss
As at 01 January 2017	45,909	31,431	23,313	–6,642
Purchase / withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	0
Change in group of consolidated companies	0	0	0	0
Other changes	0	0	0	0
Consolidated net profit for the year	0	0	0	2,402
Other consolidated income	0	0	0	0
Total comprehensive income	0	0	0	2,402
Transfer to / withdrawal from reserves	0	0	6,796	–6,796
As at 31 December 2017	45,909	31,431	30,109	–11,036

Statement of changes in equity as at 31 December 2016

in EUR'000	Parent company			
			Consolidated earnings	
	Subscribed capital / Ordinary shares	Capital reserve	Retained earnings	Balance sheet profit / loss
As at 01 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

Treasury shares	Equity	Difference in equity due to currency conversion	Minority interests / Minority equity	Consolidated equity
–277	93,734	1,252	1,029	96,015
0	0	0	0	0
0	0	0	–48	–48
0	0	31	0	31
0	0	0	0	0
0	2,402	0	–120	2,282
0	0	–824	0	–824
0	2,402	–824	–120	1,458
0	0	0	0	0
–277	96,136	459	861	97,456

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

Cash flow statement

in EUR'000	2017	2016
1. Net income / loss for the period (incl. shares of minority interests)	**2,282**	**–3,619**
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	16,994	4,735
3. Change in provisions	–1,487	808
4. Other non-cash expenses/income	894	1,597
5. Gains and losses from the disposal of fixed assets	2,812	8
6. Other adjustments (net)	–922	–4,172
7. Sub-total	**20,573**	**–643**
Change in assets and liabilities from ordinary activities:		
8. Loans and advances		
8a. to banks	6,766	21,782
8b. to customers	–1,702	–5,018
9. Securities (unless fixed assets)	–21,615	34,873
10. Other assets from operating activities	298	2,436
11. Bank loans		
11a. and advances	13,515	7,972
11b. to customers	126,736	–2,743
12. Liabilities held for trading	783	430
13. Other liabilities from operating activities	1,101	–271
14. Interest and dividends received	9,735	11,626
15. Interest paid	–7,960	–7,377
16. Income tax payments	–853	–77
17. Cash flow from operating activities	**147,377**	**62,990**
18. Proceeds from the disposal of		
18a. financial assets	0	0
19. Payments made for investments in		
19a. financial assets	–948	–987
19b. Property, plant and equipment and intangible assets	–1,940	–1,874
20. Payments made for the acquisition of consolidated companies and other business units	0	0
21. Cash flow from investing activities	**–2,888**	**–2,861**
22. Payments to business owners and minority interests		
22a. Dividend payments	0	0
22b. Other payments	0	0
23. Changes in cash flow from other loan capital (net)	–47	–313
24. Cash flow from financing activities	**–47**	**–313**
25. Net change in cash and cash equivalents (the sum of 17, 21 and 24)	**144,442**	**59,816**
26. Effects of changes in exchange rates, group of consolidated companies and measurement on cash and cash equivalents	604	–388
27. Cash and cash equivalents at start of period	**85,154[1]**	**25,726[1]**
28. Cash and cash equivalents at end of period	**230,200**	**85,154**

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

Notes to the Consolidated Financial Statements

I. Basis of preparation

The consolidated financial statements of Baader Bank AG for financial year 2017 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 Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz – BMJV) 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 2017. 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 seq. HGB), the special provisions for companies (Sections 264 et seq. HGB) and the supplementary provisions applying to banks and financial services institutions (Sections 340 et seq. 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 3 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 the 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) measure. 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 1 to 10 days are used for the calculation as at 31 December 2017. 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 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. The trading portfolio assets were allocated as at 31 December 2017.

There were no changes to the criteria set by the Bank for including financial instruments in the trading portfolio in financial year 2017.

Valuation units

In cases where assets, liabilities, pending transactions or highly probable transactions (underlying transactions) are combined (valuation unit) to offset opposing changes in value or cash flows from the occurrence of comparable risks with financial instruments (hedging instruments), the general valuation principles are not applied to the extent and for the period in which the opposing changes in value or cash flows offset each other. The Baader Bank Group applies the net hedge presentation method. The offsetting changes in value resulting from the hedged risk are not recognised in the balance sheet. Thus, negative changes in the fair value of the hedged risk are not taken into account. Any negative ineffectiveness from the valuation unit is taken into account by setting up a provision for impending losses.

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 2017 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 in 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 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 3.68 %. The comparative interest rate used for the required disclosures in the notes to the annual financial statements (7-year average) is 2.80 % 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) Sentence 2 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 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 term of up to one year, gross expenses and income are recognised under other operating result.

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 2017 financial year.

IV. Group of consolidated companies

The consolidated financial statements as at 31 December 2017 include Baader Bank AG as the parent company and a total of eight subsidiaries (previous year: six subsidiaries) (Baader Group). Baader Bank AG holds more than 50 % of the shares in these subsidiaries, directly or indirectly, or exercises control over them. Four of these companies are based in Germany, and four are headquartered abroad.

The following companies were included in the consolidated financial statements as at 31 December 2017, and were consolidated in full:

Name/Registered office	*Share of capital* *%*	Share capital EUR'000	Equity EUR'000	Total assets EUR'000	Net profit / loss for the year EUR'000	Initial consolidation
Baader Helvea AG, Zurich (Switzerland) [3]	*100.00*	4,967	7,569	10,079	1,522	31 August 2013
Baader Helvea Inc., New York (United States of America) [1, 4]	*100.00*	277	2,205	2,502	–1,042	31 August 2013
Baader Helvea Ltd., London (United Kingdom) [1, 5]	*100.00*	943	736	976	160	31 August 2013
SKALIS Asset Management AG, Unterschleissheim [2]	*100.00*	50	327	485	–770	31 December 2003
Baader & Heins Capital Management AG, Unterschleissheim	*75.00*	50	4,258	6,839	260	01 January 2005
Conservative Concept Portfolio Management AG, Frankfurt am Main	*66.07*	140	2,321	2,636	12	01 October 2006
Selan Holding GmbH, Unterschleissheim	*100.00*	25	8,514	8,514	–5	01 January 2017
Selan d.o.o., Senj (Kroatien) [6, 7]	*100.00*	2,138	5,031	51,359	3,009	01 January 2017

[1] Indirect holding via the investment in Baader Helvea AG, Zurich. | [2] Indirect holding via the investment in Baader & Heins Capital Management AG, Unterschleissheim. | [3] The figures for the financial year as at 31 December 2017 have been translated (EUR/CHF 1.17020). | [4] The figures for the financial year as at 31 December 2017 have been translated (EUR/USD 1.19930). | [5] The figures for the financial year as at 31 December 2017 have been translated (EUR/GBP 0.88723). | [6] Indirect holding via the investment in Selan Holding GmbH, Unterschleissheim. | [7] The figures for the financial year as at 31 December 2017 have been translated (EUR/HRK 7.44000).

There were changes in the scope of consolidation in the past fiscal year due to the first-time inclusion of ***Selan Holding GmbH, Unterschleissheim,*** in the consolidated financial statements. In February 2015, Baader Bank AG acquired all the shares of its former borrower ***Senj Beteiligungs GmbH, Senj*** in its Croatian subsidiary and wind farm operator ***Selan d.o.o., Senj,*** for payment of a one-off purchase price. The German holding company ***Selan Holding GmbH, Unterschleissheim,*** was founded for the takeover. The takeover of the 100 % investment in the wind farm operator ***Selan d.o.o., Senj,*** took place with the intention of economic restructuring and subsequent resale to an institutional investor. For this reason, Baader Bank AG initially allocated the investment to current assets within other assets in its balance sheet.

On 29 June 2017, the Board of Directors of Baader Bank AG decided to abandon its intention to sell ***Selan Holding GmbH, Unterschleissheim.*** The initial consolidation was based on the carrying amounts as of 1 January 2017.

In ***Baader Unterstützungskasse e.V., Unterschleissheim,*** Baader Bank AG maintains a special purpose vehicle within the meaning of Section 290 (2) No. 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 2017, as permitted by Section 296 (2) Sentence 1 HGB.

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

Name/Registered office	*Share of capital* %	Carrying amount of the shares EUR'000	Equity EUR'000	Total assets EUR'000	Net profit / loss for the year EUR'000	Market value of the shares EUR'000
Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman)	*30.00*	3,730	12,996 [1]	24,842 [1]	–1,403 [1]	n/a [3]
Ophirum ETP GmbH, Frankfurt am Main	*30.00*	128	255 [2]	5,926 [2]	–128 [2]	n/a [3]

[1] Figures based on the unaudited annual financial statements for the period ending 31 December 2017. Equity, total assets and net profit for the financial year have been translated (EUR/OMR 0,4619). | [2] Figures based on the preliminary annual financial statements for the period ending 31 December 2017. | [3] No published market price available as at 31 December 2017.

Baader Bank AG continues to hold 50 % of the shares in ***Ophirum ETP GmbH, Frankfurt am Main*** as of the balance sheet date. Due to current market conditions and a resulting adjustment of the company's business plan, goodwill of EUR 783 thousand was amortised on an unscheduled basis. Taking into account the continuation of the investment in the amount of the pro rata result, the carrying amount as of the balance sheet date was EUR 128 thousand (previous year: EUR 1,106 thousand).

As at 31 December 2017, 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.

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 Group).

Subsidiaries

The subsidiaries of the Baader Group are the entities which it controls. The Baader Group has a controlling influence on the subsidiaries if it can determine their financial and business policies. This is generally assumed if the Baader 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 Group acquires a controlling influence. The consolidation ends at the time when the controlling influence no longer exists.

The Baader Group reviews previous consolidation decisions 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 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 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.

The writing down of goodwill takes place principally 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 limited options for exercising rights, or for reasons of materiality (Section 296 (1) and (2) HGB), at amortised cost. Refer also to the "Equity investments" section for more information.

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.

The writing down of goodwill takes place principally 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 2017. In addition, the Group continued to have significant influence over its associates as at 31 December 2017.

VI. Notes to the balance sheet

Foreign currency holdings

As at the balance sheet date, assets in foreign currency amounted to (translated) EUR 114,750 thousand (previous year: EUR 83,845 thousand). Liabilities denominated in foreign currency totalled EUR 88,800 thousand (previous year: EUR 62,554 thousand). This involved the following balance sheet items:

Currency	Loans and advances (customers and banks) EUR'000	Securities, equity investments and associates EUR'000	Other assets EUR'000	Payables (customers and banks) EUR'000	Other liabilities EUR'000
AUD	25	410	0	436	0
BRL	174	0	0	183	0
CAD	630	642	0	1,250	0
CHF	5,807	0	315	410	669
DKK	1	186	0	187	0
GBP	1,739	59	137	1,086	267
HKD	353	0	0	345	5
HRK	1,655	0	46,766	34,242	2,051
INR	18	0	0	0	0
JPY	930	0	0	941	5
MYR	2	0	0	0	0
NOK	38	305	0	555	0
NZD	42	0	11	53	0
OMR	17	3,730	0	25	0
PLN	18	0	0	20	0
SEK	33	0	0	395	0
THB	6	0	0	6	0
TRY	1	0	0	0	0
USD	32,650	17,453	369	45,165	276
ZAR	0	228	0	228	0
	44,139	23,013	47,598	85,527	3,273

The foreign currency translation resulted in expenses amounting to EUR 87 thousand (previous year: EUR 39 thousand) which are recognised under other operating expenses, and income in the amount of EUR 346 thousand (previous year: EUR 0 thousand) recognised under other operating income. The expenses arising from foreign currency translation relating to the trading portfolio amounted to EUR 70 thousand (previous year: EUR 44 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 60,122 thousand (previous year: EUR 43,501 thousand) as well as loans and advances due on demand and other loans and advances in the amount of EUR 30,129 thousand (previous year: EUR 51,665 thousand). Since the 2017 financial year, loans and advances due on demand have been offset against liabilities to the same counterparty that are due on demand and not subject to any commitments.

Loans and advances to customers

Loans and advances to customers amount to EUR 31,555 thousand (previous year: EUR 34,988 thousand).

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities totalled EUR 225,730 thousand and did not include any loans and advances to affiliated companies.

in EUR'000	31/12/2017	31/12/2016
Bonds and debt securities	222,730	201,339
Accrued interest	3,000	3,563
Debt securities and other fixed-income securities	225,730	204,902

In the coming year, bonds and debt securities totalling EUR 40,138 thousand will fall due.

Equities and other variable-income securities

As at 31 December 2017, Baader Bank AG recognises a class allocated to the category "assets treated as fixed assets" under equities and other variable-income securities in the amount of EUR 11,237 thousand. A market price on an active market was not available as at 31 December 2017. 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 0 thousand).

Breakdown of residual maturities

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

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	2,148	340	0	8,000
Loans and advances to customers	23,380	713	361	7,101
Bank loans and advances with an agreed term or no notice period	22,783	14,769	29,060	18,558
Payables to customers with an agreed term or notice period	2,487	18,699	68,500	71,747

	Cost of acquisition or production					
in EUR'000	As at 01/01/2017	Additions	Pro rata result	Transfers	Changes in the scope of consolidation	Disposals
Intangible assets	94,022	8,400	0	0	0	–177
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	67,140	1,525	0	71	0	–177
Goodwill	26,573	6,838	0	0	0	0
Advance payments for intangible assets	309	37	0	–71	0	0
Property, plant and equipment	63,997	1,150	0	0	70,281	–234
Land and buildings	56,258	216	0	0	27	0
Furniture and office equipment	7,739	899	0	5	68,355	–234
Advance payments for property, plant and equipment and assets under construction	0	35	0	–5	1,899	0
Financial assets	26,057	948	–511	0	0	0
Equity investments	2,449	0	0	0	0	0
Associates	8,013	0	–511	0	0	0
Securities held as fixed assets	15,595	948	0	0	0	0

Breakdown of marketable securities by listed and unlisted 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	225,730	0	0
Equities and other variable-income securities	0	18,643	374	0
Investments in associated companies	3,858	0	0	
Equity investments	3	0	231	

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 capitalised goodwill resulting from the acquisition of ***Helvea Holding SA, Geneva.***

The assumed remaining useful life of the wind turbines operated by ***Selan d.o.o., Senj,*** is 14 years. Taking into account Section 253 (3) Sentences 3 and 4 HGB, capitalised goodwill is also amortised over 10 years.

All the land and buildings recognised in the schedule of fixed assets are used by the Baader 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 (see table below):

Depreciation and amortisation					Carrying amount	
As at 01/01/2017	of which 2017	of which disposals	Changes in the scope of consolidation	As at 31/12/2017	As at 31/12/2017	As at 31/12/2016
–73,019	**–8,111**	**177**	**0**	**–80,953**	**21,292**	**21,002**
–51,805	–4,721	177	0	–56,349	12,210	15,335
–21,214	–3,390	0	0	–24,604	8,807	5,358
0	0	0	0	0	275	309
–22,089	**–6,010**	**219**	**–21,007**	**–48,887**	**86,307**	**41,908**
–16,280	–1,987	0	0	–18,267	38,234	39,979
–5,809	–4,023	219	–21,007	–30,620	46,144	1,929
0	0	0	0	0	1,929	0
–7,719	**–914**	**0**	**0**	**–8,633**	**17,861**	**18,338**
–2,215	0	0	0	–2,215	234	234
–2,730	–914	0	0	–3,644	3,858	5,284
–2,774	0	0	0	–2,774	13,769	12,820

Other assets

Other liabilities include:

in EUR'000	31/12/2017	31/12/2016
Other tax receivables	2,633	2,754
Receivables from brokerage fees, exchange rate differences and transaction fees	107	195
Other receivables	64	276
Reinsurance claims from life insurance policies	47	43
Equity interests	0	8,848
Corporate tax credit	0	1,479
Other assets	2,851	13,595

The shares still held for sale in the previous year and reported under other assets were consolidated as of 1 January 2017 for the first time.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges relate to an amount of EUR 52 thousand (previous year: EUR 63 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 349,368 thousand (previous year: EUR 182,893 thousand) and payables to customers with an agreed term or notice period amounted to EUR 161,433 thousand (previous year: EUR 199,982 thousand) which were primarily attributed to promissory note loans issued.

Other liabilities

Other liabilities include:

in EUR'000	31/12/2017	31/12/2016
Trade payables	4,553	1,829
Tax liabilities	1,467	1,900
Other liabilities	921	930
Other liabilities	6,941	4,659

Pension provisions

As at 31 December 2017, pension provisions amounted to EUR 15,122 thousand (previous year: EUR 14,330 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:

	31/12/2017	31/12/2016
Actuarial interest rate	3.68 %	4.01 %
Changes in salaries	2.00 % to 3.00 %	2.00 % to 3.00 %
Pension adjustments	1.80 % to 2.00 %	1.80 % to 2.00 %

In compliance with Section 253 (6) HGB, a difference of EUR 1,032 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 2017.

Plan assets

in EUR'000	31/12/2017	31/12/2016
Cost	20,139	19,902
Fair value	20,788	19,530
Offset liabilities	13,385	12,734

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 7,403 thousand is reported within assets (previous year: EUR 6,796 thousand). On a net basis, this results in a balance sheet recognition of pension provisions in the amount of EUR 1,738 (previous year: EUR 1,595 thousand). Income and expenses from the offset assets are recognised in the net amount of EUR 472 thousand in compliance with Section 246 (2) HGB under the item "other operating income". Expenses in the amount of EUR 608 thousand were offset against income in the amount of EUR 1,080 thousand under application of Section 246 (2) Sentence 2 HGB.

Other provisions

Other provisions are comprised as follows:

in EUR'000	31/12/2017	31/12/2016
Personnel provisions	3,144	3,561
Administrative expenses	1,766	2,633
Legal and consulting costs	342	516
Other provisions	595	636
Other provisions	5,847	7,346

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. 10 % 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).

As in the previous year, an amount of EUR 22,120 was allocated to the special item as of the balance sheet date.

Trading portfolio

Assets and liabilities held for trading as at 31 December 2017 were as follows:

Assets held for trading in EUR'000	31/12/2017	31/12/2016
Derivative financial instruments	17	0
Debt securities and other fixed-income securities	1,254	1,045
Equities and other variable-income securities	55,321	53,915
Risk discount	–831	–659
Assets held for trading on the balance sheet	55,761	54,301

Liabilities held for trading in EUR'000	31/12/2017	31/12/2016
Derivative financial instruments	50	279
Bank loans	2,848	1,837
Liabilities held for trading on the balance sheet	2,898	2,116

Valuation units

In the financial year, derivative financial instruments (interest rate swaps) were used to hedge future cash flows (interest rate risk) from variable-interest (EURIBOR) loans. The interest rate swap is based on an underlying transaction with a comparable, opposite risk (micro hedge).

Derivative financial instruments

As at the balance sheet date of 31 December 2017, Baader Bank AG held index-related derivative financial instruments in its trading portfolio. These transactions relate to options and 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.

Term	Currency	Nominal in EUR'000
28 December 2017 to 02 January 2018	CAD	487
28 December 2017 to 02 January 2018	CAD	–488
28 December 2017 to 03 January 2018	CHF	–9
28 December 2017 to 02 January 2018	DKK	1
28 December 2017 to 02 January 2018	GBP	–11
29 December 2017 to 05 January 2018	JPY	16
28 December 2017 to 02 January 2018	NOK	211
28 December 2017 to 02 January 2018	SEK	362
28 December 2017 to 02 January 2018	USD	109
29 December 2017 to 03 January 2018	USD	49
29 December 2017 to 02 January 2018	USD	0
29 December 2017 to 03 January 2018	USD	–17
29 December 2017 to 02 January 2018	USD	–57
28 December 2017 to 02 January 2018	USD	–106
29 December 2017 to 02 January 2018	USD	–3,314

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

Assets held for trading

Portfolio	Description	Category	Maturity	Contracts (Units)	Currency	Market price	Market value	Carrying amount
Eurex FH FW	DAX® options (ODAX)	Eurex Equity Index Option	January 2018	50	EUR	24.4	6,100.00	6,627.50
JPM USD FH	Light Sweet Crude Oil Futures	Commodities Futures	March 2018	2	USD	60.14	120,820.00	120,083.64
JPM USD FH	EUR/USD FX Futures	Forex futures	March 2018	7	USD	1.2076	1,056,606.25	1,043,938.79

Liabilities held for trading

Portfolio	Description	Category	Maturity	Contracts (Units)	Currency	Market price	Market value	Carrying amount
JPM USD FH	Gold 995 Future CME	Commodities Futures	February 2018	11	USD	1,305.10	1,435,610.00	1,375,819.43

Interests in investment funds

As at 31 December 2017, the Baader 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:

Instrument	Investment objective	Volume	Market value	Carrying amount	Dividend in 2017
		Units	EUR'000	EUR'000	EUR'000
SKALIS Evolution Flex AK S[1] (ISIN: DE000A1W9A02)	Hybrid fund with defensive profile	14,880	1,554	1,512	10
TRISTONE UI AK I[1] (ISIN: DE000A1XDWV2)	Hybrid fund	25,000	2,084	2,500	0
TRISTONE UI AK Q[1] (ISIN: DE000A12BPJ7)	Hybrid fund	5,000	378	374	0
ATHENA UI AK I[1] (ISIN: DE000A0Q2SF3)	Derivative	27,113	2,799	2,891	0
SWISS HEDGE TWINTRADE AK D-EUR[1] (ISIN: LU0700553844)	Hybrid fund with defensive profile	10,775	1,039	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

The shares in the investment fund in the amount of EUR 7,854 thousand (previous year: EUR 27,399 thousand) were allocated to the liquidity reserve in the amount of EUR 5,291 thousand (previous year: EUR 25,835 thousand).

The investment fund shares can be returned daily.

Risk factors	Cash flows
Cash flow fluctuations arose mainly due to the change in value of the DAX index (5 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 crude oil price (multiplier of 1,000)	▪ Daily: difference clearing ▪ Fulfilment by delivery
Cash flow fluctuations arose mainly from the change in value of the foreign exchange rate	▪ Daily: difference clearing ▪ Fulfilment by delivery

Risk factors	Cash flows
Cash flow fluctuations arise mainly from the change in the value of the gold price	▪ Daily: difference settlement ▪ Fulfilment by delivery

Assets transferred as collateral

For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2017:

in EUR'000	Mortgages	Securities (liquidity reserve)	Bank deposits
Bank loans and advances	26,200	0	23,968

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 28.32 %. 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 Group

1. Share capital

The company's share capital amounted to EUR 45,909 thousand as at 31 December 2017. It is subdivided into 45,908,682 no par bearer shares (ordinary shares).

2. Authorised capital

a) 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 Board of Directors 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 Board of Directors 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.

b) *Other authorised capital*

There was no other authorised capital in financial year 2017.

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 Board of Directors 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 and expired on 28 June 2017.

c) *Other contingent capital*

There was no other contingent capital in financial year 2017.

4. Treasury shares

a) *Authorisations to buy treasury shares*

The company's shareholder meeting passed the following resolution on 01 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 Board of Directors 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 Board of Directors 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 Board of Directors 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 2017.

Retained earnings

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

Balance sheet profit/loss

in EUR'000	31/12/2017	31/12/2016
Consolidated net profit before minority interests	2,282	–3,619
Minority interest in net income	120	137
Consolidated net income	2,402	–3,482
Loss of the parent company brought forward	–6,642	–6,546
Withdrawals from retained earnings	7,000	9,541
Transfers to retained earnings	–13,796	–6,155
Consolidated net loss	–11,036	–6,642

The net profit for financial year 2017 of Baader Bank AG as the parent company amounts to negative EUR 4,394 thousand. If the loss brought forward from the previous years is taken into account, a balance sheet loss in the amount of EUR 11,036 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 2017.

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.

Balance on 31/12/2016	Additions (Number)	Average price (in EUR)	Disposals (Number)	Average price (in EUR)	Balance on 31/12/2017
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 Board of Directors and, as at the balance sheet date, amount to EUR 203 thousand (previous year: EUR 203 thousand) as well as in respect of an employee in the amount of EUR 5 thousand (previous year: EUR 0 thousand). The contingent liability resulting from the assumption of a contract performance guarantee in the amount of EUR 13,052 thousand, from which no financial risks arose in the 2016 financial year due to the credit backing in the same amount, no longer existed as of the balance sheet date.

Other obligations

There are irrevocable open loan commitments to customers totalling EUR 10,508 thousand (previous year: EUR 12,197 thousand).

This item includes open loan commitments to members of the Board of Directors totalling EUR 398 thousand (previous year: EUR 398 thousand), EUR 203 thousand of which has been drawn (previous year: EUR 203 thousand). There are no open loan commitments to affiliated companies (previous year: EUR 0 thousand).

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 Group has entered into financial commitments in addition to the liabilities shown in the balance sheet as at 31 December 2017, as shown in the following table:

	Remaining term	Financial obligation
	Months	EUR'000
Future payments from lease agreements for office space, usable areas and parking spaces	3 to 78	5,320
Future payments from vehicle lease agreements and lease agreements for furniture and office equipment	2 to 48	3,499
Future payments from other service agreements	3 to 21	5,444

The Bank is not aware of any significant risks arising from transactions not included in the balance sheet that could have a negative impact on liquidity or the Baader Group's ability to fulfil its existing obligations in the foreseeable future.

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 359 thousand (previous year: EUR 168 thousand) as well as from term and customer deposits in the amount of EUR 8 thousand (previous year: EUR 17 thousand).

Negative interest in the amount of EUR 507 thousand (previous year: EUR 114 thousand) resulting from customer deposits and time deposits, as well as expenses in the amount of' EUR 11 thousand (previous year: EUR 9 thousand) from the compounding of other provisions were recognised under the item „Interest expenses".

Revenue

The new sales revenue item of EUR 12,135 thousand relates in full to the feed-in remuneration for electricity generated by the wind farm.

Other operating income

Other operating income in the amount of EUR 3,458 thousand (previous year: EUR 2,328 thousand) mainly relates to income from discounting pension provisions against expenses and income from plan assets in accordance with Section 246 (2) HGB in the amount of EUR 472 thousand, income from payments in kind (company cars) (EUR 471 thousand), income from the reversal of provisions (EUR 325 thousand) and income unrelated to the accounting period in the amount of EUR 36 thousand.

Furthermore, the item includes other income in the amount of EUR 2,118 thousand that is primarily due to pass-through project costs mainly in the context of support for capital market services and other fee reimbursements.

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

Other operating expenses

Other operating expenses in the amount of EUR 1,200 thousand (previous year: EUR 3,015 thousand) primarily include out-of-period expenses in the amount of EUR 660 thousand and other expenses in the amount of EUR 457 thousand, the majority of which are due to expenses for project costs paid.

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

Taxes on income

The tax expense reported in financial year 2017 of EUR 1,884 thousand essentially comprises income taxes for the past financial year amounting to EUR 2,025 thousand and tax refunds from previous years of EUR 139 thousand.

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 2017, the average number of staff employed was 448 (previous year: 454). 52 of these employees held executive positions.

Total remuneration of the Board of Directors and Supervisory Board

The total remuneration of the Board of Directors members for their activity during the financial year amounted to EUR 1,671 thousand.

The total remuneration of the Supervisory Board members for their activity during the financial year amounted to EUR 203 thousand.

Audit fees

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

The fees for financial year 2017 can be broken down as follows:

in EUR'000	2017	2016
Annual audit	527	516
Other confirmation services	75	141
Tax consulting services	38	10
Other services	55	25
Total fees	695	692

The services provided by the auditor in addition to the audit essentially comprise the audit in accordance with Section 36 (1) Sentence 1 WpHG and custody account audit, project-related support services within the framework of MiFID II, support in tax audits, tax consultancy services and confirmation services in connection with the annual levy for 2017 of the Compensation Fund of Securities Trading Companies (EdW).

Executive bodies of the Baader Group

Board of Directors

Mr Nico Baader, Gräfelfing (Chairman)

Occupation: Banker

Responsibility: Group Strategy & Development, 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/Antimoney Laundering Officer, Internal Audit, Data Protection Officer, Operations, Lending, Accounting & Corporate Taxes/Controlling, Business Organisation/Human Resources, Information Security Officer

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, Sales Trading/Execution, Designated Sponsoring/Trading, Product Management/Asset Management & Services, Middle-Office Client Service Group, Roadshows & Events Business Management

Supervisory Board

Dr Horst Schiessl, Munich (Chairman)

Partner at legal firm, SSP Schiessl Rechtsanwälte – Partnergesellschaft

Dr Christoph Niemann, Meerbusch (Deputy Chairman)

Former general partner at HSBC Trinkaus & Burkhardt KGaA

Mr Karl-Ludwig Kamprath, Munich

Former Chairman of the Board of Directors 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) (until 30 September 2017)

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 2017, appointments on statutory supervisory committees of large incorporated companies were held. These and other noteworthy appointments are listed below:

Appointee	Company/institution in which appointment held	Appointment
Mr Nico Baader	Baader & Heins Capital Management AG, Unterschleissheim	Deputy Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main	Member of the Supervisory Board
	U.C.A. AG, Munich (until 31 December 2017)	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	Chairman of the Audit Committee
Mr Christian Bacherl	Baader Helvea AG, Zurich (Switzerland)	Member of the Managing Board
	Baader & Heins Capital Management AG, Unterschleissheim (since 14 March 2017)	Member of the Supervisory Board
Mr Oliver Riedel	Baader Helvea AG, Zurich (Switzerland)	Chairman of the Managing Board
	Baader Helvea Limited, London (UK)	Member of the Supervisory Board of Directors
	Baader 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, London (UK)	Member of the Supervisory Board of Directors
Mr Sebastian Niedermayer	Baader Helvea Inc., New York (USA)	Member of the Supervisory Board of Directors

X. List of Baader Group shareholdings

The Baader 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 2017:

Name/Registered office	Share of capital %	Last interim/annual financial statements	Equity (total) EUR'000	Net profit/ loss for the year EUR'000
Parsoli Corporation Ltd., Mumbai (India)	21.93	*No current data are available as at 31 December 2017.*		
Trading Systems Portfolio Management AG, Bad Homburg	9.64	31 December 2016	978	137
Vjetropark Vrataruša d.o.o. Senj (Croatia)[1]	100.00	31 December 2017	–4	–3

[1] Equity and the net profit for the financial year as at 31 December 2017 have been translated (EUR/HRK 7.4400).

Unterschleissheim, 21 March 2018

Baader Bank AG
Board of Directors

Nico Baader

Dieter Brichmann

Christian Bacherl

Oliver Riedel

Independent Auditor's Report

To Baader Bank Aktiengesellschaft, Unterschleissheim

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Baader Bank Aktiengesellschaft, Unterschleissheim, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of Baader Bank Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of the group statement on corporate governance pursuant to Section 289f (4) HGB and Section 315d HGB in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further de-scribed in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

I. First-time consolidation of Selan d.o.o., Senj, Croatia

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matter:

I. First-time consolidation of Selan d.o.o., Senj, Croatia

1. In Baader Bank Aktiengesellschaft's consolidated financial statements, the full consolidation of the wholly-owned subsidiary Selan d.o.o., Senj, Croatia (Selan) was waived until December 31, 2016 due to the existing resale intent and exercising the option to consolidate pursuant to Section 296 HGB. During the reporting period, Baader Bank Aktiengesellschaft determined that it no longer intended to sell its shareholding in Selan. Exercising the consolidation options, the first-time consolidation took place retrospectively as of January 1, 2017. As part of first-time consolida-tion, all of Selan's assets and liabilities were remeasured and any remaining goodwill after realization of hidden reserves and liabilities was to be determined. In addition, the reconciliation of the annual financial statements of Selan, prepared in accordance with Croatian accounting principles, to uniform Group accounting policies in accordance with HGB was of utmost priority. Against this background and in light of the business activities of Selan as a third-party operator of a wind farm, the first-time consolidation gave rise to many issues relating to the recognition, presentation and measurement of assets and liabilities in the consolidated financial statements and was therefore of particular importance to our audit.
2. As part of our audit, we first assessed the appropriateness of the internal control system relevant to the consolidation. We included the business organization, the IT systems and the relevant accounting principles in our assessment. To audit the goodwill arising from acquisition accounting, we assessed whether Selan's fixed assets existed and were recoverable as well as whether any potential hidden reserves and liabilities existed and the recoverability of the identified goodwill. In addition, we critically reviewed the bank's documentation of relevant accounting and measurement differences with respect to the recognized assets and liabilities between the Croatian accounting principles and the annual financial statements prepared in accordance with HGB and the necessary adjustments and disclosures in the notes in accordance with uniform group accounting policies on the basis of risk-oriented sampling. Overall, we were able to satisfy ourselves that the first-time consolidation was properly presented on the basis of the available information.
3. The company's disclosures on the presentation of goodwill are contained in section II „Accounting, measurement and presentation methods", and the disclosures on the first-time consolidation of Selan are contained in section IV „Scope of consolidation" and the disclosures on the amortization period are contained in section VI „Balance sheet disclosures" in the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to Section 289f (4) HGB and Section 315d HGB, which we obtained prior to the date of our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles. In addition the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated fi-nancial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a go-ing concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 26, 2017. We were engaged by the supervisory board on November 13, 2017. We have been the group auditor of the Baader Bank Aktiengesellschaft, Unterschleissheim, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Sven Hauke.

Information and Service

The Annual Report 2017 was published in German and English. The report is available as PDF on the Internet
www.baaderbank.de/Investor-Relations/News-and-financial-reports

Further information about Baader Bank can be found on the Internet at www.baaderbank.de

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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

Financial calendar 2018

15 May 2018	// Announcement // Publication of Annual Report 2017
25 June 2018	// Annual General Meeting //
25 July 2018	// Announcement // Publication of Half Year Results
17 October 2018	// Conference // m:access Analyst Conference

Corporate governance

Good and transparent corporate governance ensures responsible management, with a focus on value creation, and control of the institution. It promotes trust with customers and other business partners, investors and the financial markets, employees and the public.

Core features of Baader Bank's corporate governance system are the dual management system, with a transparent division of company management and its supervision between the Board of Directors and Supervisory Board, the composition of the Supervisory Board, with representatives for shareholders and employees, and the shareholders' rights of co-administration and supervision at the shareholders' meeting.

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