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BAADER

CONSOLIDATED FINANCIAL STATEMENTS 2007
BAADER WERTPAPIERHANDELSBANK AG

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1. Business and framework conditions

The market

The German economy enjoyed strong growth in 2007, expanding by 2.5%. However this upturn was slowed down by the US property crisis which began in the second half of the year. Nevertheless, the German share price indicator mainly ended the year with positive growth rates.

The DAX – the German stock index that reflects the share price performance of the 30 key standard stocks – climbed 22.3% in 2007. As in the previous year, this put the DAX ahead of the European leading index DJ STOXX 50, which recorded an increase of 6.9%. The German technology index, the TecDax, closed the year with a rise of 30.2%. The MDAX gained 4.9% and the SDAX saw the year out with a decrease of 6.8%.

The US central bank attempted to countersteer the crisis on its mortgage market with several infusions of liquidity and interest rate cuts which must have restricted the minus of the Dow Jones Industrial Average to 3.7% after adjustment for currency translation effects. In contrast, the NASDAQ 100 ended 2007 with an increase of 7.5%. The Japanese NIKKEI 225 lost 15.9%.

Within the BRIC countries, the Chinese SSEB stock index was one of the top performers, gaining 152%, when adjusted for currency translation effects. Share prices on Brazil's stock exchange climbed 55%. India's stock market recorded growth of 48% while the Russian stock index RTX only climbed by 7%. Of the emerging economies, Mexico remained stable at the previous year's level. The Hang Seng in Hong Kong climbed 22.5% in 2007.

The total trading volume on all German stock exchanges (including XETRA) rose to EUR 2.85 trillion which corresponds to an increase of 48% year-on-year. As the market leader amongst German securities trading banks, Baader Wertpapierhandelsbank AG significantly benefited from this trend.

In international terms, however, Germans continue to place little faith in shares. Overall, private investors held only 10.1 million shares and fund units at the end of 2007 (previous year: 10.3 million). This continued the decrease which began in 2001 in the percentage of shareholders amongst the German population. This trend is likely to have been driven by the effects of the US property crisis. However according to the *Deutsches Aktieninstitut* (DAI – German Stock Corporation), it can be assumed that many investors have generated profits at the high share price level and that the percentage of shareholders has also fallen for this reason. In addition, private investors in Germany are also increasingly investing their funds in different asset classes in the sense of a progressive investment culture. In relation to this trend, Baader Wertpapierhandelsbank has benefited from managing order books for all types of securities from shares and bonds, profit participation certificates and publicly traded funds to securitised derivatives.

In 2007, 44 companies in Germany took the step of going public – a decrease against the 75 stock exchange newcomers in the previous year. As a result of the US property crisis, the climate for IPOs in the second half of 2007 drastically deteriorated. This led to a fall in IPOs, particularly in the fourth quarter of 2007. Despite lower IPO figures, the issue volume of

EUR 7.35 billion remained stable at the previous year's level. The largest IPOs were those of Tognum AG, Hamburger Hafen und Logistik AG and Gerresheimer AG.

Baader Wertpapierhandelsbank AG's market position

Baader Wertpapierhandelsbank AG used the upturn on the capital markets in the past year to develop new growth regions within the framework of its core business areas and to adopt a more international focus.

As already announced in 2006, Baader Wertpapierhandelsbank AG acquired a 24.9% interest in Gulf Baader Capital Markets S.A.O.C, Muscat (Oman). The company's core business includes the areas of brokerage, corporate finance and asset management. This interest provides Baader Wertpapierhandelsbank AG with access to the capital markets in the Gulf states and can also be considered an important element of the Company's international strategy which aims to create the basis for additional growth outside Germany. In 2006, for instance, an interest of 24.9% was acquired in Parsoli Corporation Ltd., Mumbai, India. In 2007, Baader Wertpapierhandelsbank AG subscribed for bonds from a convertible bond issued by Parsoli Corporation Ltd. in the amount of EUR 4,959 thousand. The bond is designed in such a way that the shares will inevitably be converted into equity instruments in 2008, raising the ownership interest of Baader Wertpapierhandelsbank AG to over 40%.

In the Alternative Investment Strategies business segment which was created in 2005, the Company increased its interest in Conservative Concept Portfolio Management AG to 55.36% in order to document and further intensify the successful cooperation to date.

Baader Wertpapierhandelsbank AG lost a small proportion of its order books following the introduction of the new rules and regulations on the Frankfurt Stock Exchange due to the decision of the Frankfurt Administrative Court that every order book management company admitted should be allowed a specific quantity of order books; however, the positive market environment means that this has not had a significant impact on its operating results. Of the order book management companies trading on the Frankfurt Stock Exchange, Baader's market share was raised in all types of securities to 31.1% (previous year: 30.0%) due to its high execution quality.

On the Munich Stock Exchange, the redistribution of order books due to the withdrawal of two order book management companies was primarily responsible for a substantial rise in business. Baader Wertpapierhandelsbank AG thus boosted its share of trading to 77.2% (previous year: 60.1%) across all type of securities. Baader Wertpapierhandelsbank AG is still the only provider of specialist activities for equities and profit participation certificates on the Stuttgart Stock Exchange.

At the end of 2007, Baader Wertpapierhandelsbank AG managed a total of 206,428 order books. This is an increase of 71% compared with 2006. Equities accounted for 12,891 of these order books, securitised derivatives such as warrants, certificates and ETFs for 183,047, bonds and participation certificates for 9,307 and actively managed funds for 1,183 order books.

In financial year 2007, business was further boosted substantially by capital market services. Baader Wertpapierhandelsbank AG thus accompanied 34 capital measures with a total volume of EUR 185 million which is equivalent to an increase of 21%. The new issues included Ariston Real Estate AG, SMT Scharf AG, Blue Cap AG and Deutsche Technologie Beteiligungen AG, which Baader Wertpapierhandelsbank AG managed as the lead bank. In the IPO of Steico AG, Baader Wertpapierhandelsbank AG acted as co-manager.

Within the MiFIS (Markets in Financial Instruments Services) division in which order routing, DMA (direct market access), best execution and the institutional agency business for equities are bundled, Baader Wertpapierhandelsbank AG has offered a best execution service since introduction of the MiFID (Markets in Financial Instruments Directive) on 1 November 2007 that can be considered a benchmark both technically and functionally. The first few agreements with customers for use of this service have now been concluded. Due to the positive response on the market, Baader Wertpapierhandelsbank AG is convinced that it will be able to benefit above average in the medium term from this pioneering role in this service segment. Many new customers were won in electronic trading and DMA in 2007 which led to higher revenues and earnings from this area. The was due to an attractive price model, the development of new customer groups such as asset management companies and an extensive range of products and services. The development and further growth of the MiFIS division is supported by creation of an own sales network which guarantees professional customer approach and customer care both nationally and internationally through one central contact. The MiFIS division's highest earner in 2007 was the institutional agency business for equities. Implementing a new structure in the Institutional Equity Sales & Trading unit created the conditions for even higher efficiency in executing orders, more intensive customer support and thus for further growth in a highly specialised and competitive market environment.

Against the backdrop of increased volatility and a substantial rise in the trading margins in bond trading due to the mortgage crisis, the strategy taken by Baader Wertpapierhandelsbank AG in 2004 bore fruit in institutional bond trading in the year under review. Revenues and earnings in this area increased noticeably, primarily in the second half of 2007. At the same time, the product and customer bases were widened. This enabled the Bank to gain additional market shares.

Baader Service Bank GmbH, a wholly-owned subsidiary of Baader Wertpapierhandelsbank AG, also took a giant leap forwards in the year under review which was also helped by synergy effects within the Baader Group. Overall, the Company succeeded in winning a series of new cooperation partners and their affiliated customer bases. This enabled the Bank to substantially broaden its role as an all-round service provider for asset managers and other institutional customers as well as an arranger of financial innovations. The main products managed by the Bank still include certificates, publicly offered funds, single hedge funds and funds of hedge funds as well as managed accounts.

The most important source of income for Baader Service Bank was the financial commission business. In this area, the Bank provides fund and certificate initiators, strategy providers, fund managers, asset management companies, investment advisors, banks, insurance companies and asset managers at home and abroad with access to the most important stock exchanges and uses its transaction expertise in acting as an execution broker. While this was primarily the case in trading EUREX products in the past, there was a stronger turn in the year under review towards trading on XETRA and XONTRO, not least due to the connection to the parent company. Furthermore, additional customers were won for trading in spot exchange and forward deals and trading began in currency options. Due to the increasingly demanding customer requirements, the organisational conditions for access to trading in US futures and US options were established and trading in these products began. Trading in commodities is also planned for the future.

In the course of expanding the value added chain, the Bank further expanded its complementary range of services. The Bank generally endeavoured to contribute simultaneously at several stages in the production process, e.g. as an investment manager and execution broker, in addition to its function as the account-managing bank and risk controller. Considerable organisational efforts were made in financial portfolio management, account and custody account management, risk controlling, reporting and in the consultation services including by means of additional employees and major technical work. This was ultimately reflected in the visibly higher volume of these services and not least by their contribution to earnings, particularly in the form of commission income.

The year under review saw the Structured Products Services business area, which was incorporated last year welcome renowned new customers.

Baader Heins & Seitz AG – a subsidiary of Baader Wertpapierhandelsbank AG in which it holds a 70% interest – only manages institutional customers. This group of customers comprises banks and savings banks, insurance companies, pension funds, local governments and local companies. Despite falling revenues on the capital market, the Company succeeded in bucking the trend through constant and trust-building customer support and boosting its earnings. This development reflects a high degree of customer satisfaction with Baader Heins & Seitz AG.

The business performance of Conservative Concept Portfolio Management AG (CCPM) is primarily determined by the results of the products offered both with regard to the income position of those participating in the profits as well as with regard to the performance of the managed assets. Compared with previous years, 2007 was comparatively difficult in this respect. Along with its core products Athena Strategie, DTS Strategie and its guarantee products Garant 2014 and Substanz 2.25, CCPM introduced various projects in brokerage and structuring in 2007 which are increasingly providing earnings contributions and are to be further developed. In order not to depend solely on the performance of its own products, additional efforts with regard to leveraging synergy potential will be made in the Baader Group.

2. Earnings

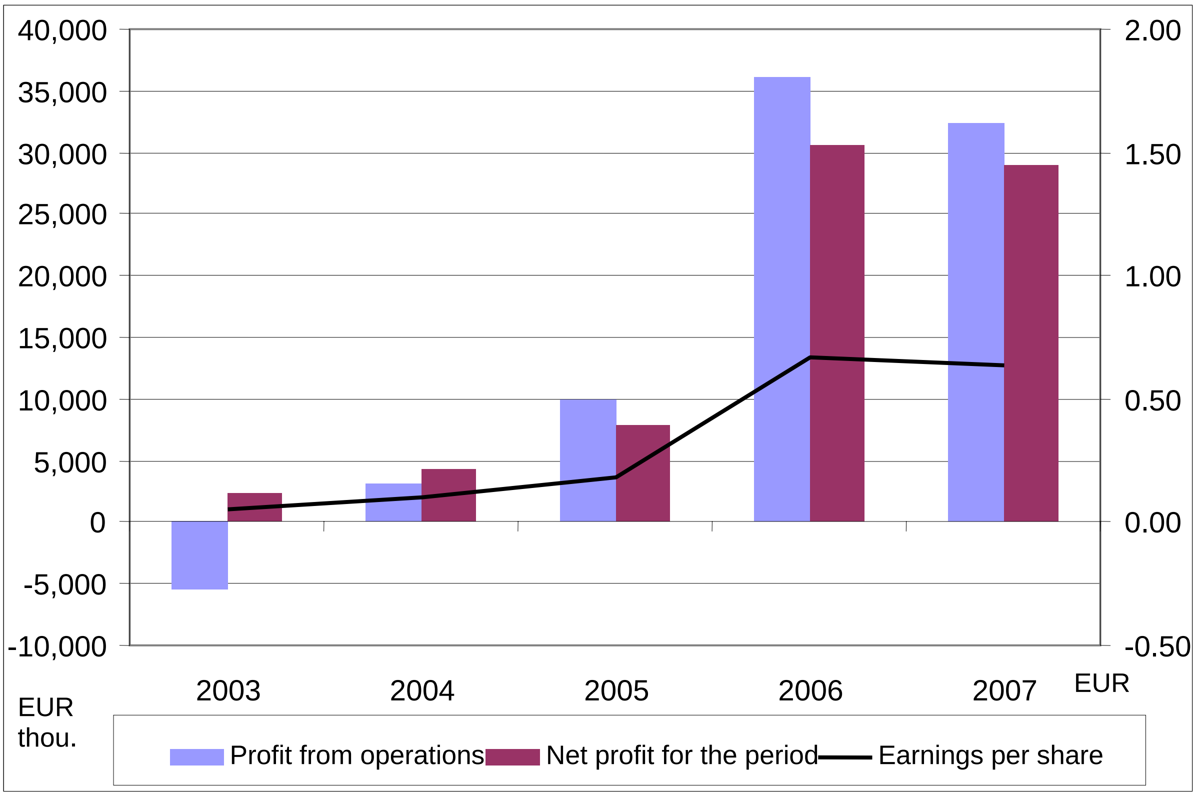
The following overview comprises the main elements of the income statements for 2007 and 2006, together with the respective changes.

	2007 EUR thousand	2006 EUR thousand	Change EUR thousand	 %
Net interest income	1,686	551	1,135	206.0
Allowance for losses on loans and advances	0	-62	62	n.a.
Net fee and commission income	46,538	36,846	9,692	26.3
Net trading income	52,019	49,721	2,298	4.6
Net income from available-for-sale financial instruments and companies carried at equity	7,677	12,254	-4,577	-37.4
Administrative expenses	75,627	63,157	12,470	19.7
Profit from operations	**32,293**	**36,153**	**-3,860**	**-10.7**
Other income and expenses, net	2,931	-10,636	13,567	n.a.
Profit from ordinary activities	**35,224**	**25,517**	**9,707**	**38.0**
Tax income/expense	-6,251	5,136	-11,387	n.a.
Net profit for the period before minority interest	**28,973**	**30,653**	**-1,680**	**-5.5**

While the first half of 2007 saw the successful financial year of 2006 continue encouragingly, the effects of the mortgage crisis in the USA in the second half of the year provided for increasing nervousness on the financial markets. Overall, however, this state of the market supported the trading performance on the German stock exchanges. Throughout the whole of 2007, the trading volume was at a high level and thus contributed to the positive earnings performance in financial year 2007. Performance outside of Germany was also pleasing. Investments in the securities companies Parsoli Corporation Ltd. based in Mumbai, India and Gulf Baader Capital Markets S.A.O.C based in Muscat, Oman delivered an earnings contribution of around EUR 1,900 thousand.

At EUR 32,293 thousand, profit from operations was up EUR 3,860 thousand (10.7%) on the previous year’s figure. However due to the net other income and expenses of EUR 2,931 thousand, which clearly exceed the previous year by EUR 13,567 thousand, profit from ordinary activities was lifted to EUR 35,224 thousand, thus surpassing the previous year’s figure by EUR 9,707 thousand (38.0%). Deducting a tax expense of EUR 6,251 thousand results in net profit for the period of EUR 28,973 thousand, down EUR 1,680 thousand (5.5%) year-on-year. The rise again in net fee and commission income and net trading income shows that the core business areas still have earnings-generating potential and that this can be leveraged. This proves that the corporate strategy pursued over the past few years of investing in our core business areas in counter-cyclical fashion and developing and expanding new areas of business is right.

Figure: Five-year comparison of profit from operations, net profit for the period and earnings per share



The net interest income of EUR 1,686 thousand is primarily due to the deposit business of the subsidiary Baader Service Bank GmbH and the reduction in interest expense from refinancing the administration building in Unterschleissheim.

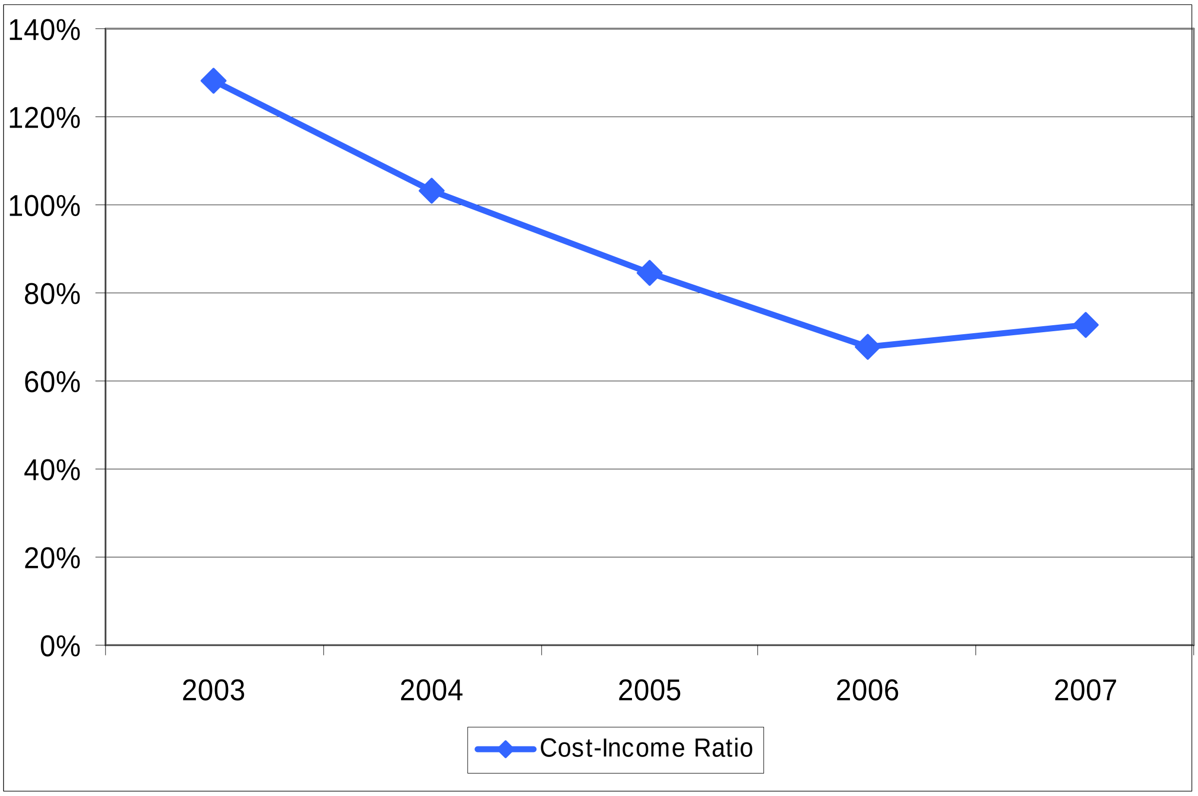
The positive growth in net fee and commission income from EUR 36,846 thousand to EUR 46,538 thousand is pleasing. This equates to an increase on the previous year of 26.3%. All the Group companies contributed to this improvement in income. The increase at Baader Wertpapierhandelsbank AG again of EUR 7,272 thousand (23.4%) and the positive performance of Baader Heins & Seitz Capital Management AG which saw a rise of EUR 426 thousand (28.3%) compared with the previous year is particularly worthy of mention.

The high trading volume in particular led to net trading income soaring EUR 2,298 thousand (4.6%) to EUR 52,019 thousand.

The net income from available-for-sale financial instruments and from companies carried at equity fell EUR 4,577 thousand (37.4%) to EUR 7,677 thousand overall. In addition to interest and dividends of EUR 1,427 thousand, this item included write-downs of fixed-interest securities of EUR 34 thousand, income from the sale of available-for-sale financial instruments amounting to EUR 2,494 thousand, net income from fund units carried at equity of EUR 483 thousand and net income from equity accounted investments of EUR 3,307 thousand.

Administrative expenses surged EUR 12,470 thousand (19.7%) year-on-year to EUR 75,627 thousand.

Figure: Five-year comparison of the cost-income ratio (CIR)



* Excluding the allowance for losses on loans and advances and excluding net income from available-for-sale financial instruments

With regard to administrative expenses, EUR 44,657 thousand is attributable to staff costs (previous year: EUR 37,700 thousand), EUR 23,938 thousand to other administrative expenses (previous year: EUR 18,713 thousand) and EUR 7,032 thousand to amortisation of intangible assets and depreciation of property and equipment (previous year: EUR 6,744 thousand). Of the increase in staff costs of EUR 6,957 thousand, EUR 4,312 thousand is attributable to higher variable salary components. Other administrative expenses, which were EUR 5,225 thousand (27.9%) higher are mainly due to higher IT costs (EUR 2,294 thousand / 44.5%) as well as an increase in costs for information and communication (EUR 1,369 thousand / 32.0%). The amortisation of intangible assets and depreciation of property and equipment relate primarily to the order books acquired over the past few years, the administration building in Unterschleissheim and the new trading software that the Bank began using in early 2004.

Other income and expenses comprises income of EUR 4,067 thousand and expenses of EUR 1,136 thousand. EUR 323 thousand of the income relates to prior-period income, EUR 139 thousand to rental income, EUR 2,169 thousand to income from the reversal of provisions, EUR 237 thousand to income from sponsoring, EUR 902 thousand to income from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options and EUR 297 thousand from other income. Other expenses are attributable to prior-period expenses of EUR 627 thousand, expenses from vehicle and other taxes of EUR 102 thousand, expenses from the recognition of provisions totalling EUR 176 thousand and other expenses of EUR 231 thousand.

As a result of the *Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften* (SEStEG – German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules) the existing system of reducing corporation tax was replaced by a proportional disbursement of corporation tax credits. In the previous year, this led to the present value of the corporation tax credit amounting to EUR 11,608 thousand being capitalised and consequently to a positive figure for tax. Due to the above-mentioned fact, only the accrued interest on the corporation tax for 2007 of EUR 313 thousand was recognised in the tax income/expense in financial year 2007. The tax income/expense in financial year 2007 totalled EUR -6,251 thousand.

3. Net assets

The overview below illustrates the main items on the balance sheet for financial year 2007 compared with the previous year.

Assets	2007 EUR thousand	2006 EUR thousand	EUR thousand	Change %
Cash reserve	3,273	485	2,788	574.8
Loans and advances to other banks	75,338	63,439	11,899	18.8
Loans and advances to customers	2,521	13,057	-10,536	-80.7
Allowance for losses on loans and advances	-62	-110	48	n.a.
Assets held for trading	47,627	49,013	-1,386	-2.8
Available-for-sale financial instruments				
a) Shares and equity investments	8,926	19,299	-10,373	-53.7
b) Bonds and debt securities	378	3,969	-3,591	-90.5
Equity-accounted investments	38,216	11,789	26,427	224.2
Land and buildings	19,322	20,069	-747	-3.7
Other property and equipment	1,524	1,429	95	6.6
Intangible assets and goodwill	17,113	21,572	-4,459	-20.7
Income tax assets	12,071	11,627	444	3.8
Other assets	11,251	6,375	4,876	76.5
Deferred tax assets	23,377	25,576	-2,199	-8.6
Total assets	**260,875**	**247,589**	**13,286**	**5.4**
Equity & Liabilities				
Deposits from other banks	19,751	26,444	-6,693	-25.3
Due to customers	41,430	31,999	9,431	29.5
Liabilities held for trading	0	35	-35	-100.0
Provisions	17,314	19,457	-2,143	-11.0
Provisions for income taxes	2,560	1,641	919	56.0
Other liabilities and provisions	12,723	11,550	1,173	10.2
Deferred tax liabilities	1,733	3,837	-2,104	-54.8
Equity	165,364	152,626	12,738	8.3
Total equity & liabilities	**260,875**	**247,589**	**13,286**	**5.4**

Total assets rose by EUR 13,286 thousand or 5.4% to EUR 260,875 thousand in the year under review.

The cash reserve primarily includes deposits with Deutsche Bundesbank of EUR 3,272 thousand.

Loans and advances to other banks mainly relate to credit balances lodged as collateral for the settlement of stock market transactions and to the investment of customer deposits, although the increase of EUR 11,899 thousand is mainly the result of a rise in customer deposits at Baader Service Bank GmbH of EUR 9,264 thousand.

The decrease in the loans and advances to customers item of EUR 10,536 thousand (80.7%) to EUR 2,521 thousand is almost exclusively due to the omission of the receivable reported in 2006 from Darmstadt-based SPAG St. Petersburg Immobilien- und Beteiligungs AG of EUR 10,143 thousand which was settled at the beginning of 2007.

Assets held for trading mostly relate to listed shares and bonds.

Available-for-sale financial instruments primarily consist of shares totalling EUR 5,723 thousand, equity investments of EUR 3,203 thousand, as well as bonds and debt securities totalling EUR 378 thousand. The number of shares fell in the course of the financial year due to the sale of investment interests totalling EUR 6,699 thousand, lower carrying amounts for investments by EUR 2,606 thousand and acquisitions of EUR 909 thousand. Equity investments decreased year-on-year, mainly due to lower carrying amounts by EUR 1,977 thousand.

Equity-accounted investments relate to the investments in SPAG St. Petersburg Immobilien- und Beteiligungs AG in Darmstadt, Parsoli Corporation Ltd. in Mumbai and Gulf Baader Capital Markets S.A.O.C. in Muscat as well as fund units. The acquisition of shares in Gulf Baader Capital Markets S.A.O.C. for EUR 3,589 thousand and the acquisition/increase of units in investment funds, taking into account the corresponding measurement gains/losses, of EUR 21,354 thousand were the main reason for the rise in equity-accounted investments.

The land and buildings item consists solely of the administrative building in Unterschleissheim, which was occupied in 2002.

The decrease in intangible assets and goodwill is due to amortisation and write-downs.

In essence, the income tax assets are the result of capitalising the present value of the corporation tax credits in the Group amounting to EUR 11,922 thousand.

Other assets mainly include shares in a convertible bond of Parsoli Corporation Ltd. in the amount of EUR 4,959 thousand. This item also includes receivables from fees and commission and price differences of EUR 2,809 thousand and insurance claims to cover pension provisions in the amount of EUR 2,391 thousand.

Deposits from other banks comprise long-term loans of EUR 12,481 thousand taken out to finance the administrative building.

The amount due to customers item is mainly attributable to the deposits of customers with Baader Service Bank GmbH.

The provisions are primarily intended for pension obligations in the amount of EUR 7,703 thousand and the provision for the EdW of EUR 8,833 thousand.

Other liabilities and provisions primarily relate to provisions for staff costs (EUR 6,450 thousand), trade payables (EUR 3,069 thousand) and contributions (EUR 1,186 thousand).

Equity rose by EUR 12,738 thousand (8.3%) from EUR 152,626 thousand to a total of EUR 165,364 thousand. With an equity ratio of 63.4%, the Company has competitive capital resources, which ensures further growth.

On 21 December 2007, Baader Wertpapierhandelsbank AG concluded a master contract, which was pending on the balance sheet date, as well as various agreements (software licensing, project agreement, software maintenance agreement, data centre agreement, deposit agreement) for the full implementation of a core banking software system by 31 December 2008 with total investments of EUR 11.7 million. Once the system is put into service at the start of 2009, additional costs of EUR 9.4 million will be incurred within a period of 10 years. To finance the investments in the new core banking software, a software lease was concluded on 1 February 2008 for a maximum financing amount of EUR 11.0 million. The lease is for 36 months, beginning on 1 January 2009. The investments and expenses incurred until the end of 2008 will be funded by means of bridging finance.

4. Financial position

The Group's liquidity was guaranteed at all times during the period under review. At the balance sheet date, cash reserves of EUR 3,273 thousand, short-term loans and advances to other banks of EUR 75,338 thousand, amounts due from customers of EUR 2,521 thousand as well as available-for-sale assets held for trading and bonds and debt securities of EUR 48,005 thousand offset current liabilities to other banks and customers as well as payment obligations relating to the acquisition of shares and capital increases of EUR 47,264 thousand. This results in a net balance-sheet liquidity surplus of EUR 81,873 thousand (previous year: EUR 83,794 thousand).

5. Supplemental report

Baader Wertpapierhandelsbank AG in Unterschleissheim, acquired Deutsche Börsenmakler GmbH (DBM), Frankfurt with retrospective effect from 1 January 2008.

As the leading order book management company in stock exchange fund trading, DBM holds around 60% of the market share in this area on the Frankfurt Stock Exchange, 30% on the Düsseldorf Stock Exchange and 100% on the Berlin Stock Exchange. Furthermore, DBM is the order book manager for securitised derivatives and shares on the Frankfurt Stock Exchange and order book manager for bonds on the Düsseldorf Stock Exchange. DBM also operates in the agency business for equities with national and international banks and is a leading provider of financial portals for bonds and funds.

As at 31 December 2007, DBM's equity amounted to around EUR 9.2 million and net profit for the period in 2007 totalled around EUR 5.4 million.

DBM is admitted to trading on all the main German stock exchanges and the Vienna Stock Exchange. It also participates in the electronic stock exchange system XETRA.

6. Declaration in accordance with section 312 of the AktG

In accordance with section 312 of the *Aktiengesetz* (AktG – German Public Companies Act), the Board of Directors prepared a dependent company report, which concludes with the following declaration:

"According to the circumstances known to the Board of Directors at the time when the legal transactions or other measures listed in the dependent company report were performed, Baader Wertpapierhandelsbank AG received appropriate consideration for such transactions or measures. The Bank was not adversely affected by any measures taken or not taken. All reportable transactions were resolved by the Board of Directors, approved by the Supervisory Board to the extent that this was required by the Articles of Association or the By-laws of Baader Wertpapierhandelsbank AG, and listed in this dependent company report".

7. Non-financial performance indicators

Employees

In the year under review, the number of staff employed by the Group at the balance sheet date rose slightly from 266 to 298 year-on-year. The Group's workforce comprises 80 female employees and 218 male employees who come from 12 countries.

The Baader Group places particular emphasis on the high level of qualifications and further education of its employees. In 2007, personnel activities focused on furthering qualified employees and junior management.

The Group constantly strives to increase its attractiveness to employees by offering additional social benefits to its staff. By establishing its own provident fund in 2005 – Baader Unterstützungskasse e.V. – the Group created an independent social organisation to be able to guarantee post-employment benefits within the context of occupational pension provision to all Group employees.

The Baader Group grants all employees voluntary financial support of EUR 10 thousand upon the birth of an own child. In 2007, a total of EUR 80 thousand was paid out.

The management would like to thank all employees for their dedication and the loyalty they demonstrated over the past financial year.

Environmental report

The services provided by Baader Wertpapierhandelsbank AG and its subsidiaries do not materially impact the environment in any way. The Company places great emphasis on conserving production resources (photocopiers, printers and other office equipment) and consumables. The new administrative building in Unterschleissheim was constructed and is managed in line with state-of-the-art ecological principles, particularly with regard to water, heat and air conditioning.

8. Branch report

Baader Wertpapierhandelsbank AG's administrative centre is located in Unterschleissheim. In addition, the Company operates branches in Dortmund, Frankfurt and Stuttgart.

9. Compensation report pursuant to section 289 (1) no. 5 of the *Handelsgesetzbuch* (HGB – German Commercial Code)

This compensation report explains the principles for setting the compensation of the Board of Directors and the Supervisory Board of Baader Wertpapierhandelsbank AG as well as the amounts involved and how they are structured. Furthermore, information is provided on the shares and stock options held by members of the Supervisory Board and Board of Directors and on transactions involving shares in Baader Wertpapierhandelsbank AG.

The General Meeting of Baader Wertpapierhandelsbank AG resolved as follows on 19 July 2006: "There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 HGB and section 314 I no. 6 lit. a clauses 5 to 9 HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements". As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the AktG.

Compensation of the Board of Directors

The Supervisory Board is responsible for setting the Board of Directors' compensation. When setting the compensation, account is taken of the size and activities of the Company, its financial and economic position and the levels of compensation plus the way in which they are structured at comparable companies. In addition, the responsibilities and contribution of the respective member of the Board of Directors is taken into consideration.

The compensation of the Board of Directors is performance-related; in financial year 2007 it was made up of four components: fixed compensation independent of performance (salary), a performance-related component (bonus), a component with a long-term incentive (share options) and a pension commitment (for two Board of Directors members).

The payment that is irrespective of achievement is paid monthly as salary.

The amount of the bonus is based on the Group's profit from ordinary activities. It amounts to between 0.4% and 1.2% of the profit from ordinary activities for individual members of the

Board of Directors. It is paid once the overall result for the year has been approved by the General Meeting. In addition to the bonus, there is the opportunity for individual members of the Board of Directors to be granted a special bonus for exceptional achievements.

The share based payment is effected through the issue of stock options in accordance with the conditions of the stock option plans approved by the General Meeting.

There are pension commitments for two members of the Board of Directors, for whom the amount of the pension benefit depends on age, length of service and salary. The old age pension will be paid if the member of the Board of Directors leaves after reaching retirement age. It is limited to a maximum of 60% of the fixed salary which the respective member of the Board of Directors received for the final calendar year before leaving the Company.

In the event of the employment relationship being terminated prematurely, the Board of Directors' contracts do not contain any explicit compensation commitment. However, compensation may be paid under an individual severance agreement.

In the event of a change of control, individual members of the Board of Directors are not entitled to cancel their contracts of employment and, correspondingly, they are not entitled to compensation.

For the 2007 financial year as a whole, total compensation for the members of the Board of Directors was as follows:

					2007	2006
Payment irrespective of achievement		Allocation to pension provision	Performance-related pay	Components offering long-term incentive		
Salary	Other 1)	Pension commitment 2)	Bonus	Stock options 3)	Total	Total
EUR	EUR	EUR	EUR	EUR	EUR	EUR
1,548,000.00	128,774.04	1,203,449.05	2,028,850.00	89,256.37	4,998,329.46	3,458,460.03

1) The compensation components listed in the "other" column mainly comprise cash value benefits from the provision of company cars, insurance subsidies and the consumption of subsidised meals in the staff restaurant.
2) The pension obligations (DBO) according to IAS/IFRS for active members of the Board of Directors amount to EUR 9,734,730 (previous year: EUR 7,847 thousand).
3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.4001 per share (previous year: EUR 0.9975 per share).

The performance-related remuneration is paid after completion of the 2007 annual financial statements by the Annual General Meeting of Baader Wertpapierhandelsbank AG.

A total of 63,750 stock options were issued to the Board of Directors in financial year 2007. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2006.

For financial year *)	2006	2005	2004	2003	2002	2001	2000	Total
Granted options	63,750	75,000	75,000	103,000	170,000	172,000	83,804	742,554
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	19,000	58,000	37,714	114.714
Exercised options	0	0	37,500	103,000	151,000	114,000	15,240	420,740
Outstanding options	63,750	75,000	37,500	0	0	0	30,850	207,100
Exercisable options	0	0	37,500	0	0	0	30,850	68,350
Residual term in months	76	65	53	41	28	16	4	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

Under section 15a of the *Wertpapierhandelsgesetz* (WpHG – Securities Trading Act), purchases and sales of Baader shares by members of the Board of Directors have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, notification was provided of one purchase (3,000 shares with a transaction value of EUR 13,200.00).

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH, Munich. No transactions were conducted between the two companies in the past year. The equity interest of Mr. Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). In addition, Uto Baader holds 137,512 shares privately. In total Mr Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owned more than 1% of the share capital of Baader Wertpapierhandelsbank AG as at 31 December 2007. As at 31 December 2007, members of the Board of Directors held a total of 31,013,468 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O (directors’ and officers’ liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Members of the Board of Directors require the consent of the Supervisory Board before they can accept secondary employment including the acceptance of Supervisory Board mandates for Group companies. This ensures that neither the time spent nor the compensation granted for this purpose leads to a conflict with their tasks for the Company.

If the secondary employment entails Supervisory Boards mandates or mandates for comparable controlling bodies, these are listed in the Notes and published on the Internet.

Compensation of the Supervisory Board

Compensation of the members of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank AG. Accordingly, the Supervisory

Board members receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives in the Supervisory Board receive stock options under the conditions of the stock option plans approved by the General Meeting, these benefits are the result of their position as employees of Baader Wertpapierhandelsbank AG and are independent of their work for the Supervisory Board.

For the 2007 financial year as a whole, total compensation for the members of the Supervisory Board was as follows:

		2007	2006
Fixed component	Variable component	Total	Total
EUR	EUR	EUR	EUR
150,000.00	239,737.72	389,737.72	322,125.00

The variable compensation component is paid after completion of the 2007 annual financial statements by the Annual General Meeting of Baader Wertpapierhandelsbank AG.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 4,000 stock options [1)] in financial year 2007. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2006.

For financial year *)	2006	2005	2004	2003	2002	2001	2000	Total
Granted options	4,000	2,440	2,640	2,800	4,000	5,200	1,590	22,670
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0	0		0
Exercised options	0	0	0	0	4,000	5,200	0	9,200
Outstanding options	4,000	2,440	2,640	2,800	0	0	1,590	13,470
Exercisable options	0	0	2,640	2,800	0	0	1,590	7,030
Residual term in months	76	65	53	41	28	16	4	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

[1)] The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2006, amounts to EUR 5,600.40 (previous year: EUR 2,433.90). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.4001 per share (previous year: EUR 0.9975 per share).

Under section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, a total of 2 sales (5,600 shares with a nominal value of EUR 30,160.00) by members of the Supervisory Board were reported.

As at 31 December 2007, no Supervisory Board member owned more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2007, the members of the Supervisory Board held a total of 7,600 shares in Baader Wertpapierhandelsbank AG.

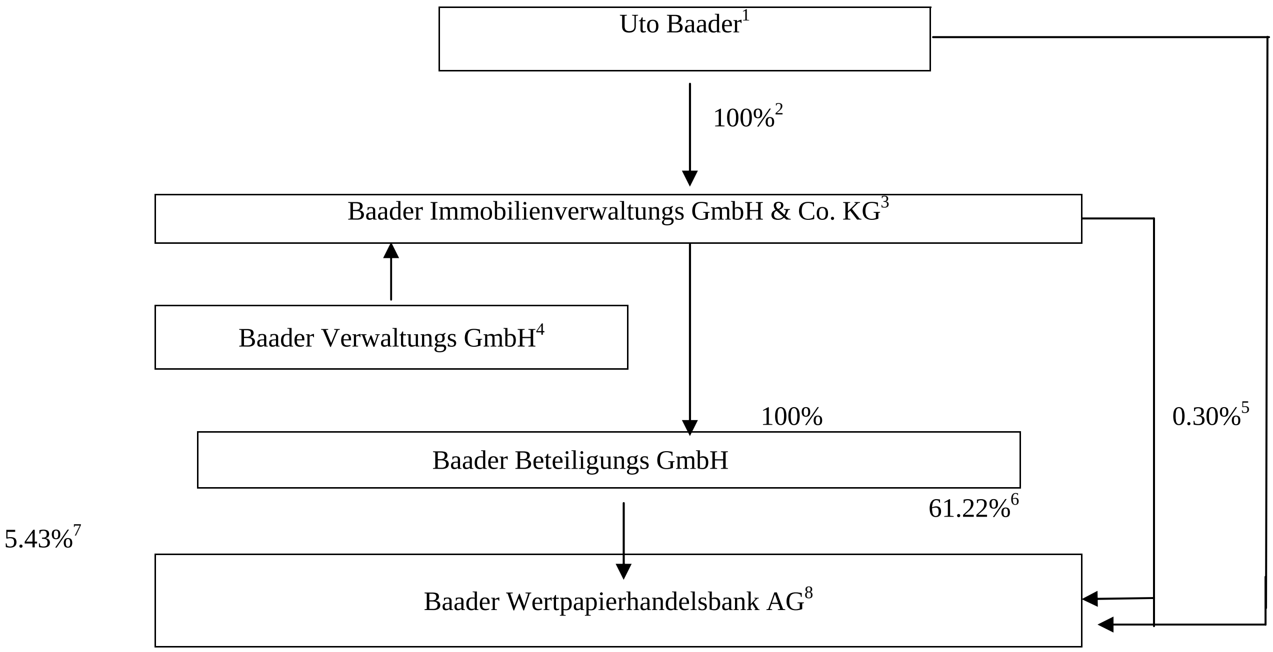
The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Supervisory Board for losses incurred in carrying out their work. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

10. Capital report pursuant to section 289 (4) of the HGB

1. As at 31 December 2007, the issued capital (share capital) amounted to EUR 45,908,682.00 and was divided into 45,908,682 no-par value bearer shares in accordance with section 23 (3) no. 5 of the AktG (shares in accordance with section 23 (3) no. 4 of the AktG). There are no other classes of shares.

2. The Board of Directors is not aware of any restrictions relating to voting rights or the transfer of shares.

3. There are the following direct or indirect stakes in the capital, which exceed 10% of the voting rights:



4. No shares with special rights have been issued.

5. There is no control over voting rights in the sense of section 289 (4) no. 5 of the HGB. The Company is not aware of any voting agreements between employee-shareholders either.

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[1] In total 66.95% of the voting rights in Baader Wertpapierhandelsbank AG are attributable to Mr Uto Baader.

(Mr Uto Baader and Mrs Hanne Baader hold 137,512 shares in their joint custodian account (as at: 1 July))

[2] Mr Uto Baader is the sole limited partner in Baader Immobilienverwaltungs GmbH & Co. KG.

[3] Baader Beratungs GmbH & Co. KG was merged with Baader Immobilienverwaltungs GmbH & Co. KG on 1 September 2006.

[4] Baader Verwaltungs GmbH is the personally liable shareholder in Baader Immobilienverwaltungs GmbH & Co. KG. Mr Uto Baader holds 100% of the shares in Baader Verwaltungs GmbH.

[5] Exercise of 20,000 stock options (0.09%) as per the tranche of 3 May 2002 at EUR 4.28 per share (as at: 11 April).

Exercise of 22,000 stock options (0.09%) as per the tranche of 25 April 2003 at EUR 2.24 per share (as at: 11 May).

Exercise of 7,620 stock options (0.03%) as per the tranche of 9 May 2001 at EUR 10.60 per share (as at 2 June).

Exercise of 3,436 stock options (0.02%) by Mrs Hanne Baader (joint custodian account with Uto Baader; as at 6 June)

Exercise of 31,400 stock options (0.07%) by Mr Uto Baader (30,000) and Mrs Hanne Baader (1,400); (as at 11 June)

[6] Baader Beteiligungs GmbH holds 28,104,000 shares in Baader Wertpapierhandelsbank AG (as at: 1 July).

[7] Capital increase against contributions in kind of nominal 2,492,788 shares (as at 9 January).

[8] Capital increase from corporate funds from EUR 22,954,341.00 to EUR 45,908,682.00 (as at: 8 June).

6. The statutory provisions on the appointment and dismissal of members of the Board of Directors and on amending the Articles of Association can be found in the AktG. There are no differing provisions contained in the Articles of Association.
7. The powers of the Board of Directors to issue shares result from the following resolutions by the General Meeting on 19 July 2006 and 26 June 2007 recorded in the Commercial Register:

a) Capital increases

aa) The share capital is increased on a contingent basis by up to a nominal EUR 1,200,000.00. This contingent capital increase will only be implemented by issuing up to 1,200,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG Stock Option Plan 1999 on the basis of the authorisation issued on 18 June 1999 exercise their options (Contingent Capital 1999).

bb) The share capital is increased on a contingent basis by up to a nominal EUR 600,000.00. This contingent capital increase will only be implemented by issuing up to 600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 2004 Stock Option Plan on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).

cc) The Company's share capital is increased on a contingent basis by up to EUR 10,000,000.00 by issuing up to 10,000,000 new bearer unit shares (Contingent Capital 2005). The contingent capital increase serves to grant rights to the holders or creditors of convertible bonds or of warrants from bonds with warrants issued up to 25 June 2012 on the basis of the General Meetings' resolution on 29 June 2005 and on 26 June 2007 by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest.

The new shares will be issued at the conversion or option price to be stipulated each time. The contingent capital increase is only to be carried out in as much as use will be made of these rights. The new shares carry dividend rights from the beginning of the financial year in which they are created by exercise of the conversion rights or options. The Board of Directors is authorised to stipulate the details of the contingent capital increase and its execution.

dd) The share capital is increased on a contingent basis by up to a nominal EUR 1,600,000.00. This contingent capital increase will only be implemented by issuing up to 1,600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 2006 Stock Option Plan on the basis of the authorisation issued on 19 July 2006 exercise their options (Contingent Capital 2007).

b) Authorisation to issue options

The Board of Directors is authorised to issue a maximum of 1,600,000 stock options and grant options to a maximum total of up to 1,600,000 shares to beneficiaries in a period starting at the end of financial year 2006 and expiring on 18 July 2010. For members of the Company's Board of Directors, the responsibility for granting options resides solely with the Supervisory Board.

The following applies to the issue of options as part of the stock option plan 2006:

(1) Beneficiaries and distribution of options

The beneficiaries consist of members of the Company’s Board of Directors and members of the management of companies, which are associated with the Company in the sense of section 18 of the AktG (Group companies), as well as other employees of the Company and its Group companies.

In this connection the options are to be distributed to the four groups of beneficiaries as follows:

a) Members of the Company's Board of Directors may be granted up to 256,000 options.

b) Employees of the Company may be granted up to 1,060,000 options.

c) Members of the management of Group companies may be granted up to 60,000 option rights in total.

d) Employees of Group companies may be granted up to 224,000 options in total.

e) Beneficiaries may not be granted multiple options on the grounds that they belong to several groups that are entitled to options. Members of the Company's Board of Directors and members of the management or Board of Directors of Group companies will only be granted options in their capacity as such.

(2) Options

Each stock option entitles the holder to purchase a bearer share in the Company with a share in the Company's share capital of EUR 1.00 each in return for payment of the exercise price as per paragraph (4). The new shares will be entitled to profit sharing from the beginning of the financial year in which they were issued. The subscription and acquisition conditions can provide for the Company granting the beneficiary own shares or a compensatory payment in whole or in part instead of new shares making use of the contingent capital.

(3) Issue of the stock options/term

The Stock Option Plan has a maximum term of four years; this means that stock options cannot be issued under the Company’s Stock Option Plan after 18 July 2010. The stock options may only be issued to beneficiaries by the Board of Directors once a year during the six-week period following the announcement of the profit for the past financial year. Stock options will be issued for the first time after the end of financial year 2006.

(4) Exercise price

The exercise price of a stock option corresponds to the average closing price of the Company's shares in floor trading on the Munich Stock Exchange during the ten trading days leading up to the second day prior to the start of the issue period for the stock options in question, but no less than the nominal value of one share of Baader Wertpapierhandelsbank AG. The issue period will start on the date on which the beneficiaries were first informed of the concrete offer to purchase stock options.

The subscription and acquisition conditions may provide for adjustments to the exercise price and/or subscription ratio in the event of measures that affect the value of the options. However, in each case the minimum exercise price is the lowest issue amount in the sense of section 9 (1) of the AktG.

(5) Performance targets

The options may only be exercised if

a) the closing price of shares in Baader Wertpapierhandelsbank AG in floor trading on the Munich Stock Exchange (market closing price) is more than 30% above the exercise price (absolute hurdle) and
b) on the last ten trading days prior to the options being exercised, the aggregate percentage performance of Baader Wertpapierhandelsbank AG's shares since the option's issue exceeds the percentage increase in the Prime All Share Index by at least 10% (relative hurdle) – the aggregate performance includes both share price performance and the value of cash dividends, subscription rights from capital increases and other special rights between the option's issue date and its exercise date – and
c) they do not expire prior to the exercise notice being submitted as a result of a condition attached to the options.

The performance targets may not be changed at a later date.

(6) Lock-up period

The options may only be exercised after a lock-up period of two years from their respective issue date. The issue date is the last date on which the beneficiary can accept the concrete offer to acquire stock options.

(7) Exercise period

Once the lock-up period has expired, the stock options may be exercised during the following five years in accordance with paragraph (3) subject to paragraph (5), in each case within a four-week period following publication of the Company's quarterly results (Q1, Q2, and Q3) and if the Company has published provisional figures for the past financial year – four weeks after publication of figures of this kind (exercise window). At the end of the term (a maximum of seven years from the issue date), the options will expire and will not be replaced.

Despite the existence of the lock-up period, the options may not be exercised in the following periods:
- before the General Meetings of the Company the period between the beginning of the last day for submission of evidence of share ownership (section 123 (3) of the AktG) and the end of the third banking day following the General Meeting;
- in a period of 15 calendar days before the end of the Company’s financial year;
- in a period from the day on which the Company publishes an offer to subscribe to new shares or bonds with conversion or option rights in the official organ for publication of a German stock exchange, on which shares in Baader Wertpapierhandelsbank AG’s shares are traded, until the end of the date (inclusive in both cases) on which shares in Baader Wertpapierhandelsbank AG are first listed “ex rights” on the stock exchange in question.
If individual days or the entire exercise period falls within a blocking period, the days for exercising will be postponed to a corresponding number of days immediately after the end of the lock-up period.

(8) Non-transferability/employment relationship

The options are not transferable but can only be exercised by the beneficiaries. In the event of a beneficiary's death, they may only be inherited by the spouse or children of the beneficiary.

The options may only be exercised if the holder of the options is in an ongoing employment relationship with the Company. Notwithstanding this, options for which the two year lock-up period has already expired at the time the statement giving notice is received (or in cases where the end of the employment relationship is not caused by notice being given – at the time the employment relationship ends) may only be exercised by the holder, taking account of the possible periods, in the next exercise period. These options will lapse with the end of the last possible exercise period if they have not be exercised by this date. Options for which the lock-up period has not yet expired at the time the statement giving notice is received (or in cases where the end of the employment relationship is not caused by the giving of notice – at the time the employment relationship ends) will lapse on this date.

(9) Further subscription and acquisition conditions:

The details relating to the granting of stock options and additional exercise conditions are set by the Supervisory Board if members of the Company's Board of Directors are affected. Otherwise the responsibility for setting these details resides with the Company’s Board of Directors. In particular, the details include the selection of individual beneficiaries from the respective group of beneficiaries, the granting of options to individual beneficiaries, the determination of the execution and the procedure for handling the exercise of the options and the issue of the shares, as well as the regulations for dealing with options in special cases.

c) Buyback of own shares

aa) The Company is authorised in accordance with section 71 (1) no. 7 of the AktG to buy and sell own shares for the purposes of securities trading at prices, which do not exceed or fall short of the average closing price for the shares in floor trading on the Frankfurt Stock Exchange on the 3 preceding trading days by more than 10% up to 25 December 2008.

The holdings of own shares acquired for this purpose may not exceed 5% of the Company's share capital.

bb) The Company is also authorised in accordance with section 71 (1) no. 8 of the AktG to acquire the Company's shares, in particular, to
- be able to offer them to third parties as part of the acquisition of companies or stakes in companies,
- offer shares for subscription to the beneficiaries under the Stock Option Plans 1999, 2004 and 2006 of Baader Wertpapierhandelsbank AG in accordance with the authorisations granted by the General Meetings on 18 June 1999, 14 July 2004 and 19 July 2006 of Baader Wertpapierhandelsbank AG or
- withdraw them.

The authorisation is limited to the acquisition of own shares up to a maximum of 10% of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, in order to pursue one or more of the stated goals. The authorisation is valid until 25 December 2008.

The shares will be acquired via the stock exchange. The price paid by Baader Wertpapierhandelsbank AG per share may not exceed the average closing price for the no-par value shares of Baader Wertpapierhandelsbank AG in floor trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares by more than 5% (excluding acquisition costs).

The Board of Directors is authorised, with the approval of the Supervisory Board, to offer shares of Baader Wertpapierhandelsbank AG, that were acquired as a result of this authorisation, to third parties when companies, parts of companies or equity interests or assets are acquired – including by means of all-share deals – and in the event of business combinations.

The Board of Directors is authorised, subject to the agreement of the Supervisory Board, to offer the Company’s own shares, which were acquired on the basis of this authorisation, to holders of options for acquisition as part of the 1999, 2004 and 2006 Stock Option Plans resolved by the General Meeting.

The subscription right of shareholders to these own shares is excluded to the extent that these shares are used in accordance with the above-mentioned authorisations.

The Board of Directors is also authorised, with the approval of the Supervisory Board, to withdraw treasury shares of Baader Wertpapierhandelsbank AG that are purchased as a result of this authorisation without a further resolution by the General Meeting being required for such withdrawal or its implementation. The authorisation to withdraw shares may be exercised in full or in part.

8. There are no material agreements by the Company in accordance with section 289 (4) no. 8 of the HGB.

9. Compensation agreements in the sense of section 289 (4) no. 9 of the HGB have not been reached.

11. Risk Report

1. Principles for risk management

Last year, Baader took further steps to make itself more independent from the cyclical stock broker business and also to continue its expansion in international markets. The primary aim is to widen the business base, diversifying the high-income business segments. The income base is due to be widened, particularly through the increase in the investment in the Indian financial services provider Parsoli, the establishment of a broker in Oman and the setup of the MiFIS (Markets in Financial Instruments Services) division, which specialises in implementation of the MiFiD.

Generating earnings in banking is generally not possible without entering into risks. The term *risk* therefore implies a possibility that the bank's future economic situation could develop negatively. The core elements of the success-oriented governance of the Baader Group therefore involve conscious handling, active management and ongoing identification and monitoring of risks. As the parent institution, Baader Wertpapierhandelsbank AG is responsible for establishing a risk control system throughout the Group, which complies with the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) issued by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – the German Financial Supervisory Authority). In this context, special care is taken to ensure that the various business activities are suitably backed with equity.

2. Risk bearing capacity

With this basic conviction as a starting point, the Group's management is regularly provided with an overview of the forms that all the risks take within the Group based on the MaRisk. This basis guarantees that the Group's risk hedging potential covers all the material risks at all times, thus ensuring the risk bearing capacity required. Of the risk types identified within the Group, the following risks can be considered material: credit risks, replacement risks, advance payment risks, investment risks, market price risks, operational risks and business risks.

At least once a year, the Risk Control department of the Group's parent company calculates the risk bearing capacity of the Baader Group for the coming financial year. In so doing, the capital tied up in various balance sheet items is deducted based on the liable equity under supervisory regulations while financially available reserves are added. Building on this, the risk capital is calculated by deducting expected losses arising from the individual risk types. This risk capital is the maximum amount available to cover unexpected losses within the Group and forms the basis for the risk limits. The risk capital is also distributed across the individual banks within the Group. In turn, these banks also calculate the risk capital available divided into the individual risk types while consulting the Risk Control department of the Group's parent company.[8]

The limits are established by the respective management of the individual bank by way of resolution passed with a majority. They may also be adjusted over the year if the business activity and / or result of operations make this necessary.

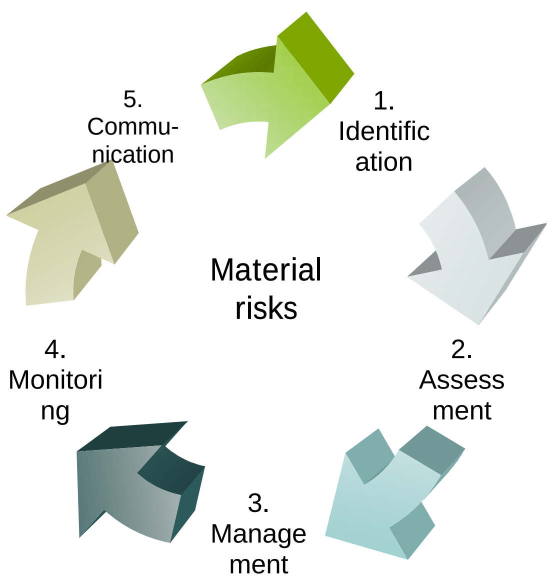
[8] Risk control within the Baader Group is organised locally, i.e. monitoring is at individual bank level. The risk control department of the Group's parent company defines the methods and procedures as well as monitoring at Group level.

3. Business and risk strategy

At the end of each financial year, the business strategy for the coming financial year is determined in a strategy meeting of the Group's management and the effects of this on the risk strategy are discussed. The objectives and plans of the main business activities laid down in the business strategy are taken into account here. The Risk Control department of the Group's parent company calculates the risk capital available for the coming financial year in the manner described above and examines the risk strategy with regard to this. The business and risk strategy, the allocation of the risk capital across the individual risk types and business segments and the limits for the following financial year are adopted as part of a resolution.

4. Internal control system

The internal control system required in accordance with the MaRisk is divided into structural and process organisation as well as risk management and risk control processes; an integral part of the structural and process organisation is the separation of functions. This ensures that activities which are incompatible with each other are carried out by different employees. For example, risk control activities are strictly separated from units that bear position responsibility. The separation of functions is guaranteed in the Group up to and including Group management level and also applies in deputising cases. Furthermore, Baader has set up suitable risk management and control processes which guarantee identification, assessment, management and monitoring and communication of material risks within the Group in line with the MaRisk. These processes ensure that material risks are identified in good time, completely recorded and presented in an appropriate manner. In addition, these processes are regularly reviewed and adapted to changing conditions in a timely manner.



- **Identification** of new risks is taken into account in an "Activities in new products and markets" project which is launched by the initiating division. In so doing, the relevant business segments examine the planned activities and identify the relevant risk content. Existing activities are reviewed on an ongoing basis.
- **Assessment** of risks is carried out using detailed analyses in risk control, which then develops a concept for managing and monitoring these risks.

- A sophisticated limit system and ongoing **monitoring** of the risks make **management** possible for the trading systems.
- **Communication** is in the form of daily reports and timely notifications of limits being exceeded to the trading officers and Group management.

Brief descriptions of the identified risk types are presented below:

Counterparty default risks

A distinction is made in counterparty default risks between credit risks, counterparty and issuer risks, country risks and investment risks.

Within the Group only Baader Service Bank GmbH performs lending business as defined by section 1 (1) no. 2 of the *Kreditwesengesetz* (KWG – German Banking Act). This guarantees customers a low volume of (non-genuine) loans against collateral in listed securities, the lending value of which is stated very conservatively. Taking account of the collateral, the credit risk is therefore to be classified as very low overall. The following table shows lending exposure as at 31 December 2007:

	Total credit exposure EUR million	**Drawdowns EUR million**	**Unutilised loan commitments EUR million**	**Evaluated collateral EUR million**	**90 days or more overdue as % of total exposure**
Private customers	9.13	1.31	7.82	6.43	0.00%
of which employees	1.58	1.03	0.55	-	0.00%
Corporate customers	7.18	0.04	7.14	2.50	0.00%
TOTAL	**16.31**	**1.35**	**14.96**	**8.93**	

Only money market deposits at banks are made within the Group as part of the lending business. Money market facilities exist at the Bank for such transactions based on either external credit ratings or internal credit checks with the corresponding credit decisions. Credit checks are carried out using an internal rating procedure.

When trades are settled, a counterparty risk can arise if a trading partner fails to fulfil all his or her obligations. A distinction must be made between the replacement risk in the event of default of a counterparty and the resulting inability to settle transactions that have been concluded as well as the advance payment risk that can arise from transactions not settled as delivery versus payment (DVP) transactions. As a rule, all transactions conducted by the Bank are settled as delivery versus payment transactions, so no replacement risks arise here.

The only exception to this is the settlement of promissory note loan transactions or the brokerage of promissory note loans where Baader is the counterparty in the purchase sales agreement. Since the payments in the case of these transactions are "free of delivery", i.e. payment and transfer of the instrument do not occur concurrently, Baader is subject to counterparty risk in the sense of an advance payment risk. In accordance with the MaRisk, a suitable limit is allocated for each counterparty with which transactions entailing advance payment risks are conducted depending on the credit rating of the business partner. The transaction conducted is then weighted against the respective limit of the counterparty.

Market price risks

Market risk is the risk of a fluctuation in the value of a given item due to changes in market prices, e.g. share prices, exchange rates, interest rates and volatility.

At the end of the year, the following risk positions with the following market values were held in EUR million in the trading book:

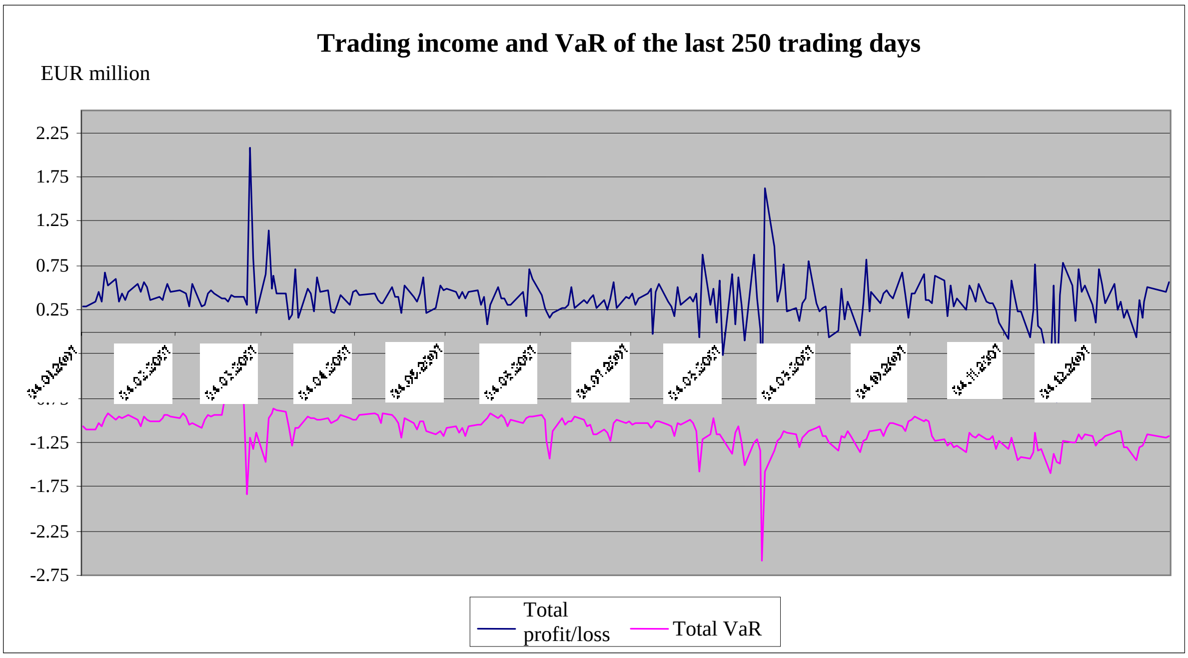
CASH MARKET		**FORWARD MARKET**	
Equities	26.67	Options	0.00
Bonds	5.56	Futures	-2.04
Funds, index and fund-like certificates	27.08	Swaps	6.58
Securitised derivatives	2.98		

Market price risks are measured using a value-at-risk (VaR) model based on Monte Carlo simulations (generally a one-day holding period and a confidence level of 99%). The input risk parameters are determined using a variance-covariance matrix based on the Bank's own historical summaries, which are exponentially weighted.

In past years, the following VaR values were calculated in EUR million:

Value-at-Risk of the trading segments	2007	2006	2005	2004	2003
Year-end VaR	1.32	0.78	0.83	0.74	0.65
Minimum VaR	1.11	0.68	0.51	0.70	0.41
Maximum VaR	2.73	2.84	1.46	1.73	1.48
Average VaR	1.36	1.19	0.84	1.04	1.12

In accordance with the MaRisk, the quality of our VaR model is constantly reviewed using the ratio of the VaR figures to the change in the position's market value based on actual price changes as part of backtesting (clean backtesting). Furthermore, the model is reviewed based on dirty backtesting. In so doing, the actual generated earnings are compared with the VaR figures of the trading segments. The graph below shows this comparison for the last 250 trading days (EUR million):



In addition, the risk situation is analysed by means of worst case scenarios with extraordinary market price changes for the individual segments. In order to minimise risk, a limit system taking the business and risk strategy and risk capital into account was established. The limits were reduced by any losses and apply throughout the day and overnight. The respective head of the business segment is responsible for managing the position and the risk control department of the Group parent is responsible for monitoring throughout the Group. Any limits exceeded are reported to Group management as part of daily reporting. In turn, the risk control department is responsible for daily monitoring and communication of the limit drawdowns.

As part of implementing the *Solvabilitätsverordnung* (SolvV – Solvency Ordinance), the notifications adapted to the new provisions were supplied to the supervisory authorities for the Baader Group as at 31 December 2007. The first-time recognition of the operational risk and the amended rule regarding calculation of the capital charge for the net interest position due to the flat capital charge for investment units under section 307 (1) clauses 1 and 2 of the SolvV result in a deterioration of the regulatory overall capital ratio in accordance with the SolvV to 24.0% (previously in accordance with Principle I: 43.4%).

Liquidity risks

Liquidity risks may occur due to insufficient liquidity on the part of trading products or the Bank itself.

For example, securities with varying market liquidities exist. Low or non-existent market liquidity in individual trading products means that transactions in these products – both to establish and to close out positions – are impacted or impossible. In order to counter this risk, analyses are prepared by the risk control department at regular intervals and communicated to the heads of the business segments concerned. They serve as a basis for deciding on the measures required.

As part of short-term liquidity management, the Cash Management department of the Group parent secures payment obligations. The medium- to long-term liquidity surplus is calculated regularly and is used to manage excess liquidity and as a basis for investment decisions. Short-term liquidity requirements are secured by corresponding loans and advances to other banks which are payable on demand and by various credit lines. Based on detailed liquidity plans prepared monthly, medium- to long-term liquidity requirements are more than sufficiently covered, even if one of the assumed worst case scenarios becomes a reality. Consequently, liquidity risk at Baader is considered an *immaterial* risk.

Operational risks

Operational risk is the danger of losses that occur as a result of the inadequacy or failure of internal procedures, people and systems or of external events. This also includes legal risks. Strategic and reputation risks are excluded.

The risk potential is evaluated, i.e. operational risks are identified and assessed, by the Risk Control department of the Group's parent using questionnaires to be filled out every six months by the operational risk managers. The findings from the information collected are first presented to the Baader Security Committee for discussion and to the Group management in the MaRisk report as part of the monthly report. If necessary, the Group management commissions the Security Committee to examine the measures and then decides how to implement them.

Along with filling in the questionnaires, it is the operational risk manager's responsibility to report any losses that occur from operational risks. An intranet application in which losses that have occurred can be recorded is available for this purpose. Significant losses are immediately analysed with regard to their causes. The findings from this are reported on a quarterly basis in the MaRisk report. In financial year 2007, losses totalling EUR 980 thousand were reported. The highest individual loss here was EUR 350 thousand and can be classified under the Basel II category *Customers, products and business practices*.

The BaFin established the case for compensation at Phoenix Kapitaldienst GmbH on 15 March 2005. As part of the compensation process, the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensatory Fund of Securities Trading Companies) is checking whether and to what extent investors are entitled to compensation. According to section 4 (2) of the *Einlagensicherungs- und Anlegerentschädigungsgesetz* (EAEG – German Deposit Guarantee and Investor Compensation Act) the amount of each investor's compensation amounts to 90% of his claims under securities transactions up to a maximum of EUR 20,000.00. The EdW's funds must be raised by its members through annual contributions and special contributions (section 8 of the EAEG).

On 19 April 2007, the creditors of Phoenix Kapitaldienst GmbH accepted the insolvency plan proposed by the receiver with a majority. The insolvency plan regulates the conditions for distributing the insolvency assets available in the amount of EUR 230 million. The plan provides for EUR 200 million being distributed initially (insolvency dividend of 30%). In its decision of 29 October 2007, Frankfurt (am Main) Regional Court granted the appeal of a major creditor against the insolvency plan in the first instance. The receiver announced that it would be appealing against this.

In its appeal, the major creditor claims that a large portion of the insolvency assets (around EUR 162 million from a total of around EUR 230 million) constitute trust assets and thus should not be distributed amongst the investors as provided for in the resolved insolvency plan but paid out directly to the investors with the right to separate their property from the insolvent estate. Until the issue of right of separation is clarified, EdW says that it is not possible to firmly establish the compensation claims of all the investors.

To finance the partial compensation of investors planned, the EdW sent notices of special contribution to its members in the middle of December 2007. As shown in the notice of special contribution, the EdW expects that it will require financing of EUR 28.7 million in the 2008 phase of the proceedings. Baader Wertpapierhandelsbank AG lodged an objection against the special contribution within the required deadline but recognised the special contribution as a liability in their 2007 annual financial statements and accordingly made use of the existing provision.

The amount of financing required for later phases in the compensation process depends on information from the EdW, particularly the actual compensation amounts, the time it will take to process the claims and any court rulings on the right of separation claims of the investors against the receiver and the damage claims of the EdW against third parties.

As things currently stand, Baader Wertpapierhandelsbank AG still expects compensation of approximately EUR 180 to EUR 200 million to be paid by EdW. For the risk from further recourse in the compensation process and also in line with the amount of the special notice for the compensation to be paid, the Group companies concerned remeasured the provision they had recognised in their 2007 annual financial statements based on information available to them at the time and reduced it to EUR 8,833 thousand.

At the end of the year, no significant ongoing or potential legal disputes involving material financial risks were known.

Business risk

Business risk describes the uncertainty that accompanies operation of a business. Compared with financial risks such as liquidity or market price risk, it is more dependent on qualitative factors that set the parameters for the future finance risk and can be subdivided into industry features, competitive position and management quality. Business risk is countered in the business strategy and the responsible action of the management. In accordance with BaFin’s risk management requirements and MaRisk, the Group management defines a business strategy and a risk strategy consistent with these goals and plans, taking the risk bearing capacity into account, for the coming financial year.

12. Forecast

Strategy and outlook

Over the past year, Baader Wertpapierhandelsbank AG has expanded its position as a leading securities trading bank and the largest stock broker in Germany. As a company that aspires to set benchmarks in securities trading and related transactions, Baader Wertpapierhandelsbank AG has been successfully pursuing the strategy for several years to offer additional or related services to its core competences of securities trading and thus to generate new income fields.

It is still Baader’s declared aim to increase the number of order books related to equities and its market share of German stock markets. This can be achieved by increasing the number of secondary listings and by taking over order books related to equities or brokerage houses. To counter the pressure on margins in stock market trading, options for reducing trading and settlement costs are constantly evaluated.

Falling margins, substantial investment expenses and requirements by the supervisory authorities will lead to increasing competitive and consolidation pressures within the European financial services sector. It is expected that the process of concentration amongst stock exchanges, trading platforms and financial institutions will continue at a national and European level over the next few years. Baader Wertpapierhandelsbank AG is well prepared to actively help shape this development.

Under the conditions of a continued high degree of fluctuation on the market and an ongoing high return difference between default-encumbered and risk-free bonds (credit spreads), bond trading can be expected to profit from this environment. If the market uncertainty surrounding banks continues, this would also benefit the area.

As a result of the national implementation of the EU’s MiFID and the related conditions, the pressure on small and medium-sized financial institutions in particular have increased. The value added chains in securities trading will break up as a consequence. The MiFIS division of Baader Wertpapierhandelsbank AG offers these financial institutions a MiFID-compliant service with the aim of generating additional orders. An increase is expected here in 2008, mainly from the cross-selling effects with the best execution services offered. Further positive stimuli are expected due to synergies from the international investments.

The competitive and price pressures affecting issue business will further increase. The Bank will counter this trend by expanding its distribution channels and increasing its qualitative lead in its existing network. The value added chain is to be expanded at the same time with new products and markets being added.

In order to participate in economically up-and-coming regions, Baader Wertpapierhandelsbank AG is in the process of also growing beyond national borders in its core business areas. In selecting its target countries, it focuses on economic potential, legal stability, the ability to integrate in both cultural and linguistic terms and well as the development status of financial markets. Furthermore, Baader Wertpapierhandelsbank AG always carefully weighs up to what extent the target countries have the potential to develop from a very promising niche into a veritable market. At the same time, Baader Wertpapierhandelsbank AG must be able to offer genuine additional benefits in the respective target countries.

Through Parsoli Corporation Ltd., Mumbai (India), Baader Wertpapierhandelsbank AG is in the process of setting up and developing trading links and the institutional brokerage business. The sale of a fund compliant with Shari’ah law (First Islamic India Fund) which has now been approved by the BaFin is set to be launched in 2008.

In addition to the Indian growth market, Baader Wertpapierhandelsbank AG is focusing its attention on countries in the Gulf region. The investment in Gulf Baader Capital Markets S.A.O.C., Muscat (Oman) provides Baader Wertpapierhandelsbank AG with the opportunity to gain access to the capital markets in the Gulf states and consequently provide a broader basis for additional growth outside Germany.

Overall, Baader Wertpapierhandelsbank AG expects 2008 to be a difficult year on the stock markets which will be marked by high volatility. High volatility can be expected to become normality more and more. Since 2003, European and Asian markets have taken an upward course almost without any setbacks. Against this backdrop, the consolidation which has set in has been interpreted in many cases as a warning signal due to its swiftness, but a look at the upward trend over the last five years shows that a setback was long overdue for the market to healthily develop further. It was rather surprising just how strongly the stock markets were able to brace themselves against the mortgage crisis in the USA for a long time.

Baader Wertpapierhandelsbank AG has been pursuing a strategy for several years of optimising and further developing the range of its own business areas. The establishment last year of the business areas Securitised Derivatives and Institutional Bond Business clearly show this. By expanding the range of offers which always develop from the core competency of securities trading, the Bank is increasingly succeeding in “hedging” itself against market fluctuations. Based on the conditions described, it will be more difficult to boost operating income in 2008 than in the previous year. The subsidiaries’ areas of business, which are largely independent of the core business of Baader Wertpapierhandelsbank AG, will compensate for this by contributing towards making the Group’s earnings less susceptible to fluctuations in the securities markets.

Growth in interest and fee and commission income is primarily determined by the subsidiaries' areas of business and should lead to another increase in net fee and commission income. It will be more difficult to lift net trading income. It is expected that the high income generated in 2007 from available-for-sale financial instruments and equity-accounted investments will not be possible again in 2008.

Baader Wertpapierhandelsbank AG and its subsidiaries will continue to pay attention to maintaining their efficient administrative structures. Coverage of the continuously increased demands placed by the range of services will lead to strengthening of the organisation which is likely to secure further systematic implementation of the corporate strategy. For this reason, a substantial rise in administrative expenses is expected overall for 2008.

While there are certain risks for financial year 2009 which are primarily due to the consequences of the US mortgage crisis, stable growth is expected for the world economy in 2009. Thanks to their positive development, the growth regions in Asia and South America in particular will be in a position to stabilise the global economy. Under these conditions it will also be possible to increase income for 2009, with the contribution to earnings of the subsidiaries becoming increasingly important.

On the costs side, it is expected that the staff levels and infrastructures developed in 2007 and 2008 are sufficient for the medium-term development of Group companies and will also cover the next few years’ growth efficiently and professionally. In this respect, Baader Wertpapierhandelsbank AG again expects that administrative expenses will also rise more slowly than income in 2009.

Unterschleissheim, 29 February 2008

Baader Wertpapierhandelsbank AG
Board of Directors

Uto Baader	Dieter Brichmann	
Stefan Hock	Christopher Schütz	Dieter Silmen

Report of the Supervisory Board

In the past financial year, the Supervisory Board performed the duties incumbent upon it in accordance with the law and the Articles of Association. It was regularly informed by the Board of Directors about the position of Baader Wertpapierhandelsbank AG and the Group and monitored and supported the work of the Board of Directors. In so doing, the Board of Directors informed the Supervisory Board in written and oral reports about the business policy, fundamental issues of future management, financial position and strategic further development, risk situation and risk management as well as key business transactions of the Bank in a timely manner and consulted with it on these subjects. Deviations in the course of business and earnings performance from plans and targets were explained in detail and examined by the Supervisory Board. The Supervisory Board was included in decisions of major importance.

The Supervisory Board was also intensively involved in creating the strategy to generate additional income, the restructuring of existing business segments and the start of new activities. In addition, the Board of Directors regularly informed the Supervisory Board in its monthly reports about key financial performance indicators and the risk situation of Baader Wertpapierhandelsbank AG and the Group. The subjects of regular advice were corporate figures, changes in the earnings and employees of the Group and its subsidiaries as well as the performance of all business segments. Where required by law or the provisions of the Company's Articles of Association or By-laws, the Supervisory Board approved individual transactions requiring its consent, after thorough examination and discussion.

Five meetings of the Supervisory Board were held during the year under review. The key focus of the discussions between the Board of Directors and the Supervisory Board was the Group's organisational and strategic direction, with intensive support being lent to the expansion of strategic interests at home and abroad in particular. Other topics included the positioning of Baader Wertpapierhandelsbank AG, its financial performance and that of its subsidiaries, key business events and the latest changes on the stock market. The Supervisory Board was also informed between meetings about major projects. Where necessary, resolutions were passed in written form.

The Chairman of the Supervisory Board was also informed about important decisions and key business transactions in regular discussions with the Board of Directors. The minutes of the Board of Directors' meetings were made available to him in a timely manner.

The Supervisory Board regularly discusses corporate governance issues and has generally acknowledged the recommendations of the German Corporate Governance Code. In its meeting of 14 December 2007, the Supervisory Board, together with the Board of Directors, issued an updated Declaration of Compliance as required under section 161 of the Aktiengesetz (AktG – German Public Companies Act) and explained the deviations from the recommendations of the German Corporate Governance Code. This declaration is reproduced in the Annual Report and is available on Baader Wertpapierhandelsbank AG's website.

In its meeting of 14 December 2007, the Supervisory Board conducted a test of the efficiency of its own activities; the result was positive. The Supervisory Board is also of the firm opinion that in the past financial year Baader Wertpapierhandelsbank AG fulfilled the recommendations of the Corporate Governance Code in accordance with its Declaration of

Compliance of December 2006. No conflicts of interest relating to the members of the Supervisory Board occurred in the year under review.

The annual financial statements and management report of Baader Wertpapierhandelsbank AG for the year ended 31 December 2007 and the consolidated financial statements and the Group management report for the year ended 31 December 2007 were audited by Clostermann & Jasper Partnerschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen – the auditor elected by the General Meeting – and issued with an unqualified audit opinion. The consolidated financial statements and Group management report were prepared in line with section 315a of the Handelsgesetzbuch (HGB – German Commercial Code), based on the IFRS international accounting standards as they are to be applied in the EU. The auditor conducted the audit in line with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany) and additionally observed the International Standards on Auditing (ISA).

All members of the Supervisory Board were sent the documents relating to the annual financial statements, the auditors' reports and the proposal on utilisation of the unappropriated surplus by the Board of Directors in good time. In its meeting held today to discuss the annual results, the Supervisory Board carefully examined the annual financial statements and management report of Baader Wertpapierhandelsbank AG presented by the Board of Directors as well as the consolidated financial statements, together with the Group management report and the dependent company report, including the audit report. The audit reports were available to all members of the Supervisory Board and were treated in detail in today's Supervisory Board meeting in the presence of the auditor, who reported on significant events of his audit. During the meeting, the Board of Directors of Baader Wertpapierhandelsbank AG and the Group outlined the financial statements and the risk management system and presented the scope and focus of the audit. The Supervisory Board concurred with the auditors' findings. Following the conclusion of its examination, the Supervisory Board did not raise any objections.

In accordance with section 312 of the AktG, the Board of Directors prepared a dependent company report. The auditor Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen audited the dependent company report in accordance with the legal provisions and issued the following unqualified audit opinion: "We have duly examined the dependent company report and confirm that 1. the representations contained therein are correct, 2. the considerations agreed by the Company in the legal transactions mentioned in the report were not unreasonably high, 3. the measures mentioned in the report do not indicate any circumstances for a substantially different assessment than that made by the Board of Directors."

The Supervisory Board approved the 2007 annual and consolidated financial statements prepared by the Board of Directors in its meeting today. The 2007 annual financial statements have therefore been adopted. The Supervisory Board agrees with the proposal of the Board of Directors to distribute a dividend of EUR 0.25 per no par-value share carrying dividend rights from the unappropriated surplus, to transfer EUR 21.0 million to other retained earnings and to carry the remaining amount forward to new account.

In 2007, the Supervisory Board resolved the appointment of Uto Baader for another five years and of Stefan Hock for another three years.

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

Unterschleissheim, 27 March 2008

The Supervisory Board

Dr Horst Schiessl
Chairman

Corporate Governance Report

In accordance with item 3.10 of the German Corporate Governance Code, the Board of Directors – also reporting on behalf of the Supervisory Board – states the following with regard to corporate governance in the Baader Group:

The Baader Group places great emphasis on open and clear corporate communication. It has constantly orientated itself towards the standards of good and responsible corporate management to acknowledge and build up the trust of its investors, the financial markets, its business partners and its employees.

Declaration of Compliance in accordance with section 161 of the *Aktiengesetz* (AktG – German Public Companies Act)

The Board of Directors and Supervisory Board of Baader Wertpapierhandelsbank AG declare in accordance with section 161 of the AktG for 2007 that the Company complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code published on 4 July 2003 by the Federal Ministry of Justice in the official section of the electronic *Bundesanzeiger* (Federal Gazette) in the versions dated 2 June 2005, 12 June 2006 and 14 June 2007 with the following exceptions:

1) The following is laid down under item 3.8 (2) of the German Corporate Governance Code: "If the company takes out a D&O (directors and officers' liability insurance) policy for the Board of Directors and Supervisory Board, a suitable deductible shall be agreed."

   In April 2004, Baader Wertpapierhandelsbank AG concluded a suitable D&O insurance policy for the executive bodies and senior executives of the Company. A deductible was not agreed.

2) Section 4.2.3 (3) of the German Corporate Governance Code, stipulates the following in relation to the variable remuneration of the members of the Board of Directors: "In particular, company shares with a multi-year blocking period, share options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Share options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed upon by the Supervisory Board."

   In the General Meeting on 19 July 2006, a stock option plan was approved for members of the Board of Directors and Baader Wertpapierhandelsbank AG employees. This is a variable compensation system in accordance with the German Corporate Governance Code, with one exception. The Company has rejected the possibility of a cap on income in the case of share options, as this does not correspond to the incentive goals of a variable compensation system.

3) Section 5.3.2 of the German Corporate Governance Code stipulates the following: "The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting of risk management and compliance, the necessary independence

required of the auditor, the determination of auditing focal points and the fee agreement."

After the General Meeting in 2004, the Supervisory Board dissolved the Audit Committee set up in December 2002. The Supervisory Board found that the Committee performed its work successfully, but that in view of the size of the Supervisory Board, a special committee was not reasonable with regard to the costs and effort involved.

4) Section 5.3.3 of the German Corporate Governance Code stipulates the following: "The Supervisory Board shall form a Nomination Committee composed exclusively of representatives of the shareholders and which will nominate suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting."

   In view of the size of the Supervisory Board, a special Nomination Committee is not reasonable with regard to the costs and effort involved.

5) Section 5.4.7 (last section) of the German Corporate Governance Code stipulates the following: "The compensation of the members of the Supervisory Board shall be reported in the Corporate Governance Report, subdivided according to components."

   Baader Wertpapierhandelsbank AG reports the compensation of the members of the Supervisory Board in the Notes to its Annual Financial Statements and in the Corporate Governance Report according to fixed and performance-related components. It does not intend to report them on an individual basis, as the Company sees no benefit in this practice.

6) Section 7.1.2 of the German Corporate Governance Code stipulates the following: "The Consolidated Financial Statements will be prepared by the Board of Directors and examined by the auditor and the Supervisory Board. In Addition, the competent supervisory body i.e. the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Financial Supervisory Authority) is authorised to ascertain whether the Consolidated Financial Statements are in accordance with the relevant accounting regulations (enforcement). The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period."
   Baader Wertpapierhandelsbank AG's shares are listed in the regulated market in the Prime Standard on the Frankfurt Stock Exchange. The Frankfurt Stock Exchange rules and regulations stipulate a period of four months for the publication of the Consolidated Financial Statements, and a period of two months for the publication of the interim reports. These periods are complied with. To comply with earlier periods above and beyond this would entail inappropriate organisational effort.

Board of Directors
The Supervisory Board

Management and corporate structure; Board of Directors and Supervisory Board working together

The Baader Group is a securities trading bank headquartered in Unterschleissheim, near Munich. The corporate and management structures are mainly based on German public company law, capital market law, the Articles of Association and the German Corporate Governance Code. As a German public company, the Company has the two-tier management and supervisory structure common under public company law. The Board of Directors is responsible for managing the Company itself. The Supervisory Board appoints, advises and supervises the Board of Directors. The management of the individual Group companies are responsible for their own business and performance. They regularly report to the Board of Directors of Baader Wertpapierhandelsbank AG and are also monitored by their supervisory committees, in which members of the Board of Directors of Baader Wertpapierhandelsbank AG are also represented.

The Board of Directors and the Supervisory Board work together closely for the good of the Company; their joint goal is to increase its enterprise value. The Board of Directors regularly reports to the Supervisory Board in a timely manner, providing extensive details on all issues relevant to corporate planning and strategic further development, about the course of business and the Group’s position, including its risk position. The By-laws of the Board of Directors stipulate that the Supervisory Board has a right of veto in important cases (see also Report of the Supervisory Board).

The Company maintains D&O insurance for the members of the Board of Directors and the Supervisory Board. It is concluded for a period of one year and is extended annually. The insurance covers the personal liability risk in the event that claims are filed against the members of the Board of Directors or the Supervisory Board for financial loss arising when the members exercise their management and supervisory function. No deductible as defined by the German Corporate Governance Code was agreed (see also Declaration of Compliance).

Transparency

Investors, analysts and the public are equally and promptly informed. Financial calendars, annual and interim reports, ad hoc disclosures and all other relevant information are available in German and in English on the website. With regard to compliance, an insider list is maintained in which all persons with access to insider information are entered. In addition to the insider rules, we have issued internal instructions which govern trading with the Company’s securities for all employees. In accordance with this, transactions in these securities are only permitted during a two-week time period following publication of the Company’s figures with the approval of the Compliance Officer. These times are announced on the Baader intranet in each case.

Directors’ Dealings

In accordance with section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), all members of the Board of Directors and of the Supervisory Board as well as specific employees with management duties and related parties must disclose the acquisition and the sale of Baader shares and financial instruments relating to these. All transactions disclosed are listed on our website in the annual document. The following notifications were received by 31 December 2007:

On 25 July 2007, the Chairman Christopher Schütz purchased 3,000 Baader shares at €4.40 and on 21 February and 22 February 2007, the employee representative on the Supervisory Board Thomas Wiegelmann purchased 2,000 Baader shares at €5.36 and 3,600 Baader shares at €5.40.

The Chairman of the Board of Directors holds 66.95% of the shares issued by the Company (section 6.6 of the German Corporate Governance Code). The number of shares held by the Board of Directors and Supervisory Board members is listed in the Management Report.

General Meeting

The General Meeting has been organised and held for many years on the condition that all shareholders are informed extensively and efficiently in detail before and during the General Meeting to make it easier for them to exercise their rights. For instance, the registration and proof of identification procedure for the General Meeting was changed over to the record date as early as 2006. Shareholders who do not personally attend the General Meeting can have their voting right exercised by means of a proxy, e.g. by a credit institution or an association of shareholders. We offer our shareholders a proxy bound by instructions and appointed by the Company to be authorised before the General Meeting.

Supervisory Board

The term of the current Supervisory Board ends with the close of the 2008 General Meeting. In the year under review, there were no changes in the Supervisory Board. In 2002, the Supervisory Board dissolved an investment committee after the Company decided to give up the investment business. An audit committee established in 2002 – the aim of which was mainly to deal with issues relating to accounting, risk management, commissioning the auditor, its required independence, the fee agreed with it and the focal points of its audit – was again dissolved in 2004. The Supervisory Board found that the committee performed its work successfully, but that in view of the size of the Supervisory Board, a special committee was not reasonable with regard to the costs and effort involved. The entire Supervisory Board has again assumed the activities of the committee.

Compensation report pursuant to section 289 (1) no. 5 of the *Handelsgesetzbuch* (HGB – German Commercial Code)

This compensation report explains the principles for setting the compensation of the Board of Directors and the Supervisory Board of Baader Wertpapierhandelsbank AG as well as the amounts involved and how they are structured. Furthermore, information is provided on the shares and share options held by members of the Supervisory Board and Board of Directors and on transactions involving shares in Baader Wertpapierhandelsbank AG.

The General Meeting of Baader Wertpapierhandelsbank AG resolved as follows on 19 July 2006: “There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 of the HGB and section 314 I no. 6 lit. a clauses 5 to 9 of the HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements.” As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the AktG.
Compensation of the Board of Directors

The Supervisory Board is responsible for setting the Board of Directors' compensation. When setting the compensation, account is taken of the size and activities of the Company, its financial and economic position and the levels of compensation plus the way in which they are structured at comparable companies. In addition, the responsibilities and contribution of the respective member of the Board of Directors is taken into consideration.

The compensation of the Board of Directors is performance-related; in financial year 2007 it was made up of four components: fixed compensation independent of performance (salary), a performance-related component (bonus), a component with a long-term incentive (share options) and a pension commitment (for two Board of Directors members).

The payment that is irrespective of achievement is paid monthly as salary.

The amount of the bonus is based on the Group's profit from ordinary activities. It amounts to between 0.4% and 1.2% of the profit from ordinary activities for individual members of the Board of Directors. It is paid once the overall result for the year has been approved by the General Meeting. In addition to the bonus, there is the opportunity for individual members of the Board of Directors to be granted a special bonus for exceptional achievements.

The share based payment is effected through the issue of share options in accordance with the conditions of the share option plans approved by the General Meeting.

There are pension commitments for two members of the Board of Directors, for whom the amount of the pension benefit depends on age, length of service and salary. The old age pension will be paid if the member of the Board of Directors leaves after reaching retirement age. It is limited to a maximum of 60% of the fixed salary which the respective member of the Board of Directors received for the final calendar year before leaving the Company.

In the event of the employment relationship being terminated prematurely, the Board of Directors' contracts do not contain any explicit compensation commitment. However, compensation may be paid under an individual severance agreement.

In the event of a change of control, individual members of the Board of Directors are not entitled to cancel their contracts of employment and, correspondingly, they are not entitled to compensation.

For the 2007 financial year as a whole, total remuneration for the members of the Board of Directors was as follows:

						2007	2006
Performance-independent remuneration		Allocation Pension provision	Performance- -related remuneration	Components with long-term incentive			
Salary	Other [1])	Pension commitment	Bonus	Share options [3])	Total	Total
€	€	€	€	€	€	€
1,548,000.00	128,774.04	1,203,449.05	2,028,850.00	89,256.37	4,998,329.46	3,458,460.03

1) The compensation components listed in the *Other* column mainly comprise cash value benefits from the provision of company cars, insurance contributions and the consumption of subsidised meals in the staff restaurant.
2) The pension obligations (DBO) according to IAS/IFRS for active members of the Board of Directors amount to EUR 9,734,730 (previous year: EUR 7,847 thousand).
3) The monetary value of stock options was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.4001 per share (previous year: EUR 0.9975 per share).

The performance-related remuneration is paid after completion of the 2007 annual financial statements by the General Meeting of Baader Wertpapierhandelsbank AG.

A total of 63,750 share options were issued to the Board of Directors in financial year 2007. The following table shows changes in members of the Board of Directors' share options for financial years 2000 to 2006.

For financial year *)	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**Total**
Granted options	63,750	75,000	75,000	103,000	170,000	172,000	83,804	742,554
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	19,000	58,000	37,714	114,714
Exercised options	0	0	37,500	103,000	151,000	114,000	15,240	420,740
Outstanding options	63,750	75,000	37,500	0	0	0	30,850	207,100
Exercisable options	0	0	37,500	0	0	0	30,850	68,350
Residual term in months	76	65	53	41	28	16	4	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

Under section 15a of the WpHG, purchases and sales of Baader shares by members of the Board of Directors have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, notification was provided of one purchase (3,000 shares with a transaction value of EUR 13,200.00).

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH, Munich. No transactions were conducted between the two companies in the past year. The equity interest of Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). In addition, Uto Baader holds 137,512 shares privately. In total, Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owns more than 1% of the share capital of Baader Wertpapierhandelsbank AG as of 31 December 2007. As at 31 December 2007, members of the Board of Directors held a total of 31,013,468 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Members of the Board of Directors require the consent of the Supervisory Board before they can accept secondary employment including the acceptance of Supervisory Board mandates for Group companies. This ensures that neither the time spent nor the compensation granted for this purpose leads to a conflict with their tasks for the Company.

If the secondary employment entails Supervisory Boards mandates or mandates for comparable controlling bodies, these are listed in the Notes and published on the Internet.

Compensation of the Supervisory Board

Compensation of the members of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank AG. Accordingly, the Supervisory Board members receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The members of the Supervisory Board do not receive any share options or other share-based compensation for their Supervisory Board activities. If employee representatives in the Supervisory Board receive share options under the conditions of the share option plans approved by the General Meeting, these benefits are the result of their position as employees of Baader Wertpapierhandelsbank AG and are independent of their work for the Supervisory Board.

For the 2007 financial year as a whole, total remuneration for the members of the Supervisory Board was as follows:

		2007	2006
Fixed remuneration component	Variable remuneration component	Total	Total
€	€	€	€
150,000.00	239,737.72	389,737.72	322,125.00

The variable remuneration component is paid after completion of the 2007 annual financial statements by the General Meeting of Baader Wertpapierhandelsbank AG.

As employees of the Company, the employee representatives in the Supervisory Board received a total of 4,000 share options [1)] in financial year 2007. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2006.

For financial year *)	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**Total**
Granted options	4,000	2,440	2,640	2,800	4,000	5,200	1,590	22,670
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0	0		0
Exercised options	0	0	0	0	4,000	5,200	0	9,200
Outstanding options	4,000	2,440	2,640	2,800	0	0	1,590	13,470
Exercisable options	0	0	2,640	2,800	0	0	1,590	7,030
Residual term in months	76	65	53	41	28	16	4	

*) Under the rules of the scheme, allocation only takes place in the year following the financial year

1) The monetary value of the share options of employee representatives in the Supervisory Board, who received share options as the Company's employees in 2006, amounts to EUR 5,600.40 (previous year: EUR 2,433.90). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.4001 per share (previous year: EUR 0.9975 per share).

Under section 15a of the WpHG, purchases and sales of Baader shares by members of the Supervisory Board have to be reported and published. The Company publishes these transactions on its Internet website. In the financial year, a total of 2 sales (5,600 shares with a nominal value of EUR 30,160.00) by a member of the employee representatives on the Supervisory Board were reported.

As at 31 December 2007, no Supervisory Board member owned more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2007, the members of the Supervisory Board held a total of 7,600 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Supervisory Board for losses incurred in carrying out their work. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

Risk management

Generating earnings in banking is generally not possible without entering into risks. The term *risk* therefore implies a possibility that the bank's future economic situation could develop negatively. The core elements of the success-orientated governance of the Baader Group therefore involve conscious handling, active management and ongoing identification and monitoring of risks. As the parent institution, Baader Wertpapierhandelsbank AG is responsible for establishing a risk control system throughout the Group, which complies with the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) issued by the BaFin that have been applicable since 20 December 2005. In this context, special care is taken with regard to the Company that the various business activities are suitably backed with equity.

Auditor

The consolidated financial statements were prepared in accordance with International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) and also audited by the auditor of the financial statements in accordance with the International Standards on Auditing (ISAs). The legally stipulated single-entity financial statements of Baader Wertpapierhandelsbank, which are also important for the taxation and the dividend payment, are prepared in accordance with the provisions of the HGB. The Supervisory Board noted the statement of independence presented to it.
The Supervisory Board obliged the auditor elected by the General Meeting to inform it of any reasons for exclusion or grounds for bias that may arise during the audit and cannot be eliminated immediately. Furthermore, the auditor should also report immediately on all findings and events material to the duties of the Supervisory Board that may arise during the audit. The auditor must inform the Supervisory Board and note in the audit report if facts are established during the course of the audit which are not consistent with the Declaration of Compliance issued by the Board of Directors and the Supervisory Board in accordance with section 161 of the AktG.

In accordance with section 312 of the AktG, the Board of Directors prepared a dependent company report. The auditor Clostermann & Jasper Partnerschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, audited the dependent company report in accordance with the legal provisions and issued an unqualified audit opinion.

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Baader Wertpapierhandelsbank AG
Unterschleissheim
Consolidated Balance Sheet (IAS) for the period ended 31 December 2007

Assets		Notes	31 Dec. 2007 EUR	31 Dec. 2006 EUR thousand
1.	Cash reserve	(7, 25)	3.272.772,85	485
2.	Loans and advances to other banks	(8, 26)	75.337.744,11	63.439
3.	Loans and advances to customers	(8, 27)	2.521.622,00	13.057
4.	Allowance for losses on loans and advances	(9, 28)	-61.982,99	-110
5.	Assets held for trading	(11, 29)	47.626.785,41	49.013
6.	Available-for-sale financial instruments	(12, 30)	9.303.603,37	23.268
7.	Equity-accounted investments	(31)	38.215.649,51	11.789
8.	Property and equipment	(13, 32)	20.846.049,17	21.498
9.	Intangible assets	(14, 33)	12.513.227,09	17.412
10.	Goodwill	(3, 15, 34)	4.600.345,06	4.160
11.	Income tax assets	(35)	12.070.729,84	11.627
12.	Other assets	(36)	11.251.594,58	6.375
13.	Deferred tax assets	(37)	23.376.535,52	25.576
	Total assets		260.874.675,52	247.589

Equity & Liabilities		Notes	31 Dec. 2007 EUR	31 Dec. 2006 EUR thousand
1.	Deposits from other banks	(17, 38)	19.751.144,10	26.444
2.	Due to customers	(17, 39)	41.429.736,51	31.999
3.	Liabilities held for trading	(18, 40)	0,00	35
4.	Provisions	(19, 20, 41)	17.313.494,29	19.457
5.	Provisions for income taxes	(21, 42)	2.560.172,93	1.641
6.	Other liabilities and provisions	(43)	12.722.979,86	11.550
7.	Deferred tax liabilities	(21, 44)	1.732.739,11	3.837
8.	Equity	(23, 24, 45, 46, 47)	165.364.408,72	152.626
	a) Issued capital	(45)	45.502.738,00	45.493
	b) Share premium	(45)	60.903.955,41	60.978
	c) Retained earnings	(45)	23.570.000,00	8.000
	d) Revaluation reserve	(12, 45)	1.227.280,69	6.126
	e) Currency translation reserve	(45)	-9.669,76	-1
	f) Consolidated net profit	(45)	32.761.903,53	30.668
	Total before minority interest		163.956.207,87	151.264
	g) Minority interest		1.408.200,85	1.362
	Total equity & liabilities		260.874.675,52	247.589

Baader Wertpapierhandelsbank AG
Unterschleissheim
Consolidated Income Statement for the period from 1 January 2007 – 31 December 2007

Income Statement	Notes	EUR	2007 EUR	2006 EUR thousand
1. Interest income	(50)	2.833.090,85		1.429
2. Interest expense	(50)	-1.147.102,10		-878
3. Net interest income	(50)		1.685.988,75	551
4. Allowance for losses on loans and advances	(9, 51)		199,52	-62
5. Net interest income after allowance for losses on loans an advances			1.686.188,27	489
6. Fee and commission income	(52)	62.848.030,33		51.135
7. Fee and commission expense	(52)	-16.310.905,56		-14.289
8. Net fee and commission income	(52)		46.537.124,77	36.846
9. Net trading income	(5, 53)		52.019.150,42	49.721
10. Net income from available-for-sale financial instruments	(5, 54)		3.887.378,37	6.006
11. Net income from companies carried at equity	(55)		3.789.928,36	6.248
12. Administrative expenses	(24, 56)		-75.626.945,51	-63.157
13. Profit from operations			32.292.824,68	36.153
14. Other operating income	(57)		4.067.328,67	2.042
15. Other operating expenses	(57)		-1.135.791,19	-12.678
16. Profit from ordinary activities			35.224.362,16	25.517
17. Income taxes on profit from ordinary activities	(21,58)		-6.251.559,59	5.135
18. Net profit for the period before minority interest			28.972.802,57	30.652
19. Minority interest in net profit			56.764,54	-80
20. Net profit for the period			29.029.567,11	30.572
21. Profit carryforward from the previous year			3.732.336,42	96
22. Consolidated net profit			32.761.903,53	30.668

			2007 EUR	2006 EUR
Basic / diluted Earnings per share	(59)		0,64	0,67

Statement of changes in equity

	Issued capital	Share premium	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net profit	Total before minority interests	Minority interests	Equity
Equity as at 31 Dec. 2005	**22,601,984.00**	**83,473,389.09**	**0.00**	**8,686,706.38**	**0.00**	**12,194,811.07**	**126,956,890.54**	**133,038.31**	**127,089,928.85**
Consolidated net profit						30,571,771.54	30,571,771.54		30,571,771.54
Transfer to retained earnings			8,000,000.00			-8,000,000.00	0.00		0.00
Gains/losses								80.508,42	80,508.42
Net changes in the revaluation reserve				-2,561,228.43			-2,561,228.43	-274.17	-2,561,502.60
Net changes in the currency reserve					-736.70		-736.70		-736.70
Comprehensive net profit for 2006			**8,000,000.00**	**-2,561,228.43**	**-736.70**	**22,571,771.54**	**28,009,806.41**	**80.234.25**	**28,090,040.66**
Capital increases	22,954,341.00	-22,954,341.00					0.00		0.00
Change in treasury shares	-62,921.00	458,607.06					395,686.06		395,686.06
Gains/losses from the previous year								-79.962.50	-79,962.50
Dividends paid						-4,086,296.86	-4,086,296.86		-4,086,296.86
Changes in consolidated companies/other changes		-46,916.79				-12,383.53	-12,383.53	1,229,131.67	1,216,748.14
Equity as at 31 Dec. 2006	**45,493,404.00**	**60,977,655.15**	**8,000,000.00**	**6,125,477.95**	**-736.70**	**30,667,902.22**	**151,263,702.62**	**1,362,441.73**	**152,626,144.35**

Equity as at 31 Dec. 2006	**45,493,404.00**	**60,977,655.15**	**8,000,000.00**	**6,125,477.95**	**-736.70**	**30,667,902.22**	**151,263,702.62**	**1,362,441.73**	**152,626,144.35**
Consolidated net profit						29,029,567.11	29,029,567.11		29,029,567.11
Transfer to retained earnings			15,570,000.00			-15,570,000.00	0.00		0.00
Gains/losses								-56,764.54	-56,764.54
Net changes in the revaluation reserve				-4,898,197.26			-4,898,197.26		-4,898,197.26
Net changes in the currency reserve					-8,933.06		-8,933.06		-8,933.06
Comprehensive net profit for 2007			**15,570,000.00**	**-4,898,197.26**	**-8,933.06**	**13,459,567.11**	**24,122,436.79**	**-56,764.54**	**24,065,672.25**
Capital increases		301,187.56					301,187.56	370,874.94	672,062.50
Change in treasury shares	9,334.00	-133,207.51					-123,873.51		-123,873.51
Dividends paid						-11,365,565.80	-11,365,565.80		-11,365,565.80
Changes in consolidated companies/other changes		-241,679.79					-241,679.79	-268,351.28	-510,031.07
Equity as at 31 Dec. 2007	**45,502,738.00**	**60,903,955.41**	**23,570,000.00**	**1,227,280.69**	**-9,669.76**	**32,761,903.53**	**163,956,207.87**	**1,408,200.85**	**165,364,408.72**

As at 31 December 2006, the issued capital of Baader Wertpapierhandelsbank AG amounted to EUR 45,908,682.00 and was divided into 45,908,682 no-par value shares in accordance with the Articles of Association. After deduction of the 405,944 shares held on 31 December 2007, the issued capital recognised amounted to EUR 45,502,738.00. No use was made during the financial year of the authorisation by the General Meeting on 26 June 2007 to acquire treasury shares for securities trading purposes in accordance with section 71 (1) no. 7 of the *Aktiengesetz* (AktG – German Public Companies Act). Use was made in financial year 2007 of the General Meeting resolution on 26 June 2007 to authorise the acquisition of treasury shares in accordance with section 71 (1) no. 8 of the AktG for purposes other than securities trading.

Cash Flow Statement

			2007 EUR thousand	2006 EUR thousand
1.		**Net profit for the period (including minority interest in net profit)**	**29,030**	**30,572**
2.		Depreciation, write-downs and reversals of write-downs on loans and advances, property and equipment, and investment securities	5,248	1,048
3.		Change in provisions	-2,143	12,512
4.		Other non-cash income/expense	-249	6,681
5.		Gains/losses on disposal of property and equipment and investment securities	-4,848	192
6.		Other adjustments (net)	-140	401
7.	**=**	**Subtotal**	**26,898**	**51,406**
8.		Loans and advances		
		Loans and advances to other banks	-11,899	-39,382
		Loans and advances to customers	10,487	-10,053
9.		Securities (excluding investment securities)	-14,339	-7,808
10.		Other operating assets	-3,121	-10,337
11.		Liabilities		
		Deposits from other banks	-6,693	-5,300
		Due to customers	9,431	15,088
12.		Other operating liabilities	-13	4,654
13.		Interest and dividends received	5,521	2,561
14.		Interest paid	-961	-1,071
15.		Income taxes paid	-4,363	-1,846
16.	**=**	**Net cash from operating activities**	**10,948**	**8,566**
17.		Proceeds from disposals		
		Disposals of investment securities	9,518	0
		Disposals of property and equipment	15	41
18.		Payments for investing activities		
		Payments to acquire investment securities	-4,063	-5,212
		Payments to acquire property and equipment	-585	-336
		Payments to acquire intangible assets	-898	-1,710
19.		Payments to acquire consolidated companies and other business units	-700	0
20.	**=**	**Net cash from/used in investing activities**	**3,287**	**-7,217**
21.		Proceeds from additions to equity	1,025	0
22.		Dividends paid	-12,472	-4,086
23.		Other payments	0	636
24.	**=**	**Net cash used in financing activities**	**-11,447**	**-3,450**
25.		Net change in cash and cash equivalents (total of 16, 21, 24)	2,788	-2,101
26.		Effect of exchange rate changes and changes in Group structure on cash and cash equivalents	0	0
27.		Cash and cash equivalents at beginning of period	485	2,586
28.	=	Cash and cash equivalents at end of period	3,273	485
		Composition of cash and cash equivalents at 31 December		
		Cash reserve	3,273	485

The cash flow statement presents the composition of, and changes in, cash and cash equivalents during the financial year. It is classified by cash flows from operating, investing and financing activities. The objective of this classification is to illustrate how cash and cash equivalents are generated in the Group and used in the financial year.

Cash flows from operating activities relate to all transactions that cannot be directly attributed to investing and financing activities. The transactions presented here result in particular from the Group's operating business. Payments (inflows and outflows) from loans and advances to other banks and to customers as well as securities held for trading and other assets are all reported here. Inflows and outflows from deposits from other banks and amounts due to customers and other liabilities are also considered operating activities. All interest and dividend payments are also reflected in the net cash from operating activities item.

Cash flows from investing activities illustrate the application of funds in the Group. They provide information on how cash and cash equivalents are used to generate future performance and profit. The transactions presented here relate to cash flows for investment securities and investments as well as for property and equipment and payments to acquire subsidiaries.

Cash flows from financing activities represent all payments relating to equity and shareholders. Distributed dividends are also shown here.

Cash and cash equivalents are composed exclusively of the cash reserve, which comprises cash in hand and deposits with the Deutsche Bundesbank (cf. Note 25). The item does not include loans and advances to other banks which are payable on demand.

The informative value of the cash flow statement can be regarded as small for banks. For us, the cash flow statement neither replaces liquidity/financial planning nor is it employed as a management instrument.

NOTES

INFORMATION ON THE COMPANY

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www.baaderbank.de
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The Company is registered in the commercial register of Munich Local Court under the number HRB 121537.

Purpose of the reporting entity

The purpose of the Company is the provision of securities services, in particular

- the underwriting of financial instruments at its own risk for placement, or the assumption of equivalent guarantees (issue business)
- the arrangement of transactions for the acquisition and sale of financial instruments or their documentation (investment brokerage),
- the acquisition and sale of financial instruments in the name and for the account of third parties (trade brokerage),
- the acquisition and sale of financial instruments by way of proprietary trading for third parties (proprietary trading) and
- the acquisition and sale of financial instruments in its own name for the account of third parties (financial commission business).

The Company is entitled to undertake all measures and transactions designed to promote its purpose. These also include the establishment of branches and other companies, and investments in such branches and companies in Germany and other countries.

As a result of the consolidation of the subsidiary Baader Service Bank GmbH in the consolidated financial statements, the Group also operates a lending business as well as a deposit-taking and custody business within the meaning of section 1 of the *Kreditwesengesetz* (KWG – German Banking Act).

BASIS OF CONSOLIDATED ACCOUNTING

The consolidated financial statements of Baader Wertpapierhandelsbank AG as at 31 December 2007 were prepared in compliance with Directives 83/349/EEC (Group Accounts Directive) and 86/635/EEC (Bank Accounts Directive), and in accordance with the International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) and issued and published by the International Accounting Standards Board (IASB), as interpreted by the International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee (SIC).

In accordance with section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council from 19 July 2002, the IASs/IFRSs have been mandatory for all capital market-oriented companies within the European Union since 1 January 2005. An overview of the standards applied can be found over the next few pages.

The compliance required with the Bank Accounts Directive was satisfied through the corresponding breakdown of the items in the balance sheet, income statement and the notes. The consolidated financial statements are based on the standards issued by the *Deutscher Standardisierungsrat* (DSR – German Standardisation Committee) and published by the German Ministry of Justice in accordance with section 342 (2) of the HGB, particularly those that contain special provisions for banks. An overview of the standards applied can also be found over the next few pages.

In addition to the consolidated balance sheet and consolidated income statement, the consolidated financial statements contain a statement of changes in equity, a cash flow statement and the notes as additional components. Segment reporting is presented in the notes.

The Group management report fulfils the requirements of section 315 of the HGB. In accordance with section 315 of the HGB, it also includes a risk report, a remuneration report and an equity report.

All amounts in the accompanying financial statements are reported in euros, unless stated otherwise.

The balance sheet date is 31 December 2007. The financial year is the calendar year.

Accounting policies

(1) Principles

The consolidated financial statements for the year ended 31 December 2007 have been prepared on a going-concern basis. Income and expenses are accrued. They are recognised and recorded in the period to which they relate.

Accounting in financial year 2007 – as in previous years – was performed on the basis of IAS 39 and the various classification and measurement principles established by this provision. To comply with the various rules of this standard, financial assets and financial liabilities were divided into the following categories:

1. Loans and receivables
2. Held-to-maturity financial assets
3. Assets held for trading (financial assets held for trading)
4. Available-for-sale financial instruments (financial assets available for sale)
5. Other financial liabilities

The detailed provisions relating to the accounting of hedging relationships are applied to derivative hedging instruments (for further explanation, see note 6).

In order to meet the extended disclosures required under IFRS 7 for financial instruments, the financial instruments were further classified for the first time in financial year 2007:

1. Financial instruments measured at amortised cost
2. Financial instruments measured at fair value through profit/loss
3. Financial instruments measured at fair value through equity
4. Financial instruments that do not fall under IFRS 7.

Accounting in the Baader Group is performed on the basis of uniform accounting policies in accordance with IAS 27. All fully-consolidated companies prepared their single-entity financial statements as at the balance sheet date of 31 December 2007.

If estimates or assessments are required for reporting and measurement under IASs/IFRSs, they were carried out in accordance with the respective standards. They are based on past experience and other factors such as planning and – based on current judgement – likely expectations or forecasts of future events.

We used the same accounting policies as in the consolidated financial statements for the year ended 31 December 2006.

(2) Standards applied

The Baader Group uses all the standards applicable at the balance sheet date in its accounting. Except for German Accounting Standard (GAS) 17, amendments to standards which do not apply until financial year 2008 were not observed in these financial statements.

The consolidated financial statements for the year ended 31 December 2007 are based on the IASB framework and on the following relevant IASs/IFRSs:

IAS 1	Presentation of Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 12	Income taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated Financial Statements in Accordance with IFRSs
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosures and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-Based Payment
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures

The standards that were not observed were either irrelevant for the consolidated financial statements or did not have to be applied.

In financial year 2007, none of the applicable interpretations of the SIC or IRFIC were relevant in the end and thus did not have to be observed.

The adoption of DRÄS 3 by the *Deutscher Standardisierungsrat* (DSR – German Standardisation Committee) and announcement of it in the *Bundesanzeiger* (German Federal Gazette) on 31 August 2005 meant that the German Accounting Standards (GASs) were amended such that they do not have to be applied if the consolidated financial statements are prepared in accordance with international accounting standards in the sense of section 315a of the HGB. Exceptions to this rule are GAS 15 Management Reporting and the supplementary GAS 5 (Risk Reporting) or GAS 5-10 (Risk Reporting by Financial Institutions and Financial Service Institutions) which we have taken into account in our consolidated financial statements.

The following GASs which were adopted by the DSR and published by the Federal Ministry of Justice in accordance with section 342 (2) of the HGB were also taken into account in the Group as they contain more extensive provisions for financial institutions and financial service institutions:

GAS 2-10	Cash Flow Statements of Financial Institutions
GAS 3-10	Segment Reporting for Banks
GAS 17 Near Final Standard	Reporting on Executive Body Remuneration

(3) Basis of consolidation

In addition to the parent company Baader Wertpapierhandelsbank AG, six subsidiaries (previous year: six) in which Baader Wertpapierhandelsbank AG holds a direct or indirect interest of more than 50% are included in the consolidated financial statements as at 31 December 2007. Of these companies, five are headquartered in Germany and one is headquartered abroad. There are no subsidiaries or associates that are immaterial for transparency of the Group's net assets, financial position and result of operations.

The following companies are fully consolidated:

Company	Headquarters		Equity interest	Share capital	Equity	Total assets	Net profit/ loss for the period	First-time consolidat-ion
Baader Management AG	Unterschleissheim	EUR thousand	100.0%	50	49	49	0.1	31 December 2003
Baader Service Bank GmbH	Unterschleissheim	EUR thousand	100.0%	6,000	10,735	53,649	465	30 September 2004
Baader Heins & Seitz Capital Management AG	Unterschleissheim	EUR thousand	70.0%	50	368	905	188	1 January 2005
Conservative Concept Portfolio Management AG	Bad Homburg	EUR thousand	55.36%	140	1,786	2,654	-104	1 October 2006
direcct AG	Bad Homburg	EUR thousand	100% ¹)	66	616	2,065	381	1 October 2006
Conservative Concept AG	Zug, Switzerland	EUR thousand	99.99% ¹)	63	513	1,163	339	1 October 2006

The company information is based on the respective IFRS single-entity financial statements.

¹) The shares in direcct AG, Bad Homburg and in Conservative Concept AG, Zug, Switzerland, are held indirectly via the investment in CCPM AG. The figures of CC AG were translated (EUR/CHF 1.6547).

On 18 July 2007, Baader Wertpapierhandelsbank AG increased its participation in the subsidiary Conservative Concept Portfolio Management AG (CCPM), Bad Homburg, by 10.75% to 55.36% through the acquisition of an interest from another shareholder. The voting agreement concluded with two other shareholders of CCPM as at 1 October 2006 was rescinded with effect from 1 August 2007 since the voting right majority and thus control of CCPM arises from the capital majority.

The cumulative costs for this gradual acquisition as part of full consolidation, which has already taken place, amounted to EUR 700 thousand and increased the carrying amount of the interest to EUR 3,369 thousand. There were no material effects when the assets and liabilities already reported were remeasured. Following settlement of the costs of acquisition with the proportionate shareholders' equity and the purchase price allocation, the remaining difference led to an increase in the goodwill of EUR 441 thousand to EUR 2,019 thousand.

The indirect investment in direcct AG was increased in the year under review from 96.43% to 100%. This acquisition, which does not fall under IFRS 3, was presented as a transaction with minority shareholders. The expenses were charged directly to equity. On 11 December 2007, the Extraordinary General Meeting of direcct AG decided to increase the share capital by EUR 199,403.88 from EUR 66,467.94 to EUR 265,871.82 by issuing 78,000 new bearer shares. With the subscription right of CCPM AG – the sole shareholder to date – disapplied, Baader Wertpapierhandelsbank AG was the only party to subscribe to the new shares, which carry dividend rights from 1 January 2008, at an issue price of EUR 17.91 per share. Following entry of the capital increase in 2008, the direct share of Baader Wertpapierhandelsbank AG rose to 75% while the direct share of CCPM AG increased accordingly to 25%.

Overall and in accordance with the *Investmentgesetz* (InvG – German Investment Act), three companies (previous year: two companies) and interests in five special funds were included in the consolidated financial statements as associates and measured at equity in accordance with IAS 28:

Company	Headquarters	Equity interest	Fair value of shares	Assets	Equity	Liabilities	Net profit/ loss for the period
		%	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
SPAG St. Petersburg Immobilien- und Beteiligungs AG	Darmstadt	39.81%	1,661	5,201 [1)]	4,173 [1)]	1,028 [1)]	1,330 [1)]
Parsoli Corporation Ltd.	Mumbai, India	21.93%	2,302	4,427 [2)]	4,230 [2)]	197 [2)]	548 [2)]
Gulf Baader Capital Markets S.A.O.C.	Muscat, Oman	24.90%	3,935	12,089 [3)]	12,072 [3)]	17 [3)]	1,389 [3)]
Globe CC AMI-Fonds	Cologne	28.90%	3,251	11,249	-	-	[4)]
Herald Europe-CI	Frankfurt	37.22%	8,917	23,957	-	-	[4)]
Conquest BFA AMI-Fonds	Cologne	24.08%	2,552	10,602	-	-	[4)]
Assenagon Primus – 1M Euribor	Luxembourg	35.74%	15,093	42,224	-	-	[4)]
Conservative Concept Hedge Fund	Cayman Islands	41.53%	505	1,132	-	-	[4)]

1) Figures are based on the audited interim financial statements as at 31 May 2007
2) Figures are based on the unaudited interim financial statements as at 31 December 2007 (financial year: 1 April 2007 – 31 March 2008); equity, assets, liabilities and net profit/loss for the year were translated (EUR/INR 57.484)
3) Figures are based on the annual financial statements as at 31 December 2007; equity, assets, liabilities and net profit/loss for the year were translated (EUR/OMR 0.56165)
4) The share of Herald Europe-CI Fonds in the net profit for the period amounts to EUR 320 thousand. The share of Globe CC AMI-Fonds in the net profit for the period amounts to EUR 237 thousand.
The share of Conquest BFA AMI-Fonds in the net profit for the year amounts to EUR -17 thousand. The share of Assenagon Primus-Fonds in the net profit for the year amounts to EUR 31 thousand. The share of CC Hedge-Fonds in the net profit for the year amounts to EUR -88 thousand.

Except for SPAG, the companies are special funds or financial service providers that do not generate any revenue. SPAG does not report any revenue.

In addition to a dividend distribution, a one-to-four capital reduction was decided by resolution at the Extraordinary General Meeting of SPAG on 7 December 2007. The amount gained from the capital reduction in the amount of EUR 3,900,000.00 is to be used to pay the shareholders. It was also decided by resolution that the company should be dissolved as at 10 January 2008. Following the ad hoc disclosure of SPAG on 20 February 2008, two shareholders of St. Petersburg Immobilien und Beteiligungs Aktiengesellschaft brought actions before Frankfurt Regional Court to have the resolutions passed in the company’s General Meeting of 7 December 2007 rescinded and declared void. There are insufficient grounds for recognition of a claim against SPAG for the capital reduction-related payment because the General Meeting resolution had not been filed in the commercial register as at the 2007 balance sheet date.

At the end of March 2007, Baader Wertpapierhandelsbank AG subscribed for a convertible bond of EUR 4,959 thousand issued by Parsoli Corporation Ltd. which must be converted into equity in a year. Following conversion at the end of March 2008, the percentage of equity will increase to over 40%. Parsoli Corporation Ltd. in Mumbai, India, is licensed by the Indian Central Bank (RBI) and the Capital Market Supervisory Authority (SEBI) among others as a financial services provider. It is a member of the National Stock Exchange of India, its associated derivatives exchange and the Bombay Stock Exchange. The company concentrates on supporting Muslim investors with the focus on investments compliant with Shari’ah law. The Parsoli Corporation’s current business areas are securities trading, asset advice and currency business as well as tourism services via the subsidiary PCFL Travel House which is headquartered in India. The company's shares are listed on the Bombay Stock Exchange in Mumbai.

The participation acquired in Gulf Baader Capital Markets S.A.O.C., Muscat, Oman during the reporting year will be posted at equity for the first time on 30 September 2007. The investment of 24.9% was acquired at a purchase price of EUR 3,589 thousand. The company is currently being founded. The company was entered into the commercial register of the Omani Sultanate effective from 22 August 2007 and included in the consolidated financial statements as part of consolidation at equity from that date. Goodwill of EUR 636 thousand is recognised as a result of the consolidation, corresponding to the differences arising upon recognition of the fair values as no hidden reserves or hidden charges were identifiable.

The core business areas of Gulf Baader Capital Markets are brokerage, corporate finance and asset management.

The ownership interest for the aforementioned investment funds is above 20% but below 50%. There is thus a refutable presumption of significant influence. As there are no voting rights for special funds within the meaning of the InvG, examination of the significant influence should not only be based on the ownership interest. In line with this, the criteria listed in IAS 28.7 for the existence of significant influence must be applied to the special funds. This means that there is no significant influence if the investor is not acting in an advisory, administrative or custodian capacity. The Baader Wertpapierhandelsbank AG Group is not acting in any of these capacities and the influence is thus significant, without the possibility of being a controlling influence.

(4) Consolidation methods

Consolidation uses the purchase method described in IFRS 3. At the date of acquisition, the cost of the business combination is allocated to the identifiable assets and liabilities of the acquiree and carried at their fair values at the date of acquisition. The difference between the cost and the revalued assets and liabilities is the goodwill. The goodwill purchased represents a payment which the acquirer has made in the expectation of future economic benefits from assets which cannot be individually identified or carried separately. Goodwill from a business combination may not be amortised. Instead, it must be tested annually for impairment in accordance with IAS 36 (impairment-only approach). Negative goodwill is recognised immediately in income.

Subsidiaries are consolidated from the date of acquisition. The purchase method is applied from the date of acquisition, i.e. the date on which the acquirer actually gains control of the acquiree. If this occurs through gradual acquisition of shares, the cost and the information on the fair values of the identifiable assets and liabilities are used at each individual transaction date to calculate the amount of the goodwill for each individual transaction.

If a company to be fully consolidated is consolidated for the first time as at the balance sheet date in the year under review, the items of the income statement are consolidated for the full year. If first-time consolidation is not performed as at the balance sheet date, the income statement items are recognised ratably in the consolidated financial statements as at the date of first-time consolidation.

Investments in subsidiaries that are not consolidated for reasons of materiality are measured at cost in accordance with IAS 27.37 or in accordance with the provisions of IAS 39.

Receivables and liabilities, as well as income and expenses resulting from business relationships between consolidated companies, are eliminated on the basis of intercompany balances or expense and income consolidation; any interim results in the Group are eliminated to the extent that they are not immaterial.

Associates are accounted for at equity and disclosed separately in the balance sheet under equity-accounted investments. The proportionate equity of the associate, which is measured at fair value, is offset against the carrying amount of the corresponding investment at the time of first-time consolidation. Any resulting difference (goodwill) is stated in the Notes and treated in accordance with the impairment-only approach under IFRS 3. The carrying amount of the investment is adjusted in subsequent periods. The recognition of the adjustment to the equity-accounted carrying amount in income and equity is based on the financial statements prepared by the associate.

(5) Financial instruments: recognition and measurement (IAS 39)

All financial assets and liabilities, which also include derivative financial instruments, must be documented in the balance sheet in accordance with IAS 39. All of these must be divided into various groups and measured depending on the respective classification.

The explanations below provide an overview of how the rules of the standards were implemented at the Baader Wertpapierhandelsbank AG Group.

a) Classification of financial assets and liabilities and their measurement

aa) Financial instruments measured at amortised cost:

- Loans and receivables:
  Financial assets with fixed or determinable payment claims for which no active market exists are allocated to this category. An active market exists if listed prices are regularly provided by a stock exchange or a broker, for example, and these prices are representative of current transactions between external third parties. They are measured at amortised cost.

- Held-to-maturity financial assets
  Non-derivative financial assets with fixed or determinable payments as well as a fixed maturity may be allocated to this category if there is an active market for them and if there is an intent to hold them to final maturity. They are measured at amortised cost. Again, the Baader Group did not use this category in financial year 2007.

- Other financial liabilities
  This includes deposits from other banks and amounts due to customers. They are measured at amortised cost.

ab) Financial instruments measured at fair value through profit/loss

- Assets and liabilities held for trading:
  All financial assets that are held for trading purposes are assigned to the “assets held for trading” category. Assets held for trading include primary financial instruments (particularly interest-bearing securities and equities) and derivative financial instruments with a positive fair value. All financial liabilities that are held for trading purposes are assigned to “liabilities held for trading”. This primarily includes derivative financial instruments with a negative fair value and supply obligations arising from selling securities short.
  In accordance with IAS 39, derivative financial instruments are classified as financial assets or liabilities held for trading insofar as they do not qualify as hedges used in hedge accounting.
  Assets and liabilities held for trading are reported at their fair value the first time, as they are at every subsequent balance sheet date. Measurement gains and losses are recognised in the income statement under the net trading income item.

ac) Financial instruments measured at fair value through equity

- Available-for-sale financial instruments
  Available-for-sale financial assets are all non-derivative financial assets that were not covered by one of the above classes. These are mainly interest-bearing securities, equities and investments.
  Both first-time and subsequent measurement are at fair value. After deferred taxes have been taken into consideration, the measurement gain/loss is taken directly to equity and recognised in a separate equity item (revaluation reserve). If the financial asset is sold, the cumulative valuation previously recognised in the revaluation reserve is reversed and shown in the income statement. In the event of lasting impairment, the revaluation reserve

must be reduced by the amount of the impairment and this must be reflected in the income statement. Equity instruments for which there is no listed price on an active market and the fair value of which cannot be reliably determined have to be measured at cost.

ad) Financial instruments to which IFRS 7 does not apply:

- Investments in accordance with IAS 28
- Investments in accordance with IAS 3
- Share-based payment in accordance with IFRS 2

b) Embedded derivatives

bb) Financial instruments measured at fair value through profit/loss

IAS 39 also regulates the accounting treatment of embedded derivatives. The derivatives are part of a primary financial instrument and inextricably linked to these. Such financial instruments are also referred to as hybrid financial instruments under IAS 39. Examples of hybrid financial instruments are reversible convertible bonds (bonds whose repayment take the form of equities) or convertible bonds. In accordance with IAS 39, the embedded derivative should be separated from the primary host contract under certain conditions and accounted for and measured separately at fair value as a stand-alone derivative.

Such an obligation to separate in reporting arises if the characteristics and risks of the embedded derivative are not closely linked with those of the primary host contract. In such a case, the embedded derivative can be considered part of the trading portfolio and must be reported at fair value. Changes in value must be recognised in the income statement. In contrast, the host contract is accounted for in accordance with the provisions of the assigned category of financial instrument.

However, if the characteristics and risks of the embedded derivative are closely linked with those of the primary host contract, the embedded derivative is not reported separately and the hybrid financial instrument is measured overall using the general provisions of the category to which the financial instrument was allocated.

If a company has an obligation under IAS 39 to recognise the embedded derivative separately from its host contract but separate measurement of the embedded derivative is neither possible upon acquisition nor on the following reporting dates, the entire composite contract must be treated as an asset held for trading purposes.

c) Hedge accounting

cb) Financial instruments measured at fair value through profit/loss

IAS 39 contains extensive rules for the accounting of hedging instruments which are superimposed upon the general accounting rules described above for derivatives and secured non-derivative transactions. In line with general rules, derivatives are classified as trading transactions (assets or liabilities held for trading) and are measured at their fair value. The measurement gain/loss is recognised in the income statement under the net trading income item.

If derivatives are used to hedge risks from non-trading transactions, IAS 39 permits, under certain conditions, the application of special rules in hedge accounting. A distinction is primarily made between two forms – fair value hedge accounting and cash flow hedge accounting. Cash flow hedge accounting is used in one case in the Baader Group.

Cash flow hedge accounting
For derivatives which serve to hedge future cash flows (cash flow hedges), IAS 39 prescribes the use of cash flow hedge accounting. The size of future cash flows entails a risk, particularly for floating-rate loans, securities and liabilities as well as expected transactions. At the same time, IAS 39 also prescribes the application of cash flow hedge accounting rules for the hedging of future cash flows from pending business.

(6) Currency translation

Assets and liabilities that are denominated in foreign currency are translated at the spot rate on the balance sheet date. Income and expenses are translated at rates in line with market conditions. Equity investments and shares in subsidiaries that are denominated in foreign currency are carried at historical cost. Foreign exchange gains and losses from capital consolidation are reported separately and directly in equity.

The annual financial statements of foreign entities that are denominated in foreign currency are translated at the spot rates on the balance sheet date as a result of their economic independence. The income and expenses resulting from the translation of balance sheet items are recognised in income under the net trading income item. The exchange rates below apply to the most important currencies for the Baader Group (amount in currency equivalent to EUR 1):

	2007	**2006**
USD	1.4721	1.3170
CHF	1.6547	1.6069
INR	57.484	58.212
OMR	0.56165	0.5081

(7) Cash reserve

Cash reserve holdings – consisting of cash in hand and deposits with Deutsche Bundesbank – are carried at their nominal amount in accordance with IAS 39.

(8) Loans and advances

Loans and advances to other banks and to customers that are not held for trading purposes and that are not listed on an active market are carried at their nominal amount. Loans and advances to other banks consist only of transactions entered into in the course of ordinary banking operations. Loans and advances to other banks not related to ordinary banking operations are reported under other assets.

(9) Allowance for losses on loans and advances

The allowance for losses on loans and advances deducted on the balance sheet from the loans and advances to other banks and customers includes all write-downs and other valuation allowances on loans and advances subject to identifiable credit and country risks.

The write-down of a loan is shown if it is likely – based on observable criteria – that not all interest and repayment obligations can be met in accordance with the contract.

Uncollectible receivables are written down directly. Recoveries on loans and advances written off are recognised in income.

(10) Securities lending transactions

Securities lent as part of securities lending transactions still remain in the securities portfolio and are measured according to the rules of IAS 39. Borrowed securities, insofar as they are still held in the portfolio, are not recognised and also not measured. Cash collateral provided by the Group for securities lending transactions are disclosed as loans and advances and collateral received as liabilities.

(11) Assets held for trading

Securities held for trading are measured in the balance sheet at fair value in accordance with IAS 39 on the balance sheet date. All derivative financial instruments which are not used as hedging instruments in hedge accounting and have a positive fair value are also disclosed here at fair value. Market prices are used for listed products; non-listed products are measured using suitable measurement models. All realised gains and losses as well as unrealised measurement gains and losses are part of the net trading income item in the income statement. Interest and dividend income from portfolios held for trading are also disclosed under net trading income. Securities transactions are recognised in the balance sheet and income statement using trade date accounting. This means that securities are recorded in the balance sheet at the fair values on the day the transaction was concluded. The securities portfolio is actually adjusted in the night following conclusion of the transaction.

(12) Available-for-sale financial instruments

Bonds and debt securities, equities and other non-fixed-interest securities, investments in other investees, investments in unconsolidated subsidiaries and other equity investments that are not used for trading purposes are recognised under the available-for-sale financial instruments balance sheet item. They are accounted for at fair value. For listed securities, the closing price on the balance sheet date is the fair value. Equity instruments for which there is no listed price on an active market and the fair value of which cannot be reliably determined are measured at cost. Unconsolidated affiliates are carried at cost.

After deferred taxes have been taken into consideration, the measurement gains/losses are taken directly to equity in the revaluation reserve. Gains and losses are only recognised in the income statement once the holdings are sold. In the event of lasting impairment, the recoverable amount is reported in the balance sheet. The write-down required is recognised in the income statement. Reversals recognised in income may not be made in the case of available-for-sale financial instruments.

For listed equity instruments, changes in the fair value in subsequent periods are recognised in the revaluation reserve. This means that only impairment and sale results in effects are recognised in income. If the reasons for impairment of the debt instruments no longer apply, a reversal must be recognised in income up to the amount of the amortised cost. The amount exceeding the amortised costs must be reported in the revaluation reserve.

(13) Property and equipment

The buildings reported under this item as well as the operating and office equipment are carried at cost, less depreciation. Impairment losses are charged in the event of expected lasting impairment. Land is reported at cost.
Useful lives are determined by taking expected economic lives as well as legal and contractual restrictions into account. All property and equipment is depreciated on a straight-line basis using the following periods:

	Expected useful life in years
IT/telecommunications	3-8
Vehicles	6
Other operating and office equipment	5-13
Buildings	25
Fixtures and fittings	5-19

Depreciation and write-downs charged on property and equipment are reported under administrative expenses. Gains or losses on the sale of items of property and equipment are recorded under other operating income or other operating expenses.

For reasons of materiality, low-value items of property and equipment acquired are recognised in administrative expenses in the reporting year.

(14) Intangible assets

From a Group point of view, only purchased intangible assets are combined under the Intangible assets item. They primarily comprise purchased software licences, purchased order books and trading strategies acquired as part of a company acquisition. They are carried at cost and reduced by straight-line amortisation. Impairment losses are charged in the event of expected lasting impairment. Gains or losses from the sale of intangible assets are recognised under other operating income or other operating expenses.

Amortisation and write-downs are disclosed under administrative expenses.

	Standard useful life in years
Acquired rights of use	5-10
Trading strategies	10 *)
Software	3-5

*) The useful lives were calculated on the basis of long-term (10-year) corporate planning.

(15) Goodwill

Goodwill is examined with a view to its future economic benefit (impairment test) on each balance sheet date. If there are conditions that mean the expected benefit will not materialise, an impairment loss is charged on the basis of the long-term corporate planning of the related Group companies. In financial year 2007, no reasons for impairment were discernible in goodwill.

(16) Leases

In accordance with IAS 17, a lease is classified as an operating lease if it does not substantially transfer to the lessee all the risks and rewards that are incident to ownership. In contrast, finance leases are agreements which primarily transfer all these risks and rewards to the lessee.

The Baader Group acts exclusively as a lessee. The lease instalments paid from operating leases are recognised in administrative expenses. The expenses are calculated like rent on a regular basis over the course of the life of the corresponding property. There were no contractual agreements in financial year 2007 that had to be classified as financial leases.

IFRIC 4 contains provisions and examples of how to apply them to determine whether agreements or contracts in a company are to be classified as leases and how to account for them in accordance with IAS 17. As a result of the IFRIC 4 rules, agreements that were not originally classified as leases have been included as lease agreements. For existing agreements to be classified as lease agreements, the two requirements below must be fulfilled in order (IFRIC 4.6):

- performance of the concluded agreement must depend on the use of a specific asset or several assets and
- the agreement must transfer the rights to use of the asset(s) to the purchaser.

Baader Wertpapierhandelsbank AG does not have any additional lease agreements in accordance with IAS 17 based on IFRIC 4.

(17) Deposits from other banks and amounts due to customers

Financial liabilities are carried at amortised cost.

(18) Liabilities held for trading

Derivative financial instruments that have a negative fair value and supply obligations arising from selling securities short must be disclosed as liabilities held for trading. Liabilities held for trading are measured at fair value.

(19) Provisions for pensions and other employee benefits

Many employees of Baader Wertpapierhandelsbank AG and its subsidiaries are covered by different forms of occupational provision for old age.

In the first case, employees are given an indirect (defined contribution) commitment (defined contribution plan) for which the Group company, with employees also involved, pays a fixed amount for old age provision to an external pension fund (provident fund). The size of future pension benefits is determined here by the amounts paid in and – for the non-guaranteed portion of the benefits – by the accrued return on plan assets. Classifying this provision as an indirect commitment means that the contributions to the pension fund are recognised as current expenses, eliminating the need to form provisions.
In the second case, a small number of persons (members on the Board of Directors and contracts assumed from company mergers in previous years) are given a direct (defined benefit) pension commitment where the amount of the provision benefit is defined and depends on factors such as age, salary and length of service to the company (defined benefit plan).

For pension commitments, the assets required to fulfil the pension obligation are accumulated within the company for the most part and a corresponding provision is recognised on the liabilities and equity side of the balance sheet. The rest of the assets are from reinsurance policies taken out. With one exception, these reinsurance policies are qualified insurance policies (and thus plan assets) which may only be used to pay benefits to employees from a defined benefit plan and which are not available to the creditors of the reporting company (not even in the case of insolvency) and may not be paid to the reporting company.

The pension expense to be recognised in income for the direct commitments comprises several components. First and foremost, the service cost has to be considered. Interest cost relating to the present value of the obligation must also be considered as the date on which the commitment has to be met has moved one period closer. The net return generated on plan assets is deducted from the costs mentioned above. If repayment amounts arise for actuarial gains and losses due to the 10% fluctuation corridor rule, staff costs increase or decrease accordingly.

The size of the provision is initially determined by the present value of the obligation to be met. The portion covered by the plan assets should be offset against the obligation. As a result of the fluctuation corridor rule, the provision for the year-end is as follows:

Present value of obligation for direct commitments (defined benefit obligation)
less plan assets
less/plus actuarial gains or losses not recognised
= size of provision for pension

The pension obligation is calculated yearly by an independent actuary using the projected unit credit method. This calculation is based not only on biometric assumptions but above all on a current market interest rate for prime-quality long-dated bonds and rates of increases for salaries and pensions to be expected in future. If obligations are higher or lower as a result of actuarial calculations, these are only recognised if they are outside a 10% fluctuation corridor of the actuarially estimated value. The 10% fluctuation corridor was exceeded in this financial year. In accordance with IAS 19, the amount exceeding the corridor is distributed across an average future activity period of 10 years and recognised as an expense.

The assumptions on which the actuarial calculations have been based are:

	31 December 2007	**31 December 2006**
Discount rate	4.5%	4.0% and 4.5%
Return on plan assets	4.2% and 4.5%	4.2% and 4.5%
Changes in salaries	2.0% and 3.0%	2.0% and 3.0%
Pension adjustments	2.0%	2.0%

(20) Other provisions

Other provisions are recognised for uncertain obligations to third parties and on onerous contracts in the amount of the claims to be expected. Provisions for expenses that do not relate to an external commitment may not be carried in accordance with IASs/IFRSs.

(21) Income taxes

Current income tax assets and liabilities were measured by applying the valid tax rates at which a refund from or a payment to the relevant taxation authorities is made.

Deferred tax assets and liabilities are derived from differences in the carrying amounts of an asset or a liability and the respective tax carrying amount. In the future, this is likely to either increase or reduce income taxes (temporary differences). They are measured at the country-specific income-tax rates of the consolidated company which can be expected to apply for the period in which they are realised. Deferred tax assets from as yet unused tax loss carryforwards are only recognised if taxable profits are likely to occur within the same tax unit in the future. Valuation allowances are used to reflect the uncertainty surrounding the future use of tax benefits. Income tax assets and liabilities are not netted against one another and are recognised individually. Generally, they are not discounted. Deferred tax assets and liabilities are recognised and carried such that – depending on the treatment of the underlying item – they are either recognised in income under the income taxes item or reported directly in equity under the corresponding equity item.

The income tax expense or income attributable to profit from ordinary activities is carried in the consolidated income statement as income taxes on profit from ordinary activities and divided into current and deferred tax assets and liabilities in the financial year in the disclosures. Other taxes which are independent of income are shown in other operating income/expenses. Current and deferred income tax assets and liabilities appear as separate asset or liability items in the balance sheet.

(22) Trust activities

Trust activities that are based on managing or placing assets on behalf of third parties are not reported in the balance sheet. Fees and commission from these transactions are included in the income statement under the net fee and commission income item.

(23) Treasury shares

Treasury shares held in the Group on the balance sheet date are carried at cost and deducted from equity. The portion of the acquisition cost accounted for by the nominal amount is deducted from the issued capital; the premium is offset against the share premium. Gains and losses from trading in treasury shares are credited or charged directly to equity.

(24) Share-based payment system for members of the Board of Directors and employees

Baader Wertpapierhandelsbank AG grants the members of the Board of Directors and the Group's employees performance-related remuneration in the form of stock options.

a) Stock Option Plan 2000

Under the Stock Option Plan 2000, a total of 1,789,782 stock options were issued to beneficiaries. The Stock Option Plan 2000 had a term of five years and expired on 17 June 2004. The last tranche was allocated on 2 June 2004.

The lock-up period of two years has expired for all of the stock options granted under this option plan, i.e. all options from this plan may already be exercised.

The exercise price corresponds to the average closing price of Baader Wertpapierhandelsbank AG's shares in floor trading on the Bavarian Stock Exchange during the five trading days prior to the issue date of the stock options, but no less than the nominal value of one share of Baader Wertpapierhandelsbank AG. The stock options may only be exercised if Baader Wertpapierhandelsbank AG's shares outperform the Prime All Share index by at least 15% on five consecutive trading days since the issue date of the stock options. This percentage rate applies to the first year of the exercise period and rises by half a percentage point in each of the second and subsequent years of the exercise period. The closing price in floor trading on the Bavarian Stock Exchange is deemed to be the price of Baader Wertpapierhandelsbank AG’s shares.

b) Stock Option Plan 2004

Under the Stock Option Plan 2004, a total of 599,080 stock options were issued to beneficiaries. The Stock Option Plan 2004 had a term of two years and expired on 13 July 2006. The last tranche was allocated on 26 May 2006.

The options may only be exercised after a lock-up period of two years from their respective issue date. Once the lock-up period has expired, the stock options may be exercised during the following five years subject to certain blocking periods, or more specifically only within the four-week period following publication of the Company’s quarterly results (exercise window). At the end of the term (a maximum of seven years from the issue date), the options will expire and will not be replaced.

The options may only be exercised if (a) the closing price of Baader Wertpapierhandelsbank AG’s shares in floor trading on the Munich Stock Exchange (market closing price) exceeds the issue price by more than 30% (absolute hurdle) and (b) on the last five trading days prior to the options being exercised, the aggregate percentage performance of Baader Wertpapierhandelsbank AG’s shares since the option’s issue date exceeds the percentage increase in the Prime All Share Index by at least 10% (relative hurdle), – the aggregate performance includes both share price performance and the value of cash dividends, subscription rights from capital increases and other special rights between the option’s issue date and its exercise date – and (c) they do not expire prior to the exercise notice being submitted as a result of a condition attached to the options. The closing price in floor trading on the Munich Stock Exchange is deemed to be the Company’s share price (performance targets). The performance targets may not be changed at a later date.

Depending on what the Board of Directors decides, each stock option entitles the holder to purchase one share or to receive a cash payment equal to the difference between the exercise price and the average closing price of Baader Wertpapierhandelsbank AG’s shares on the Munich Stock Exchange on the last five trading days prior to the Company receiving the beneficiary’s exercise notice.

c) Stock Option Plan 2006

The Board of Directors is authorised, with the approval of the General Meeting of 19 July 2006, to issue a maximum total of 1,600,000 stock options beginning with the close of financial year 2006 until the end of 18 July 2010 and to grant the beneficiaries options on up to 1,600,000 shares overall.

The Stock Option Plan has a maximum term of four years; this means that stock options cannot be issued under the Company’s Stock Option Plan after 18 July 2010. The stock options may only be issued to beneficiaries by the Board of Directors once a year during the six-week period following the announcement of the profit for the past financial year.
Each stock option entitles the bearer to subscribe to a bearer share of the Company at a share attributable to it of EUR 1.00 in the Company’s share capital in exchange for payment of the exercise price. The new shares will be entitled to profit sharing from the beginning of the

financial year in which they were issued. The subscription and acquisition conditions can provide for the Company granting the beneficiary own shares or a compensatory payment in whole or in part instead of new shares making use of the contingent capital.

The exercise price of a stock option corresponds to the average closing price of the Company’s shares in floor trading on the Munich Stock Exchange during the ten trading days leading up to the second day prior to the start of the issue period for the stock options in question, but no less than the nominal value of one share of Baader Wertpapierhandelsbank AG. The issue period will start on the date on which the beneficiaries were first informed of the concrete offer to purchase stock options.

The options may only be exercised if (a) the closing price of Baader Wertpapierhandelsbank AG’s shares in floor trading on the Munich Stock Exchange (market closing price) exceeds the exercise price by more than 30% (absolute hurdle) and (b) on the last 10 trading days prior to the options being exercised, the aggregate percentage performance of Baader Wertpapierhandelsbank AG’s shares since the option’s issue date exceeds the percentage increase in the Prime All Share Index by at least 10% (relative hurdle), – the aggregate performance includes both share price performance and the value of cash dividends, subscription rights from capital increases and other special rights between the option’s issue date and its exercise date – and (c) they do not expire prior to the exercise notice being submitted as a result of a condition attached to the options. The performance targets may not be changed at a later date.

The options may only be exercised after a lock-up period of two years from their respective issue date. The issue date is the last date on which the beneficiary can accept the concrete offer to acquire stock options.

The stock options may be exercised in the five years following expiration of the lock-up period, subject to the reasons below, in each case four weeks after publication of the Company’s quarterly figures (Q1, Q2, and Q3) and – to the extent that the Company publishes preliminary figures for the concluded financial year – four weeks after the publication of such figures (exercise window). At the end of the term (a maximum of seven years from the issue date), the options will expire and will not be replaced.

The details relating to the granting of stock options and additional exercise conditions are set by the Supervisory Board if members of the Company's Board of Directors are affected. Otherwise the responsibility for setting these details resides with the Company’s Board of Directors. In particular, the details include the selection of individual beneficiaries from the respective group of beneficiaries, the granting of options to individual beneficiaries, the determination of the execution and the procedure for handling the exercise of the options and the issue of the shares, as well as the regulations for dealing with options in special cases.

The table below provides an overview of all granted, lapsed and exercised options.

	2006	2005	2004	2003	2002	2001	2000	**Total**
Granted options	374,600	299,480	299,600	323,000	468,600	517,800	240,382	2,523,462
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	33,666	30,480	20,140	17,600	70,000	164,400	125,428	461,714
Exercised options	0	0	87,360	183,100	363,600	304,600	16,936	955,596
Outstanding options	**340,934**	**269,000**	**192,100**	**122,300**	**35,000**	**48,800**	**98,018**	**1,106,152**
Exercisable options	**0**	**0**	**192,100**	**122,300**	**35,000**	**48,800**	**98,018**	**496,218**
Residual term (in months)	76	65	53	41	28	16	4	-

No options granted from the existing stock option plans have expired yet.

In financial year 2007, the number of stock options changed as follows:

	2007	
	Number of stock options	**Average exercise price**
As at 1 January	**1,017,958**	**3.67**
Commitment (granted options)	374,600	5.32
Forfeited options	46,446	5.18
Exercised options	239,960	3.83
As at 31 December	**1,106,152**	**4.14**
Exercisable options as of year-end	**496,218**	**2.97**

Exercise of the options resulted in an expense of EUR 132,776.94, which was charged directly to equity. The stock options were exercised in five periods of one month each. The average share price in the five periods was as follows:

1. Period 1: 3 May 2007 – 31 May 2007 Share price: EUR 5.02 Stock Option Plan 2000
2. Period 2: 16 July 2007 – 10 August 2007 Share price: EUR 4.37 Stock Option Plan 2004
3. Period 3: 2 August 2007 – 29 August 2007 Share price: EUR 4.07 Stock Option Plan 2000
4. Period 4: 15 October 2007 – 9 November 2007 Share price: EUR 4.73 Stock Option Plan 2004
5. Period 5: 6 November 2007 – 29 November 2007 Share price: EUR 4.63 Stock Option Plan 2000

The stock options granted from the Stock Option Plan 2004 (and all the following stock option plans) are accounted for under the provisions of IFRS 2 Share-Based Payment. The stock option plans are share-based payment of employees' additional benefits which are settled by equity instruments. The benefits received must be carried at fair value while raising equity. However, as this value cannot be estimated reliably, it and the corresponding increase in equity must be calculated indirectly by reference to the fair value of the equity instruments granted.

	2006	2005	2004	Total
Granted options	374,600	282,420	299,600	956,620
Option price	5.32	0.9975	0.43	-
Total staff costs	524,477.46	281,713.95	128,828.00	935,019.41
Staff costs in financial year 2007	174,825.82	140,856.98	21,471.33	337,154.13

The staff costs are distributed over the two-year period during which they are incurred. Proportionate costs were recorded for four months for the stock options from 2004, twelve months for the stock options from 2005, and eight months for the stock options from 2006.
The procedure for calculating the fair value of the equity instruments was as follows:

The exercise hurdles (absolute and relative hurdles) can only be taken into account approximately when measuring the options. However, these hurdles are deemed to have been overcome.
The options are call options as employees are entitled to subscribe for shares of Baader Wertpapierhandelsbank AG. The options are considered short positions from the Company's perspective. Baader Wertpapierhandelsbank AG has granted the options to employees and is thus the writer or seller of options. The number of granted options is thus posted as a short call of an exotic option with a seven-year term. To present the two-year lock-up period and the exercise window following publication of the quarterly reports, these exotic options are portrayed as Bermudan-style options with the individual exercise windows. The measurement of the employee stock options is derived from the theoretical price for exotic options.

The following input parameters were chosen to measure the options:

1. The strike price of the recently-issued options to be measured from the Stock Option Plan 2006 was EUR 5.32.
2. Expected dividend distributions by Baader Wertpapierhandelsbank AG were assumed.
3. To estimate the expected future volatility of Baader's shares, an implied volatility was assumed for options on the DAX with a spread of 20% (because of a lack of options on Baader's shares traded on the market). The resulting annual volatility of 38.16% roughly corresponds to the current annual volatility of the underlying (Baader shares).
4. The euro swap curve, which showed an interest rate of 4.17% for the seven-year option, was assumed as the risk-free interest rate.
5. EUR 5.00 was used as a basis on the measurement date (11 May 2007) as a measurement price for the Baader shares.
6. Measurement was carried out on the date that the options were granted (11 May 2007).
7. The Black & Scholes model was used as the option pricing model for the Bermudan-style options with the help of the finite differences algorithm.
8. Measurement of the exotic options resulted in a price of EUR 1.4001 per option.

SIGNIFICANT DIFFERENCES IN ACCOUNTING METHODS BETWEEN IAS/IFRS AND THE *HANDELSGESETZBUCH* (HGB – GERMAN COMMERCIAL CODE)

The objective of financial statements based on IASs/IFRSs is to help investors make decisions by providing them with information on the Group's net assets, financial position and results of operations and changes in these over time. In contrast, annual financial statements based on HGB are primarily geared towards investor protection and are also influenced by tax-law provisions due to the authoritativeness of commercial accounting for tax accounting. These different objectives result in the following significant differences in accounting policies between the German and IASs/IFRSs:

Allowance for losses on loans and advances

The allowance for losses on loans and advances is reported as a separate line item on the balance sheet, on the assets side, beneath loans and advances. This enhances the transparency of the Group's risk policy.

Securities

Financial assets held for trading (assets and liabilities held for trading) and derivative financial instruments not held for trading (hedging derivatives) must be measured at fair value in accordance with IAS 39. Gains and losses are recognised in income or taken directly to equity irrespective of their realisation. However, recognition of unrealised income is not permitted under HGB. Available-for-sale financial instruments are also measured at fair value in accordance with IAS 39. Only if the fair value cannot be reliably determined are they carried at cost. The measurement is taken directly to equity. In accordance with German accounting principles, investments are non-current assets and are recognised at cost. In the event of probable lasting impairment, a write-down is charged. Based on their nature, other securities in the available-for-sale category are financial instruments of the liquidity reserve as defined by the HGB and must thus be treated as current assets. Under HGB, the strict lower-of-cost-or-market principle applies to measurement of these securities.

Hedge accounting

Pursuant to IAS 39, hedging relationships may be established between a hedged item and a derivative financial instrument for hedge accounting purposes. Hedged items may be financial assets (e.g. receivables or securities) and financial liabilities. There are also detailed rules for both fair value hedges and cash flow hedges which require the fair value of a derivative hedging instrument to be disclosed in its gross amount. In accordance with German principles of proper accounting, hedges are taken account of by applying a netted lower-of-cost-or market principle when measuring the hedged items.

Property and equipment, intangible assets and goodwill

Under IASs/IFRSs, property and equipment and the related depreciation are recognised on the basis of the actual standard useful life. Unlike HGB, carrying amounts on the basis of tax rules are not recognised. In accordance with IASs/IFRSs, there is no obligation to capitalise internally developed intangible assets if certain requirements are fulfilled. This is also in contrast to HGB, under which such assets may not be recognised in general. Goodwill arising from the full consolidation of subsidiaries and which may be netted directly against retained earnings in the consolidated financial statements according to the provisions of the HGB must also be recognised as an asset under IASs/IFRSs. It is only written down after an impairment test has been carried out.

Treasury shares

The HGB requires treasury shares (“own shares”) to be capitalised, with the simultaneous recognition of a reserve for own shares. Under IASs/IFRSs, treasury shares held in the Group are deducted from equity on the balance sheet; in contrast to the HGB, no measurement is performed. Gains or losses resulting from trading in treasury shares are credited or charged directly to equity. In the HGB financial statements, gains and losses from trading in treasury shares are recognised in net trading income.

Trust activities

Under IASs/IFRSs, trust activities are not recognised on the balance sheet, in contrast with the HGB financial statements (in accordance with section 6 of the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation)).

Pension commitments

In accordance with IASs/IFRSs, pension obligations are calculated using the projected unit credit method. The calculation takes account of future commitments, reflecting future increases in salaries and pensions as well as the inflation rate. Under IASs/IFRSs, the discount factor is geared towards the capital market interest rate. In contrast, HGB accounting is regularly geared towards the tax regulations in force, particularly the net present value method.

Other provisions

In accordance with IASs/IFRSs, provisions may only be formed if they relate to an external commitment. Provisions for expenses, permissible under HGB, which serve to recognise future outlays as expenses in the past financial year are not permitted. IAS/IFRS rules require more concrete details than HGB for the formation of provisions for restructuring.

Deferred taxes

Under IAS/IFRS rules, deferred tax assets and liabilities are formed according to the balance sheet liability method. The carrying amounts of the individual assets and liabilities in the financial accounts are compared with their tax base. Deviations result in temporary differences for which deferred tax assets or deferred tax liabilities are recognised, irrespective of the time at which the differences will reverse. The income tax rates used to measure the value differences are future-oriented. No netting occurs. There is also a requirement to recognise deferred tax assets and liabilities under IASs/IFRSs, except that deferred tax assets may only be recognised if it is likely that the future tax benefit can actually be realised. This mainly applies to the recognition of deferred tax assets from existing tax loss carryforwards.

In contrast, the HGB approach is geared towards the income statement in recognising deferred tax assets and liabilities, applying valid income tax rates. The different approaches to defining periods tend to lead to higher deferred taxes in financial statements pursuant to IASs/IFRSs.

Equity

Based on the rules of IAS 39, changes in measurement attributable to the available-for-sale portfolios and also effective portions of the measurement gains and losses on cash flow hedges must be taken directly to equity. This type of recognition directly in equity is not found in German accounting.

Treasury shares held on the balance sheet date are deducted from equity in accordance with IASs/IFRSs; gains and losses from treasury shares are charged directly to equity under reserves. In accordance with the provisions of HGB, a reserve for treasury shares must be recognised in the amount of the treasury shares reported on the assets side of the balance sheet while net trading income is recorded in the income statement.

Recognition of items due to tax rules

In accordance with “umgekehrte Maßgeblichkeit” (or the “reverse authoritative principle”), carrying amounts are partly recognised in the HGB financial statements in accordance with tax provisions. IAS/IFRS financial statements may not contain special write-downs and carrying amounts allowable for tax purposes, insofar as they deviate from the measurements required under IASs/IFRSs. This prohibition of carrying amounts for tax purposes has also been in force for consolidated financial statements under HGB since financial year 2003 owing to legal changes as a result of the *Transparenz- und Publizitätsgesetz* (TransPuG – German Transparency and Disclosure Act).

CONSOLIDATED BALANCE SHEET DISCLOSURES

(25) Cash reserve

The cash reserve is composed of the following items:

	31 December 2007	31 December 2006
Cash in hand	519.49	453.45
Deposits with Deutsche Bundesbank	3,272,253.36	484,520.69
Total	**3,272,772.85**	**484,974.14**

The increase in the customer deposits of Baader Service Bank GmbH means that the latter is required to maintain a higher minimum reserve at Deutsche Bundesbank.

(26) Loans and advances to other banks

	31 December 2007 Germany	31 December 2007 Other countries	31 December 2006 Germany	31 December 2006 Other countries
Payable on demand	35,486,001.38	20,832,142.33	50,064,290.40	5,710,898.34
Other loans and advances	18,392,038.69	627,561.71	6,872,519.91	791,206.94
Loans and advances to other banks	**53,878,040.07**	**21,459,704.04**	**56,936,810.31**	**6,502,105.28**
Allowance for losses on loans and advances	0.00	0.00	-6,916.55	-15,084.28
Total	**53,878,040.07**	**21,459,704.04**	**56,929,893.76**	**6,487,021.00**

The loans and advances to other banks are due in less than one year. Loans and advances to other banks include deferred interest of EUR 243,356.00. The remaining maturities of the loans and advances to other banks are presented in the maturity structure (see note 69).

(27) Loans and advances to customers

	31 December 2007	31 December 2006
German customers	**1,508,166.73**	**11,265,806.97**
- Companies	336,096.91	10,512,697.76
- Private individuals	1,157,662.59	739,952.38
- Other	14,407.23	13,156.83
International customers	**1,013,455.27**	**1,790,711.54**
- Companies	478,392.72	1,559,323.69
- Private individuals	528,735.01	231,387.85
- Other	6,327.54	0.00
Loans and advances to customers	**2,521,622.00**	**13,056,518.51**
Allowance for losses on loans and advances	-61,982.99	-87,656.21
Total	**2,459,639.01**	**12,968,862.30**

Loans and advances to customers are payable on a daily basis. The figure includes deferred interest of EUR 14,407.23. The remaining maturities of the loans and advances to customers are presented in the maturity structure (see note 69).

Baader Wertpapierhandelsbank AG has extended the following loans and advances to investees:

	Affiliates		**Other investees and investors**	
	31 December 2007	**31 December 2006**	**31 December 2007**	**31 December 2006**
Loans and advances to customers	0.00	0.00	20,471.49	10,163,863.49
Total	**0.00**	**0.00**	**20,471.49**	**10,163,863.49**

Loans and advances to customers in 2006 primarily include a receivable to SPAG St. Petersburg Immobilien und Beteiligungen AG (SPAG) of EUR 10,143,392.00. The receivable is an equity repayment claim against the Company and was fully paid in 2007.

Loans and advances to customers contain loans and advances of EUR 592 thousand for which no interest payments are made.

The amounts reported under loans and advances to customers less the allowance corresponds to the fair value of the loans and advances extended.

(28) Allowance for losses on loans and advances

The allowance for losses on loans and advances changed as follows:

	Loans and advances to other banks		**Loans and advances to customers**		**Total**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
As at 1 January	**-22,000.83**	**-2,195.84**	**-87,656.21**	**-20,471.70**	**-109,657.04**	**-22,667.54**
Additions	0.00	-22,000.83	0.00	-40,184.72	0.00	-62,185.55
Disposals						0.00
• Utilisation	22,000.83	2,195.84	25,673.22	0.21	47,674.05	2,196.05
• Reversals	0.00	0.00	0.00	0.00	0.00	0.00
Changes in consolidated companies	0.00	0.00	0.00	-27,000.00	0.00	-27,000.00
Write-downs	0.00	0.00	0.00	0.00	0.00	0.00
As at 31 December	**0.00**	**-22,000.83**	**-61,982.99**	**-87,656.21**	**-61,982.99**	**-109,657.04**

This allowance is solely for credit risks.

(29) Assets held for trading

The assets held for trading item is composed of the following items:

	31 December 2007	31 December 2006
Bonds and other fixed-interest securities	7,468,167.93	5,286,506.98
thereof:		
negotiable securities	7,468,167.93	5,286,506.98
listed securities	7,468,167.93	5,286,506.98
Equities and other non-fixed-interest securities	40,148,486.98	43,674,630.82
thereof:		
negotiable securities	40,138,486.98	43,188,948.19
listed securities	40,138,486.98	42,736,175.77
Positive fair value of derivatives	10,130.50	51,478.87
Total	**47,626,785.41**	**49,012,616.67**

Assets held for trading include shares of a convertible bond in the amount of EUR 1,158 thousand which are classified as assets held for trading purposes in accordance with IAS 39.12 as separate measurement of the embedded derivative was neither possible upon acquisition nor on the reporting date.

(30) Available-for-sale financial instruments

Available-for-sale financial instruments include investments in other investees and other equities and bonds not allocated to the assets held for trading.

The following overview shows the composition of, and changes in, available-for-sale financial instruments:

	Investments in unconsolidated affiliates	**Equity investments**	**Equities and other non-fixed-interest securities**	**Bonds and debt securities**	**Other equity invest-ments**
Cost					
- as at 1 January 2007	0.00	3,107,257.80	40,927,404.97	4,112,330.27	0.00
- additions	0.00	2,610.00	991,888.01	15,206.26	0.00
- reclassifications	0.00		-92,896.88		0.00
- disposals	0.00		-9,101,367.24	-3,715,383.22	0.00
- as at 31 December 2007	0.00	3,109,867.80	32,725,028.86	412,153.31	0.00
Revaluation reserve					
- as at 1 January 2007	0.00	2,255,956.52	5,069,127.12	-95,634.90	0.00
- additions	0.00	13,208.00	42,169.00		0.00
- reclassifications	0.00	0.00	4,108.32	16,884.90	
- disposals	0.00	-1,993,459.58	-4,319,830.27	78,750.00	0.00
- as at 31 December 2007	0.00	275,704.94	795,574.17	0.00	0.00
Reversals of write-downs in year under review	0.00	0.00	0.00	0.00	0.00
Write-downs					
- as at 1 January 2007	0.00	182,734.04	31,877,722.78	47,950.00	
- current write-downs	0.00			17,591.25	0.00
- reclassifications	0.00			16,884.90	0.00
- disposals	0.00		-4,080,207.25	-47,950.00	0.00
- as at 31 December 2007	0.00	182,734.04	27,797,515.53	34,476.15	0.00
Fair value					
- as at 31 December 2006	**0.00**	**5,180,480.28**	**14,118,809.31**	**3,968,745.37**	**0,00**
- as at 31 December 2007	**0.00**	**3,202,838.70**	**5,723,087.51**	**377,677.16**	**0.00**
thereof					
negotiable securities	0.00	3,200,226.57	4,787,660.51	377,677.16	0.00
listed securities	0.00	3,200,225.57	3,329,940.50	377,677.16	0.00

The available-for-sale financial instruments include deferred interest of EUR 15,206.26.

(31) Equity-accounted investments

This balance sheet item includes all investments in associates and assets that are measured using the equity method.

	Equity-accounted investments
Cost	
- as at 1 January 2007	13,244,276.70
- adjustment to the previous years	438,500.00
- additions	24,459,843.68
- disposals	-300,027.51
- as at 31 December 2007	37,842,592.87
Accumulated changes from measurement at equity	915,888.91
Write-downs	
- as at 1 January 2007	1,893,559.18
- adjustment to the previous years	0.00
- current write-downs	0.00
- disposals	0.00
- reversals of write-downs	1,350,727.20
- as at 31 December 2007	542,831.98
Fair value	
- as at 31 December 2006	**11,789,217.52**
- as at 31 December 2007	**38,215,649.51**
thereof	
negotiable securities	22,618,012.23
listed securities	3,963,126.75

The proportionate interests in the net profit of the previous year increase the cost item by EUR 438,500.00.

The reversals of write-downs only relate to the shares in SPAG (see note 3).

(32) Property and equipment

Changes in property and equipment during the financial year are presented below:

	Operating and office equipment	**Land and buildings**
Cost		
- as at 1 January 2007	5,207,447.66	23,647,012.62
- additions	476,452.34	108,856.69
- disposals	262,583.21	0.00
- changes in consolidated companies	0.00	0.00
- as at 31 December 2007	5,421,316.79	23,755,869.31
Reversals of write-downs for impairment in year under review	0.00	0.00
Depreciation		
- as at 1 January 2007	3,777,666.26	3,578,455.44
- current depreciation	379,004.14	855,647.81
- disposals	259,636.72	0.00
- changes in consolidated companies	0.00	0.00
- as at 31 December 2007	3,897,033.68	4,434,103.25
Carrying amounts		
- as at 31 December 2006	**1,429,781.40**	**20,068,557.18**
- as at 31 December 2007	**1,524,283.11**	**19,321,766.06**

There was no reason to charge impairment losses. No earlier impairment losses were reversed in the year under review.

(33) Intangible assets

The following overview presents the changes in intangible assets:

	Software	Order books	Trading strategies
Cost			
- as at 1 January 2007	18,845,285.14	15,946,666.00	2,286,287.79
- additions	897,764.87	0.00	0.00
- disposals	256,246.75	0.00	0.00
- reclassifications	0.00	0.00	0.00
- as at 31 December 2007	19,486,803.26	15,946,666.00	2,286,287.79
Reversals of write-downs for impairment in year under review	0.00	0.00	0.00
Amortisation			
- as at 1 January 2007	12,908,773.94	6,696,750.00	60,165.47
- current amortisation	2,765,254.91	2,791,167.00	240,661.86
- disposals	256,243.22	0.00	0.00
- reclassifications	0.00	0.00	0.00
- as at 31 December 2007	15,417,785.63	9,487,917.00	300,827.33
Carrying amounts			
- as at 31 December 2006	**5,936,511.20**	**9,249,916.00**	**2,226,122.32**
- as at 31 December 2007	**4,069,017.63**	**6,458,749.00**	**1,985,460.46**

As part of the acquisition of the interest in Conservative Concept Portfolio Management AG, two trading strategies were identified as intangible assets which, as internally generated assets, had to be carried separately from goodwill in the course of the acquisition.

(34) Goodwill

	Goodwill
Cost	
- as at 1 January 2007	4,159,567.63
- additions	440,777.43
- disposals	0.00
- reclassifications	0.00
- as at 31 December 2007	4,600,345.06
Reversals of impairment losses in year under review	0.00
Impairment	
- as at 1 January 2007	0.00
- current impairment	0.00
- disposals	0.00
- reclassifications	0.00
- as at 31 December 2007	0.00
Carrying amounts	
- as at 31 December 2006	**4,159,567.63**
- as at 31 December 2007	**4,600,345.06**

The goodwill recognised is the net amount from the cost of business combinations and proportionate equity. Except for the trading strategies, no hidden reserves were ascertainable in identifiable assets and liabilities.

Additions to goodwill are solely attributable to the acquisition of more shares in CCPM. See also the additional explanations under note 3.

As at the 2007 balance sheet date, the Company reported the following goodwill in the IFRS consolidated financial statements:

Subsidiaries	**Goodwill EUR thousand**	**Initial recognition Financial year**
Baader Service Bank GmbH	963	2004
Baader Heins & Seitz Capital Management AG	1,618	2005
Conservative Concept Portfolio Management AG	2,019	2006
Total	**4,600**	

The impairment tests required for goodwill were carried out using an acknowledged measurement method, the discounted cash flow method, by discounting the cash flows expected after taxes for the subsidiaries based on long-term corporate planning with the help of a risk-adequate and maturity-matching capitalisation interest rate.

Using the corporate planning available for the 2007 to 2009 planning stage, the closer stage (detailed planning stage) was identified. Based on the findings from the first stage, a constant value was identified for the purposes of capitalising the government perpetual with regard to the annual cash flow. A risk-free base rate which was calculated and took taxes into account and a market risk premium calculated using the tax CAPM model were recognised as capitalisation interest rates.

The impairment test conducted did not reveal an impairment loss since the recoverable amount in each case substantially exceeded the reported goodwill.

(35) Income tax assets

Income tax assets relate to claims by the Group against the tax authorities for actual overpayment of taxes in the amount of EUR 12,070,729.84. As a result of the *Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften* (SEStEG – German Act on the Tax Features for the Introduction of the European Company and Amendment of Other Tax Rules) the existing system of reducing corporation tax was replaced by a proportional disbursement of corporation tax credits. This has resulted in the capitalisation of the present value of the corporate income tax credit of EUR 11,922 thousand.

(36) Other assets

The other assets are composed of the following items:

	31 December 2007	31 December 2006
Other assets	10,959,583.28	6,146,120.62
Prepaid expenses	292,011.30	229,425.14
Total	**11,251,594.58**	**6,375,545.76**

Other assets include reinsurance claims to cover provisions for pensions of EUR 2,391 thousand.

Other assets also contain an advance payment for a convertible bond issued by Parsoli Corporation Ltd., Mumbai, India, in the amount of EUR 4,959 thousand. The issue has yet to be divided into individual securities and entered in the Bank's security account.

(37) Deferred tax assets

Deferred tax assets constitute the potential income tax relief from timing differences between the carrying amounts of the assets and liabilities in the consolidated balance sheet in accordance with IAS/IFRS and the tax base amounts in accordance with the local tax law provisions of the Group companies. They are recognised when it is probable that the future tax benefit can actually be realised.

Deferred tax assets were recognised in the following items:

	31 December 2007	31 December 2006
Loss carryforwards	23,078,541.97	25,364,444.78
Provisions for pensions	295,929.54	174,843.27
Available-for-sale financial instruments	2,064.01	36,895.94
Total	**23,376,535.52**	**25,576,183.99**

The consolidated financial statements of Baader Wertpapierhandelsbank AG recognise deferred tax assets on unused tax loss carryforwards. In accordance with IAS 12, these must be recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be offset.

Deferred tax assets from loss carryforwards arose as follows:

	Baader Wertpapierhandels-bank AG	Baader Service Bank GmbH	Total
Loss carryforward as at 31 December 2006 (EUR thousand)	129,623	2,151	131,774
- Use of loss carryforward in 2007	-17,802	-560	-18,362
= Loss carryforward as at 31 December 2007 (EUR thousand)	111,821	1,591	113,413
x Tax rate in %	29.10%	27.03%	-
= Tax claims as at 31 December 2007 (EUR thousand)	32,540	430	32,970
- Valuation allowance in 2007 (EUR thousand)	-9,762	-129	-9,891
= Deferred tax assets as at 31 December 2007 (EUR thousand)	**22,778**	**301**	**23,079**
- Deferred tax assets as at 31 December 2006 (EUR thousand*)	-24,972	-393	-25,365
Reversal of/addition to deferred tax assets/tax expense in 2007 (EUR thousand)	**-2,194**	**-92**	**-2,286**

In accordance with IAS 12.48, current and deferred tax assets and liabilities are usually to be measured using the tax rates and tax laws that have been enacted at the preparation date of the financial statements. In jurisdictions where announcements of tax rates and tax laws by the government have the substantive effect of actual enactment, however, current and deferred tax assets and liabilities are measured using the announced tax rates and tax laws with effect from the date of their announcement.

In Germany, the announcement of tax rates and tax laws within the meaning of IAS 12.48 is deemed to have taken place when the resolutions approving their enactment are passed by the lower and upper houses of the German parliament (*Bundestag* and *Bundesrat*). Both the *Bundestag* and the *Bundesrat* adopted the *Unternehmenssteuergesetz 2008* (UStG 2008 – German Corporate Tax Act 2008) on 25 May 2007/6 July 2007.

In applying the aforementioned provision, the tax rate of Baader Wertpapierhandelsbank AG of 29.10% – resulting from the UStG 2008 and discounted from 38.11% – was used from July 2007 for measurement of the tax assets. The tax rate does take effect for actual taxation until 1 January 2008.

A valuation allowance of 50% was applied to the possible tax assets until 30 June 2007 due to unpredictability of the tax legislation but mainly owing to the difficulty of predicting the development of trading volumes and share prices as well as the volatility of the Bank's profits. The ongoing profits generated in 2006 and 2007 have reduced the uncertainty in this respect, with the result that the valuation allowance of 50% was reduced to 30% as at 31 December 2007.

In financial year 2007, tax loss carryforwards that are expected to be used amounted to EUR 113,413 thousand. This includes EUR 30,018 thousand representing an addition to the taxable income of Baader Wertpapierhandelsbank AG, resulting from an addition to income due to write-downs charged in the past on shares in a subsidiary. According to an expert report on constitutional law drawn up for Baader Wertpapierhandelsbank AG, it is highly likely that the Federal Constitutional Court will declare the current version of the provision governing additions laid down in section 12 (2) of the *Umwandlungssteuergesetz* (UmwStG – German Reorganisation Tax Act) to be void. In line with revenue law, this will result in the possibility of recognising the EUR 30,018 thousand as a loss carryforward for Baader Wertpapierhandelsbank AG. In addition, this includes loss carryforwards of Baader Service Bank GmbH (BSB) in the amount of EUR 1,591 thousand which results from the period before the company belonged to the Baader Group. According to the corporate planning available for BSB, there are no results that also militate against future use of these tax loss carryforwards in light of section 8 (4) of the *Körperschaftsteuergesetz* (KStG – German Corporate Income Tax Act).

At an income tax rate of 29.10%, deferred tax assets amount to EUR 32,970 thousand.

After deducting the valuation allowance, now 30%, deferred tax assets on unused tax loss carryforwards of EUR 23,079 thousand were recognised in the consolidated financial statements for the year ended 31 December 2007. This resulted in a deferred tax expense of EUR 2,286 thousand being recognised in income under the income taxes item in financial year 2007 following the recognition of deferred tax assets in the amount of EUR 25,365 thousand on 31 December 2006.

According to the long-term corporate planning resolved, more reasons militate in favour of, rather than against, the fact that sufficiently taxable income will be generated over the next five years – also considering the minimum tax rule – to utilise the tax loss carryforwards taken into account in the recognition of the deferred tax assets as at 31 December 2007.

The change in deferred tax assets from measurement differences in provisions for pensions of EUR 121,086.27 is recognised in income as a deferred tax expense under the income taxes item.

(38) Deposits from other banks

Deposits from other banks relate solely to deposits from German banks and are composed of the following:

	31 December 2007	**31 December 2006**
Payable on demand	7,003,673.83	13,423,437.61
With agreed maturity or notice	12,747,470.28	13,020,598.24
Total	**19,751,144.10**	**26,444,035.85**

The with agreed maturity or notice item comprises a loan for the refinancing of the business premises totalling EUR 12,481,220.27. The remaining maturities of the deposits from other banks are presented in the maturity structure (see note 69).

(39) Due to customers

Amounts due to customers primarily result from the subsidiary Baader Service Bank GmbH and are comprised as follows:

	31 December 2007	31 December 2006
German customers	**15,200,400.69**	**8,958,500.77**
- Companies	8,045,408.18	3,757,607.28
- Private individuals	7,089,120.45	5,178,779.91
- Other	65,872.06	22,113.58
International customers	**26,229,335.82**	**23,040,676.36**
- Companies	17,974,558.87	21,250,694.94
- Private individuals	8,254,776.95	1,789,981.42
- Other	0.00	0.00
Total	**41,429,736.51**	**31,999,177.13**

The due to customers item includes deferred interest of EUR 65,872.06. The remaining maturities of the loans and advances to customers are presented in the maturity structure (see note 69).

(40) Liabilities held for trading

Liabilities held for trading include derivatives with negative fair values.

	31 December 2007	31 December 2006
Negative fair values of derivatives	0.00	34,541.97
Total	**0.00**	**34,541.97**

(41) Provisions

Provisions are composed of the following items:

	31 December 2007	31 December 2006
Provisions for pensions	7,702,648.00	6,412,493.00
Other provisions	9,610,846.29	13,044,457.88
Total	**17,313,494.29**	**19,456,950.88**

The provisions for pensions are solely provisions for obligations to provide occupational retirement pensions based on direct pension commitments. The type and scale of the retirement pensions for employees entitled to benefits are determined by the terms of the individually agreed pension commitments. Pensions are paid to employees reaching retirement age or earlier in the case of invalidity or death (see note 19).

The pension obligations are calculated yearly by an independent actuary using the projected unit credit method. The projected unit credit of the pension obligations as at 31 December 2007 amounts to EUR 9,824 thousand (previous year: EUR 8,625 thousand). The difference between this figure and the provisions for pensions is the result of unrealised past service cost of EUR 1,180 thousand (previous year: EUR 1,391 thousand) and from the fair value of plan assets of EUR 942 thousand (previous year: EUR 822 thousand).

The pension obligations changed as follows:

	2007	2006
Pension obligations (DBO) as at 1 January	**8,625,434.00**	**7,687,243.00**
Additions to provisions for pensions	1,437,499.00	1,392,260.00
Current service cost	821,241.00	798,134.00
Interest cost	388,144.00	344,967.00
Improvements	42,692.00	0.00
Amortised actuarial losses	185,422.00	249,159.00
Change in actuarial gains/losses	-210,957.00	-357,226.00
Difference between expected and current return on plan assets	-27,498.00	0.00
Other changes/changes in consolidated companies	0.00	-96,843.00
Pension obligations (DBO) as at 31 December	**9.824.478,00**	**8.625.434,00**

The pension expense in the year under review totals EUR 1,440 thousand, EUR 1,396 thousand of which is attributable to the additions to pension provisions. The income statement was also relieved by expected return on plan assets of EUR 41 thousand.

Changes in assets available in the form of reinsurance policies which are considered plan assets in accordance with IAS 19 were as follows:

	2007	2006
Plan assets as at 1 January	**822,181.00**	**708,830.00**
Transfer/withdrawal	106,513.00	106,513.00
Expected return on plan assets	40,831.00	35,915.00
Actuarial gains/losses	-27,498.00	0.00
Benefits	0.00	-17,886.00
Other changes/changes in consolidated companies	0.00	-11,191.00
Fair value as at 31 December	**942,027.00**	**822,181.00**

In addition to the reinsurance policies, assets are also invested internally in the form of securities which serve solely to cover the pension obligations.

Changes in provisions for pensions in the past financial year:

	2007	2006
Provisions for pensions (DBL) as at 1 January	**6,412,493.00**	**5,241,940.00**
Addition	1,437,499.00	1,392,260.00
Fair value change and transfer to plan assets	-147,344.00	-142,428.00
Reclassifications/change in consolidated companies	0.00	-79,279.00
Provisions for pensions (DBL) as at 31 December	**7,702,648.00**	**6,412,493.00**

Changes in other provisions during the financial year are presented below:

	As at 1 January 2007 EUR thousand	Utilisation EUR thousand	Reversals EUR thousand	Addition EUR thousand	As at 31 December 2007 EUR thousand
Litigation	167	0	167	0	0
Cost	12,296	1,724	1,852	183	8,903
Miscellaneous	580	352	10	490	708
Taxes	1	0	1	0	0
Total	**13,044**	**2,076**	**2,030**	**673**	**9,611**

Other provisions primarily include a provision for the special contribution to be expected to the *Entschädigungseinrichtung der Wertpapierhandelsunternehmen* (EdW – German Compensatory Fund of Securities Trading Companies) as well as the cost allocation of supervisory authorities.

The *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Financial Supervisory Authority) established the case for compensation at Phoenix Kapitaldienst GmbH on 15 March 2005. As part of the compensation process, the EdW is checking whether and to what extent investors are entitled to compensation According to section 4 (2) of the *Einlagensicherungs- und Anlegerentschädigungsgesetz* (EAEG – German Deposit Guarantee and Investor Compensation Act) the amount of each investor's compensation amounts to 90% of his claims under securities transactions up to a maximum of EUR 20,000.00. The EdW's funds must be raised by its members through annual contributions and special contributions (section 8 of the EAEG).

On 19 April 2007, the creditors of Phoenix Kapitaldienst GmbH accepted the insolvency plan proposed by the receiver with a majority. The insolvency plan regulates the conditions for distributing the insolvency assets available in the amount of EUR 230 million. The plan provides for EUR 200 million being distributed initially (insolvency dividend of 30%). In its decision of 29 October 2007, Frankfurt (am Main) Regional Court granted the appeal of a major creditor against the insolvency plan in the first instance. The receiver announced that it would be appealing against this.

In its appeal, the major creditor claims that a large portion of the insolvency assets (around EUR 162 million from a total of around EUR 230 million) constitute trust assets and thus should not be distributed amongst the investors as provided for in the resolved insolvency plan but paid out directly to the investors with the right to separate their property from the insolvent estate. Until the issue of right of separation is clarified, the EdW says that it is not possible to firmly establish the compensation claims of all the investors.

To finance the planned partial compensation of investors, the EdW sent notices of special contribution to its members in the middle of December 2007. As shown in the notice of special contribution, the EdW expects that it will require financing of EUR 28.7 million in the 2008 phase of the process. The Group companies lodged an objection against the special contribution within the required deadline but recognised the special contribution as a liability in their 2007 annual financial statements and accordingly made use of the existing provision.

The amount of financing required for later phases in the compensation process depends on information from the EdW, particularly the actual compensation amounts, the time it will take to process the claims and any court rulings on the right of separation claims of the investors against the receiver and the damage claims of the EdW against third parties.

As things currently stand, Baader Wertpapierhandelsbank AG still expects compensation of approximately EUR 180 to EUR 200 million to be paid by EdW. For the risk from further recourse in the compensation process and also in line with the amount of the special notice for the compensation to be paid, Baader Wertpapierhandelsbank AG remeasured the provision it had recognised in its 2007 consolidated financial statements based on information available at the time and reduced it to EUR 8,833 thousand.

(42) Income tax liabilities

The income tax liabilities of EUR 2,560,172.93 are the current tax liabilities of the Group companies for which no legally valid tax bill has yet been issued.

(43) Other liabilities and provisions

Other liabilities of EUR 12,722,979.86 (previous year: EUR 11,550 thousand) primarily include outstanding invoices and accrued liabilities (EUR 11,079 thousand) and salary deductions (EUR 1,085 thousand) still to be paid.

(44) Deferred tax liabilities

Deferred tax liabilities constitute the potential income tax charges from timing differences between the carrying amounts of the assets and liabilities in the consolidated balance sheet in accordance with IASs/IFRSs and the tax base amounts in accordance with the local tax law provisions of the Group companies.

Deferred tax liabilities were recognised in the following items:

	31 December 2007	31 December 2006
Assets held for trading	959,180.85	1,669,963.02
Available-for-sale financial instruments	14,715.27	1,309,139.49
Intangible assets	758,842.99	857,724.94
Total	**1,732,739.11**	**3,836,827.45**

The changes in deferred tax liabilities from measurement differences in the available-for-sale financial instruments category of EUR 1,294,424.22 are charged directly to equity in the revaluation reserve. The dissolution of deferred tax liabilities from measurement differences in assets held for trading of EUR 710,782.17 in total was recognised in the net profit for the period as income tax expense.

Deferred tax liabilities arose in connection with intangible assets in the company acquisition and purchase price allocation of CCPM. They relate to the trading strategies identified as intangible assets and are reversed in line with the useful lives of the assets to the benefit of income taxes.

(45) Equity

	31 December 2007 EUR	31 December 2006 EUR
a) Issued capital	45,502,738.00	45,493,404.00
b) Share premium	60,903,955.41	60,977,655.15
c) Retained earnings	23,570,000.00	8,000,000.00
d) Revaluation reserve	1,227,280.69	6,125,477.95
e) Currency translation reserve	-9,669.76	-736.70
f) Consolidated net profit	32,761,903.53	30,667,902.22
Total before minority interests	**163,956,207.87**	**151,263,702.62**
Minority interests	1,408,200.85	1,362,441.73
Equity	**165,364,408.72**	**152,626,144.35**

a) Issued capital

The issued capital (share capital) on 31 December 2007 comprised 45,908,682 no-par value bearer shares totalling EUR 45,908,682.00.

	Number
Number of shares outstanding at 1 January 2006	**45,493,404**
Plus: treasury shares held at 31 December of the previous year	415,278
Number of shares issued on 31 December 2006	**45,908,682**
Less: treasury shares held at the balance sheet date	405,944
Number of shares outstanding at 31 December 2007	**45,502,738**

Before elimination of the treasury shares, the issued capital amounts to EUR 45,908,682.00. There are no preference rights or restrictions on the distribution of dividends at Baader Wertpapierhandelsbank AG. All issued shares are fully paid up.

The value of the issued, outstanding and authorised shares is as follows:

	31 December 2007		**31 December 2006**	
	EUR thousand	**Number**	**EUR thousand**	**Number**
Issued shares	45,909	45,908,682	45,909	45,908,682
./. Treasury shares held	406	405,944	415	415,278
= Outstanding shares (issued capital)	45,503	45,502,738	45,494	45,493,404
+ Shares of authorised capital not yet issued	22,954	22,954,341	11,477	11,477,170
Total	**68,457**	**68,457,079**	**56,971**	**56,970,574**

In accordance with section 71 (1) no. 7 of the *Aktiengesetz* (AktG – German Public Companies Act), the General Meeting on 26 June 2007 authorised Baader Wertpapierhandelsbank AG to buy and sell own shares initially up to 25 December 2008 for the purposes of securities trading at prices no more than 10% above or below the average closing price of the shares in floor trading on the Frankfurt Stock Exchange on the three preceding trading days in each case. The holdings of own shares acquired for this purpose may not exceed 5% of the Company’s share capital.

In addition, the Company was authorised by a resolution of the General Meeting on 26 June 2007, in accordance with section 71 (1) no. 8 of the AktG, to acquire shares of the Company in order to be able to offer them to third parties in the course of the acquisition of companies, parts of companies, equity interests or assets – including by means of all-share deals – and in the event of business combinations, to offer them for subscription to the beneficiaries of the Baader Wertpapierhandelsbank AG 1999, 2004 and 2006 Stock Option Plans in accordance with the authorisations by the General Meetings of 18 June 1999, 14 July 2004 and 19 July 2006, or to cancel them.

The authorisation is limited to the acquisition of own shares up to a maximum of ten percent of the share capital. The authorisation may be exercised in full or in part, on one or more occasions, in order to pursue one or more of the stated goals. The authorisation is valid until 25 December 2008. The shares will be acquired via the stock exchange. The price paid by Baader Wertpapierhandelsbank AG per share may not exceed the average closing price for the no-par value shares of Baader Wertpapierhandelsbank AG in floor trading on the Frankfurt Stock Exchange during the last five trading days prior to the purchase of the shares by more than 5% (excluding acquisition costs).

The Board of Directors is authorised, with the approval of the Supervisory Board, to offer shares of Baader Wertpapierhandelsbank AG that were acquired as a result of this authorisation to third parties when companies, parts of companies or equity interests or assets are acquired – including by means of all-share deals – and in the event of business combinations.

The Board of Directors is authorised, subject to the agreement of the Supervisory Board, to offer the Company’s own shares, which were acquired on the basis of this authorisation, to holders of options for acquisition as part of the 1999, 2004 and 2006 Stock Option Plans resolved by the General Meeting.

The subscription right of shareholders to these own shares is excluded to the extent that these shares are used in accordance with the above-mentioned authorisations. The Board of Directors is also authorised, with the approval of the Supervisory Board, to withdraw treasury shares of Baader Wertpapierhandelsbank AG that were purchased as a result of this authorisation without a further resolution by the General Meeting being required for such withdrawal or its implementation. The authorisation to withdraw shares may be exercised in full or in part.

The General Meeting on 26 June 2007 revoked the resolutions in accordance with section 71 (1) no. 7 and no. 8 of the AktG passed on 19 July 2006 and resolved the aforementioned authorisations in accordance with section 71 (1) no. 7 and no. 8 of the AktG; these are valid until 25 December 2008.

b) Share premium

The share premium comprises the premium generated on the issuance of own shares. When own (treasury) shares are bought back, the difference between the cost and the nominal amount is charged to the share premium account. If the retained earnings have been utilised, the share premium absorbs all consolidation adjustments recognised in income.

c) Retained earnings

Retained earnings comprise other retained earnings of EUR 23,570 thousand (previous year: EUR 8,000 thousand). The addition is based on the General Meeting resolution of 26 June 2007.

d) Revaluation reserve

After consideration of deferred taxes, the gains or losses on the measurement of available-for-sale financial instruments, consisting of interest-bearing and dividend-orientated instruments, are appropriated to the revaluation reserve at fair value. The gains and losses are not recognised in income until the assets are disposed of or written off.

The remaining difference from the capital consolidation of Baader Heins & Seitz Capital Management AG was also appropriated to the revaluation reserve as the gradual acquisition of the company had resulted in the hidden reserves between the individual purchase tranches being revealed in full.

	2007 EUR thousand	**2006 EUR thousand**
Measurement of available-for-sale financial instruments	1,071	7,230
Deferred taxes from measurement of available-for-sale financial instruments	-12	-1,273
Capital consolidation of gradual acquisition	168	168
Total	**1,227**	**6,125**

The decrease in the revaluation reserve with regard to available-for-sale financial instruments is due to the sale of securities (EUR 1,600 thousand) and to unrealised price changes (EUR 4,618 thousand).

e) Currency translation reserve

The currency translation reserve includes foreign exchange gains and losses that arose in capital consolidation. Exchange rate differences from the consolidation of foreign subsidiaries that do not report in the reporting currency were included here.

f) Consolidated net profit

The consolidated net profit consists of the net profit for the period before minority interest and the retained earnings from previous financial years. Some of the consolidated net profit is also intended for distribution to the shareholders for the financial year 2007. As before, the basis for the measurement of the distribution is the net profit/loss after taxes in the HGB single-entity financial statements of Baader Wertpapierhandelsbank AG. A dividend of EUR 0.25 per share is to be proposed to the General Meeting on 26 June 2008. The distribution total is EUR 11,376 thousand for the 45,502,738 shares that are currently outstanding. In the previous year, a dividend of EUR 0.25 per share was distributed. An amount of EUR 21,000 thousand is due to be appropriated to retained earnings. The remaining unappropriated surplus will be carried forward to new account.

(46) Contingent capital

The contingent capital is intended for the issuance of new shares to serve stock option plans and for the issuance of convertible bonds or warrants from bonds with warrants.

Changes in contingent capital:

EUR thousand	Contingent capital January 2007	Additions	Expiry/ utilisation/ adjustment	Contingent capital 31 December 2007
Issuance of shares	1,800	1,600	0	3,400
Convertible bonds/warrants from bonds with warrants	20,000	0	-10,000	10,000
Total	**21,800**	**1,600**	**-10,000**	**13,400**

The General Meeting on 19 July 2006 resolved a contingent capital increase of up to a nominal amount of EUR 1,200,000.00. This contingent capital increase will only be implemented by issuing up to 1,200,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 1999 Stock Option Plan on the basis of the authorisation issued on 18 June 1999 exercise their options (Contingent Capital 1999).

The General Meeting on 19 July 2006 resolved a further contingent capital increase of up to EUR 600,000.00. This contingent capital increase will only be implemented by issuing up to 600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 2004 Stock Option Plan on the basis of the authorisation issued on 14 July 2004 exercise their options (Contingent Capital 2004).

Furthermore, the share capital is contingently increased by resolution of the General Meeting from 19 July 2006 by up to a nominal amount of EUR 1,600,000.00. This contingent capital increase will only be implemented by issuing up to 1,600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 2006 Stock Option Plan on the basis of the authorisation issued on 19 July 2006 exercise their options (Contingent Capital 2006). Since the 10% threshold under section 192 (3) of the AktG was exceeded with this resolution, it was invalid under section 192 (4) of the AktG and was not filed in the commercial register.

The share capital was contingently increased by up to EUR 20,000,000.00 by means of the General Meeting resolution of 19 July 2006 through the issue of up to 20,000,000 new bearer shares (Contingent Capital 2005). The contingent capital increase serves to grant rights to the holders or creditors of convertible bonds or of warrants from bonds with warrants issued up to 28 June 2010 on the basis of the General Meeting resolution on 29 June 2005 by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest. The new shares will be issued at the conversion or option price to be stipulated each time. The contingent capital increase is only implemented insofar as these rights were exercised. The new shares carry dividend rights from the beginning of the financial year in which they are created by exercise of the conversion rights or options. The Board of Directors is authorised to stipulate the details of the contingent capital increase and its execution. The Supervisory Board is authorised to adjust the respective utilisation of the contingent capital in accordance with article 4 of the Articles of Association.

In the General Meeting on 26 June 2007, the contingently increased capital in 2005 by up to EUR 20,000,000.00 which was validated in the General Meeting of 19 July 2006, was adapted and reduced to up to EUR 10,000,000.00 (Contingent Capital 2005). In line with this, the Company's capital was increased to up to EUR 10,000,000.00 by issuing up to 10,000,000 new no-par value bearer shares. The contingent capital increase serves to grant rights to the holders or creditors of convertible bonds or of warrants from bonds with warrants issued up to 26 June 2007 on the basis of the General Meeting resolution on 29 June 2005 by Baader Wertpapierhandelsbank AG or by a company in which Baader Wertpapierhandelsbank AG holds a direct or indirect majority interest. The new shares will be issued at the conversion or option price to be stipulated each time. The contingent capital increase is only to be carried out in as much as use will be made of these rights. The new shares carry dividend rights from the beginning of the financial year in which they are created by exercise of the conversion rights or options. The Board of Directors is authorised to stipulate the details of the contingent capital increase and its execution.

In addition, the new Contingent Capital 2007 was created and the share capital was contingently increased by up to a nominal amount of EUR 1,600,000.00 by means of the General Meeting resolution of 19 July 2006. This contingent capital increase will only be implemented by issuing up to 1,600,000 new no-par value bearer shares carrying dividend rights from the beginning of the financial year of their issue insofar as the holders of options that are issued under the terms of the Baader Wertpapierhandelsbank AG 2006 Stock Option Plan on the basis of the authorisation issued on 19 July 2006 exercise their options (Contingent Capital 2007).

Authorised capital

Date of resolution	Original amount	Utilised for capital increases in previous years	Utilised in 2007 for capital increases	Restriction expired	Remaining amount	Restric-tion
10 July 2002	2,295	0	0	2,295	0	9 July 2007
10 July 2002	9,182	0	0	9,182	0	9 July 2007
26 June 2007	22,954	0	0	0	22,954	25 June 2012
Total	**34,431**	**0**	**0**	**11,477**	**22,954**	

By way of resolution by the General Meeting on 10 July 2002, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 2,295,434.00 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 9 July 2007. Shareholders' subscription rights may be disapplied, with the approval of the Supervisory Board, in full or in part in the case of a cash capital increase if the issue price of the new shares is not materially lower than the quoted market price of existing listed shares of the same class at the time the issue price is finalised (Authorised Capital I). To the extent that the Board of Directors does not make use of this right to disapply subscription rights, it can only disapply shareholders’ subscription rights – with the consent of the Supervisory Board – in order to eliminate fractions.

By way of resolution by the General Meeting on 10 July 2002, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company’s share capital by up to EUR 9,181,736.00 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 9 July 2007. The Board of Directors is authorised, with the approval of the Supervisory Board, to disapply shareholders’ subscription rights and determine the further details of the capital increase in each case and the terms of the share issue. Shareholders’ subscription rights may only be disapplied under the terms of a capital increase against non-cash contributions for the purposes of acquiring equity interests, companies, or assets – including by means of all-share deals – and for business combinations, as well as to eliminate fractions (Authorised Capital II).

The resolutions on Authorised Capital I and Authorised Capital II were revoked by the General Meeting of 26 June 2007. The new Authorised Capital 2007 was created. In line with this, the Board of Directors was authorised, with the approval of the Supervisory Board, to increase the Company’s share capital by up to EUR 22,954,341.00 by issuing new bearer shares against cash and/or non-cash contributions on one or more occasions up to 25 June 2012. The shareholders should be granted subscription rights. However with the approval of the Supervisory Board, the Board of Directors may a) disapply shareholders’ subscription rights from fractions; b) disapply shareholders’ subscription rights in order to issue the new shares against cash contributions at an issue price that is not materially lower than the quoted market price of existing listed shares at the time the issue price is finalised (section 186 (3) clause 4 of the AktG) where disapplication of the subscription rights may only relate to those shares with a theoretical value that does not exceed 10% of the share capital; c) disapply shareholders’ subscription rights in order to issue shares against non-cash contributions to acquire companies, equity interests or parts of companies or assets – including by means of all-share deals – and in the event of business combinations (Authorised Capital 2007).

(48) Foreign currency items

The following assets and liabilities were reported in foreign currency on the balance sheet date:

	2007 EUR thousand	2006 EUR thousand
Loans and advances to other banks	10,803	2,213
Loans and advances to customers	568	55
Assets held for trading	0	23
Available-for-sale financial instruments/companies consolidated at equity	6,995	396
Other balance sheet items	4,990	54
Foreign currency assets	**23,356**	**2,741**
Deposits from other banks	0	3
Due to customers	6,389	1,244
Liabilities held for trading	0	22
Other balance sheet items	401	405
Foreign currency liabilities	**6,790**	**1,674**

(49) Derivative transactions

Derivative transactions were conducted for both trading and hedging purposes. Except for one case, the transactions involved exchange-traded stock options and futures.

	Fair value 31 December 2007		Fair value 31 December 2006	
	Positive	**Negative**	**Positive**	**Negative**
Derivatives used for trading purposes	10,130.50	0.00	22,968.87	34,541.97
Derivatives used as hedging instruments for cash flow hedge accounting	0.00	0.00	28,510.00	0.00
Total	**10,130.50**	**0.00**	**51,478.87**	**34,541.97**

In the case of the derivative transactions for hedging purposes, received and paid option premiums are reported as assets held for trading and are measured at their nominal amount. Similarly, margin obligations and claims on futures are recognised as liabilities held for trading and are measured at their nominal amount. The claim on or obligation to a third party arising from an index swap is reported under loans and advances to other banks or amounts due to other banks and measured on the basis of the index value calculated on the balance sheet date. Furthermore, the claim or obligation arising from the index swap is hedged by the Company’s own reference portfolio, thereby creating a closed measurement unit (cash flow hedge).

CONSOLIDATED INCOME STATEMENT DISCLOSURES

(50) Net interest expense

The net interest expense is composed of the following items:

	31 December 2007	31 December 2006
Interest income from	**2,833,090.85**	**1,429,212.06**
- credit and money market transactions	2,813,449.48	1,429,212.06
- fixed-interest securities	19,641.37	0.00
Interest expense	**-1,147,102.10**	**-877,769.04**
Total	**1,685,988.75**	**551,443.02**

Interest expenses are composed primarily of interest expenses for loans amounting to EUR 525,622.03 and interest expenses on client funds amounting to EUR 467,626.31.

(51) Allowance for losses on loans and advances

The allowance for losses on loans and advances in the consolidated income statement is composed as follows:

	31 December 2007	31 December 2006
Additions to allowance	0.00	-62,185.55
Reversals	200.00	0.00
Write-downs	-0.48	0.00
Total	**199.52**	**-62,185.55**

(52) Net fee and commission income

	31 December 2007	31 December 2006
Fee and commission income	**62,848,030.33**	**51,134,818.00**
- Brokerage fee income	45,723,084.52	39,133,439.99
- Order routing	6,746,999.38	5,857,812.86
- Capital market services	3,024,095.63	2,008,533.63
- Brokerage of promissory note loans	1,947,342.74	1,709,374.83
- Brokerage commissions	1,699,887.37	1,624,907.18
- Management and performance fee	3,591,834.56	348,615.95
- Other fee and commission income	114,786.13	452,133.56
Fee and commission expense	**-16,310,905.56**	**-14,289,221.18**
- Brokerage fee expenses	-1,983,016.36	-1,782,428.09
- Order routing	-1,934,566.50	-2,190,910.15
- Capital market services	-8,352.73	-31,050.00
- Brokerage of promissory note loans	-75,630.31	-170,398.63
- Brokerage commissions	-498,785.31	0.00
- Management and performance fee	-1,676,440.39	0.00
- Settlement fees	-9,216,635.83	-9,038,796.09
- Other fee and commission expense	-917,478.13	-1,075,638.22
Total	**46,537,124.77**	**36,845,596.82**

(53) Net trading income

Net trading income reflects net income from trading with securities and derivative financial instruments. All of the financial instruments in the trading portfolio are measured at fair value. To measure listed products, we use market processes; for non-listed trading transactions, measurement of the fair value is based on internal price models. In addition to realised and unrealised earnings from trading activities, net trading income includes the interest and dividend income as well as refinancing costs attributable to these transactions.

	31 December 2007	31 December 2006
Securities trading	**52,108,836.09**	**49,712,904.24**
- Interest and dividends	1,131,716.44	696,530.55
- Securities	31,677,179.72	27,462,734.64
- Options and futures	-38,216.10	57,191.87
- Price differences	19,338.156,03	21,496,447.18
Foreign currencies	**-89,685.67**	**7,704.62**
- Exchange differences resulting from foreign currency transactions	-16,162.29	12,638.40
- Other	-73,523.38	-4,933.78
Total	**52,019,150.42**	**49,720,608.86**

(54) Net income from available-for-sale financial instruments

Capital and measurement gains/losses from the sale of available securities and investments are reported under net income from available-for-sale financial instruments.

	31 December 2007	31 December 2006
Interest and dividend income	**1,427,106.84**	**549,326.68**
- Fixed-interest securities	112,446.81	171,268.11
- Equities/other non-fixed-interest securities	125,631.47	21,220.48
- Investments in other investees	1,189,028.56	356,838.09
Gain/loss on the sale of available-for-sale financial instruments	**2,494,747.68**	**5,457,809.41**
- Equities/other non-fixed-interest securities	2,494,747.68	5,457,809.41
- Investments in other investees	0.00	0.00
Write-downs	**-34,476.15**	**-1,000.00**
- Write-downs	-34,476.15	-1,000.00
Total	**3,887,378.37**	**6,006,136.09**

(55) Net income from companies carried at equity

	31 December 2007	31 December 2006
Share of net income	3,789,928.36	6,248,211.33
Goodwill impairment	0.00	0.00
Total	**3,789,928.36**	**6,248,211.33**

The share of net income item comprises received dividends and the proportionate interest of the Parsoli corporation (EUR 261 thousand) and Gulf Baader Capital Markets (EUR 346 thousand), the write-up to the value of the proportion of equity held by SPAG including the proportionate equity as at 31 May 2007 (EUR 1,351 thousand), the sale of equity interests in Parsoli Corporation Ltd. (EUR 1,349 thousand) and the proportionate profit from the special fund (EUR 483 thousand).

In segment reporting, net income from companies carried at equity is disclosed in the Consolidation column.

(56) Administrative expenses

	31 December 2007	31 December 2006
Staff costs	**-44,656,692.48**	**-37,699,767.18**
- Salaries and wages	-40,263,940.75	-33,626,516.61
- Social security contributions	-2,805,228.20	-2,573,982.56
- Expenses for pensions and other benefits	-1,587,523.53	-1,499,268.01
Other administrative expenses	**-23,938,517.31**	**-18,712,909.36**
Amortisation of intangible assets, depreciation of property and equipment and write-downs	**-7,031,735.72**	**-6,744,325.46**
- Operating and office equipment	-379,004.14	-386,554.79
- Property	-855,647.81	-852,449.70
- Intangible assets	-5,797,083.77	-5,505,320.97
Total	**-75,626,945.51**	**-63,157,002.00**

The salaries and wages item contains variable salary components in the amount of EUR 20,679 thousand (previous year: EUR 16,367 thousand). Expenses in conjunction with the allocation to reserves of the pension reserves (EUR 1,396 thousand), as well as the expenses from defined contribution plan commitments (EUR 44 thousand), are contained in the expenses for pensions and other benefits.

(57) Other operating income/expenses

	31 December 2007	31 December 2006
Other operating income	4,067,328.67	2,042,437.86
Other operating expenses	-1,135,791.19	-12,678,550.15
Total	**2,931,537.48**	**-10,636,112.29**

The other operating income encompasses items which cannot be allocated to other items in the consolidated income statement. This mainly involves income from the reversal of provisions (EUR 2,169 thousand), from remuneration for non-monetary benefits from the private use of company cars and from provision of stock options (EUR 902 thousand), prior-period income (EUR 323 thousand), rental income (EUR 139 thousand) and income from sponsoring (EUR 237 thousand). Income from the reversal of provisions is determined in the majority of cases by the proportionate reversal of the provision for possible use by the EdW. A more detailed, revised description of the facts as at 31 December 2007 can be found under note 41.

The other operating expenses item encompasses items which cannot be allocated to other items in the consolidated income statement. They mainly relate to prior-period expenses (EUR 627 thousand).

(58) Income taxes on profit from ordinary activities

The income taxes were allocated as follows for the past financial year:

	31 December 2007	31 December 2006
Current income taxes	-5,209,224.16	-3,712,915.38
Refund of corporate income tax credit	313,197.07	11,608,564.08
Deferred taxes	-1,355,532.50	-2,760,065.02
Total	**-6,251,559.59**	**5,135,583.68**

The deferred taxes of the deferred tax assets include tax expenses from the dissolution of benefits recognised as assets arising from tax loss carryforwards of EUR 2,286 thousand which were not used in the financial year (see note 37).

	31 December 2007	31 December 2006
Deferred tax assets	-2,162,752.53	-2,408,707.98
Deferred tax liabilities	807,220.03	-351,357.04
Total	**-1,355,532.50**	**-2,760,065.02**

In financial year 2007 the deferred taxes are calculated together with the tax rates specific to the enterprise.

The following reconciliation of the amounts shows the relationship between the profit from ordinary activities and the income taxes and the income in the financial year. The corporate income tax rate to be applied as a basis for the reconciliation of the amounts corresponds to the income tax rate of the parent group.

	31 December 2007 EUR thousand	31 December 2006 EUR thousand
Net profit before income taxes in accordance with IASs/IFRSs	**35,224**	**25,517**
Group income tax rate (%)	38.11%	38.53%
Expected income tax expense in financial year	**13,424**	**9,832**
Effects of non-deductible operating expenses and tax-free income	-2,114	-593
Effects of loss carryforwards	-6,998	-5,241
Reversals of deferred taxes on loss carryforwards	2,286	2,541
Recognition of corporate income tax credit as asset	-313	-11,608
Effects of taxes from previous years recorded in the financial year	175	96
Effects due to tax rate changes	-205	0
Other effects	-4	-163
Income tax expense	**6,251**	**-5,136**

(59) Earnings per share

The basic earnings per share is calculated according to IAS 33 by taking the net profit/loss after taxes, less the minority interest in net profit/loss (as the enumerator), which is divided by the weighted number of common shares (denominator) outstanding on average during the financial year.

	2007	2006
Profit for the period	29,029,567.11	30,571,771.54
Weighted average number of outstanding shares	45,440.199	45,357.287
Earnings per share	**0.64**	**0.67**

The diluted earnings per share amount to EUR 0.63 and are affected by the exercisable stock options that are "in the money" (see note 24), which are accounted for in the calculation of the weighted average number of outstanding shares for the diluted earnings per share.

There is authorised capital totalling EUR 22,954,341.00 for which the subscription rights of the shareholders can be disapplied in accordance with section 203 (2) of the AktG (see note 47). This authorised capital was not included in the calculation of diluted earnings as it has no diluting effect in the present period.

As the Company can choose to grant treasury shares to serve the employee stock option plans, the contingent capital increases (see note 46) do not have any diluting effects. This also applies to the contingent capital increase through the issue of convertible bonds as the authorisation has not yet been exercised.

The net profit is not subject to any dilution.

(60) Segment reporting

Segment reporting in the consolidated financial statements of Baader Wertpapierhandelsbank AG as at 31 December 2007 is classified by business segments. Four sub-activities have been defined as the Group's primary business segments: Specialist Activities and Proprietary Trading, Agency Business, Capital Market Services and Financial Portfolio Management. In the Others/Consolidation column, along with reports of movements that do not relate directly to the four primary segments or that are not attributable to operating activities, Group income and expenses which require consolidation are also reported.

The business segment Specialist Activities and Proprietary Trading presents itself as follows: As at the balance sheet date 31 December 2007, the Group managed, as a provider of specialist activities, 12,891 primarily foreign order books related to equities, 9,307 order books for bonds and profit participation certificates, and 183,047 order books for warrants, certificates and ETFs and 1,183 order books for funds. As a provider of specialist activities, it is tasked with establishing market prices for the securities that are managed and, if necessary, ensuring additional liquidity by means of proprietary trading.

In the Agency Business area, the Group serves as a broker between domestic and foreign banks and financial service institutions for all securities listed on a German stock exchange.

Moreover, Baader Service Bank GmbH also enables access to domestic and foreign stock exchanges for institutional and private investors through electronic systems. The focus here is on trading in exchange-traded derivatives. Baader Heins & Seitz Capital Management AG brokers promissory note loans between institutional investors. The respective Company receives commissions for its brokerage activity or services provided. Business is conducted exclusively through banks.

Within the context of capital market services, the Group places securities with banks in its own name and on its own account, in part involving an underwriting syndicate. In addition, Baader Wertpapierhandelsbank AG offers companies services and consulting in all areas of capital markets, as well as for conducting capital measures. The investment business that had previously been actively operated is now no longer being pursued within the Baader Group. Existing investments in publicly traded and non-traded corporations, both domestic and foreign, will continue to be profitably managed in the Capital Market Services segment until they have been sold.

Financial portfolio management comprises the management of individual assets invested in financial instruments for others with scope for making decisions. In its function as an investment manager, Baader Service Bank GmbH offers alternative investments. This business segment also includes the operations of Conservative Concept Portfolio Management AG and Conservative Concept AG which focus on designing and implementing alternative investment strategies and specialises in employing futures and options in the form of single hedge funds, managed accounts and certificates.

Breakdown by business segment

Financial year 2007	Specialist Activities and Proprietary Trading	Agency Business	Capital Market Services	Financial Portfolio Manageme nt	Others/ Consolida-tion	Group
Net interest expense	420,304.10	1,151,599.36	59,998.62	54,086.67	0.00	1,685,988.75
Allowance for losses on loans and advances	0.00	199.52	0.00	0.00	0.00	199.52
Net interest expense after allowance for losses on loans and advances	420,304.10	1,151,798.88	59,998.62	54,086.67	0.00	1,686,188.27
Net fee and commission income	33,115,178.68	6,870,856.78	3,029,147.47	3,583,492.25	-61,550.41	46,537,124.77
Net trading income	43,943,202.01	8,500,498.37	63,125.37	0.00	-487,675.33	52,019,150.42
Net income from available-for-sale financial instruments	4,961,590.05	0.00	1,619,731.10	0.00	-2,693,942.78	3,887,378.37
Net income from equity-accounted investments	0.00	0.00	0.00	0.00	3,789,928.36	3,789,928.36
Net income from financial operations	48,904,792.06	8,500,498.37	1,682,856.47	0.00	608,310.25	59,696,457.15
Directly attributable administrative expenses	-32,178,132.19	-10,533,498.29	-1,395,272.14	-2,953,591.78	394,581.48	-46,665,912.93
Other operating income	3,588,413.59	112,282.93	35,166.34	-230,672.04	-573,653.34	2,931,537.48
Earnings after directly attributable income/expenses	**53,850,556.24**	**6,101,938.67**	**3,411,896.76**	**453,315.10**	**367,687.98**	**64,185,394.74**
Indirectly attributable administrative expenses	-17,422,260.79	-8,061,035.06	-1,816,365.36	-1,661,371.37	0.00	**-28,961,032.58**
Profit from ordinary activities	**36,428,295.45**	**-1,959,096.40**	**1,595,531.40**	**-1,208,056.28**	**367,687.98**	**35,224,362.16**
Segment assets in EUR thousand	124,439	54,995	19,774	26,219		**225,427**
Segment liabilities in EUR thousand	30,635	55,746	3,361	1,475		**91,217**
Risk-weighted assets in EUR thousand	157,914	70,617	16,194	6,005		**250,730**
Allocated capital in EUR thousand	93,250	51,846	10,814	9,426		**165,336**
Profitability of the allocated capital in regard to profit before taxes	39.1%	-3.8%	14.8%	-12.8%		**21.3%**
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	787	544	73	53		**1,457**
Write-downs of segment assets in EUR thousand	5,357	1,209	189	278		**7,033**
Average number of employees during the year	93	55	9	21	109	**287**

Breakdown by business segment (previous year)

Financial year 2006	**Specialist Activities and Proprietary Trading**	**Agency Business**	**Capital Market Services**	**Financial Portfolio Management**	**Others/ Consolidation**	**Group**
Net interest expense	-88;033.20	136,571.96	27,026.18	475,878.08	0.00	551,443.02
Allowance for losses on loans and advances	0.00	29,339.77	3,250.00	29,595.78	0.00	62,185.55
Net interest expense after allowance for losses on loans and advances	-88,033.20	107,232.19	23,776.18	446,282.30	0.00	489,257.47
Net fee and commission income	27,271,409.18	6,217,248.40	1,960,906.23	1,674,756.06	-278,723.05	36,845,596.82
Net trading income	44,146,079.41	5,345,863.31	437,631.73	12,401.36	-221,366.95	49,720,608.86
Net income from available-for-sale financial instruments	418,098.59	0.00	11,480,274.29	29,387.06	-5,921,623.85	6,006,136.09
Net income from equity-accounted investments	0.00	0.00	0.00	0.00	6,248,211.33	6,248,211.33
Net income from financial operations	44,564,178.00	5,345,863.31	11,917,906.02	41,788.42	105,220.53	61,974,956.28
Directly attributable administrative expenses	-28,827,515.11	-7,705,841.78	-1,033,681.61	-1,271,724.79	0.00	-38,838,763.29
Other operating income	-10,289,663.19	-71,044.22	46,630.45	44,722.57	-366,757.90	-10,636,112.29
Earnings after directly attributable income/expenses	**32,630,375.68**	**3,893,457.90**	**12,915,537.27**	**935,824.56**	**-540,260.42**	**49,834,934.99**
Indirectly attributable administrative expenses	-14,609,116.84	-7,012,485.91	-1,637,594.64	-1,462,390.95	403,349.63	**-24,318,238.71**
Profit from ordinary activities	**18,021,258.84**	**-3,119,028.01**	**11,277,942.63**	**-526,566.39**	**-136,910.79**	**25,516,696.28**
Segment assets in EUR thousand	110,504	49,149	35,605	15,639		**210,897**
Segment liabilities in EUR thousand	35,633	47,971	4,320	2,056		**89,980**
Risk-weighted assets in EUR thousand	130,523	34,063	25,194	7,595		**197,375**
Allocated capital in EUR thousand	93,675	42,368	10,510	6,074		**152,626**
Profitability of the allocated capital in regard to profit before taxes	19.2%	-7.4%	107.3%	-8.7%		**16.7%**
Investments in property and equipment and in intangible assets in the reporting period, in EUR thousand	1,206	643	139	2,351		**4,339**
Write-downs of segment assets in EUR thousand	5,424	1,096	139	85		**6,744**
Average number of employees during the year	93	48	7	10	94	**252**

The allocated capital disclosed in segment reporting corresponds to the consolidated equity reported in the balance sheet.

OTHER DISCLOSURES

(61) Risk reporting

Please refer to the comments in the Risk Report, which is a part of the Group Management Report, for details of market price risks and credit risks as well as the key figures for own funds in line with regulatory banking provisions.

(62) Off-balance sheet transactions

The off-balance sheet transactions contain potential future liabilities of the Group, which have been granted to customers but not yet utilised. Utilisation of these liabilities is unlikely, as already shown by the accounting treatment.

	31 December 2007	31 December 2006
Contingent liabilities		
- Liabilities from guarantees and warranty agreements	170,000.00	170,000.00
- Liability resulting from collateral for third-party liabilities	0.00	0.00
Irrevocable loan commitments		
- Current account credits to customers	15,196,204.98	2,315,866.96

The higher irrevocable loan commitments are mainly due to the increase in Lombard loans of EUR 6,225 thousand and the rise in loans against bank guarantees of EUR 6,125 thousand.

(63) Securities lending transactions

Securities lending transactions are conducted with banks in order to fulfil delivery obligations. Securities that have been lent are disclosed in the balance sheet under assets held for trading or in the available-for-sale instruments while securities that have been borrowed are not carried. Expenses and income resulting from securities lending transactions are, insofar as they involve the past financial year, taken into account in the consolidated income statement under net fee and commission income in line with their term.

	31 December 2007	31 December 2006
Lent securities	0.00	84,285.00
Borrowed securities	0.00	14,087.50

(64) Trust activities

There were no trust activities as at the balance sheet date.

(65) Other financial obligations

There are financial obligations, deriving from rental contracts for office space and car parking spaces, totalling EUR 1,082 thousand, with remaining terms of between 7 to 30 months.

In addition, there are obligations arising from vehicle leases and leases for operating and office equipment in the amount of EUR 6,350 thousand, with remaining terms of between 1 to 45 months. EUR 3,338 thousand of this is attributable to the “less than one year” term band and EUR 3,012 to a term of between 1 and 5 years.

Due to the master contract concluded on 21 December 2007 and various individual agreements (software licensing agreement, project agreement, data centre agreement) for introduction of core banking software by 31 December 2008, there is a purchase obligation of EUR 11,681,592.16 during the implementation phase. This is in addition to other financial obligations from long-term debt obligations arising from the software maintenance agreement in the amount of EUR 6,785,993.09 for the period from 2009 to 2018 and from the data centre agreement following implementation of the software in the period until 30 June 2013 in the amount of EUR 2,570,400.00.

(66) Collateral

The following financial assets were reserved or pledged as collateral for liabilities at the balance sheet date:

	31 December .2007	31 December 2006
Loans and advances to other banks	8,348,037.06	5,690,179.51
Assets held for trading/available-for-sale financial instruments/companies consolidated at equity	11,398,123.12	12,205,671.15
Other assets	567.48	2,862.48
Total	**19,746,727.66**	**17,898,713.14**

The collateral was primarily provided for conducting securities trading, securities lending transactions and to cover pension commitments.

Lombard loans from the Group company Baader Service Bank GmbH have been granted for the purchase of securities or for the coverage of collateral payments (margin requirements) for listed options and futures trading conducted through the Bank. As a rule, they are made available with a maturity of 6 months. The Lombard loans are backed by valuable collateral, as a rule through the pledging of securities and bank guarantees. At 31 December 2007, the fair value of the securities pledged to Baader Service Bank GmbH was EUR 8,935,071.55.

(67) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(68) Fair value of financial instruments

The individual assets and liabilities are measured at fair value. The fair value is the amount at which financial instruments could be sold or bought under fair conditions on the balance sheet date. Where available, market prices (for securities, for example) were used for measurement. Internal measurement models with current market parameters were used if it was not possible to determine a market price. For reasons of simplicity, the fair value was stated as the balance sheet value for loans and advances to other banks and customers as well as deposits from other banks and amounts due to customers with a remaining maturity of less than a year. There were no recognisable hidden reserves or hidden charges in the balance sheet as at the reporting date of 31 December 2007.

(69) Maturity structure

The consolidated balance sheet, broken down by maturity, presented the following picture at the 2007 balance sheet date:

	Less than 3 months EUR thousand	**Between 3 months and 1 year EUR thousand**	**Between 1 and 5 years EUR thousan d**	**More than 5 years EUR thousand**	**No expiration EUR thousand**	**Total EUR thousand**
Assets						
Cash reserve	3,273	0	0	0	0	3,273
Loans and advances to other banks	73,316	2,022	0	0	0	75,338
Loans and advances to customers	1,400	760	361	0	0	2,521
Allowance for losses on loans and advances	-62	0	0	0	0	-62
Assets held for trading	44,407	2,062	1,158	0	0	47,627
Available-for-sale financial instruments	378	5,723	3,203	0	0	9,304
Equity-accounted investments	22,214	0	8,104	0	7,898	38,216
Property and equipment	0	0	0	0	20,846	20,846
Intangible assets	0	0	0	0	12,513	12,513
Goodwill	0	0	0	0	4,600	4,600
Income tax assets	0	1,341	5,961	4,769	0	12,071
Other assets	3,474	303	961	1,430	5,083	11,251
Deferred tax assets	0	0	23,377	0	0	23,377
Total assets	**148,400**	**12,211**	**43,125**	**6,199**	**50,940**	**260,875**
Liabilities and Equity						
Deposits from other banks	7,270	0	12,481	0	0	19,751
Due to customers	41,430	0	0	0	0	41,430
Liabilities held for trading	0	0	0	0	0	0
Provisions	0	9,611	6,445	1,258	0	17,314
Provisions for taxes	0	2,560	0	0	0	2,560
Other liabilities and provisions	6,269	6,454	0	0	0	12,723
Deferred tax liabilities	1,733	0	0	0	0	1,733
Equity	0	0	0	0	165,364	165,364
Total liabilities and equity	**56,702**	**18,625**	**18,926**	**1,258**	**165,364**	**260,875**

The consolidated balance sheet, broken down by maturity, presented the following picture at 31 December 2006:

	Less than 3 months EUR thousand	Between 3 months and 1 year EUR thousand	Between 1 and 5 years EUR thousand	More than 5 years EUR thousand	No expiration EUR thousand	Total EUR thousand
Assets						
Cash reserve	485	0	0	0	0	485
Loans and advances to other banks	63,439	0	0	0	0	63,439
Loans and advances to customers	10,891	2,072	93	0	0	13,056
Allowance for losses on loans and advances	-110	0	0	0	0	-110
Assets held for trading	45,467	2,021	1,525	0	0	49,013
Available-for-sale financial instruments	0	3,573	396	0	19,299	23,268
Equity-accounted investments	0	0	0	0	11,789	11,789
Property and equipment	0	0	0	0	21,498	21,498
Intangible assets	0	0	0	0	17,412	17,412
Goodwill	0	0	0	0	4,160	4,160
Income tax assets	18	0	4,644	6,965	0	11,627
Other assets	3,906	0	882	1,472	116	6,376
Deferred tax assets	0	0	25,576	0	0	25,576
Total assets	**124,096**	**7,666**	**33,116**	**8,437**	**74,274**	**247,589**
Liabilities and Equity						
Deposits from other banks	13,423	0	13,021	0	0	26,444
Due to customers	31,999	0	0	0	0	31,999
Liabilities held for trading	0	0	0	0	35	35
Provisions	0	13,044	0	0	6,412	19,456
Provisions for taxes	0	1,642	0	0	0	1,642
Other liabilities and provisions	5,141	6,409	0	0	0	11,550
Deferred tax liabilities	1,693	1,377	361	406	0	3,837
Equity	0	0	0	0	152,626	152,626
Total liabilities and equity	**52,256**	**22,472**	**13,382**	**406**	**159,073**	**247,589**

(70) Auditor fee

The auditor fee for the year under review must be disclosed in the Annual Report, in accordance with section 315 (1) of the HGB, in addition to the provisions applicable according to IAS/IFRS.

	2007 EUR	2006 EUR
Audit of the annual accounts	359,442.62	418,650.00
Other confirmation and valuation services	253,060.44	39,440.00
Tax consultancy services	48,235.34	82,920.41
Other services performed	49,255.00	30,044.00
Total	**709,993.40**	**571,054.41**

(71) Employees

An average of 252 staff (226 staff in the previous year) were employed by Baader Wertpapierhandelsbank AG Group in the year under review. At the balance sheet date there were 298 employees. 177 were employees in trade-related areas and 121 were employees in the administration departments. The Group's workforce comprises 80 female employees and 218 male employees who come from 12 countries.

(72) Related party disclosures

The General Meeting of Baader Wertpapierhandelsbank AG resolved as follows on 19 July 2006: "There will be no disclosure of the emoluments and other benefits received by each individual member of the Board of Directors (section 285 clause 1 no. 9 lit. A clauses 5 to 9 of the HGB and section 314 I no. 6 lit. a clauses 5 to 9 of the HGB) for financial years 2006 to 2010 in either the annual or the consolidated financial statements." As a result, individualised disclosure of the emoluments of the Board of Directors is no longer possible on a statutory basis either. The Board of Directors and the Supervisory Board also draw attention to the fact that a deviation from the recommendation that the compensation of members of the Board of Directors should be disclosed individually in accordance with 4.2.4 of the German Corporate Governance Code will not have to be declared in future in the annual declaration of compliance in accordance with section 161 of the AktG.

Along with the fixed compensation, the compensation of the members of the Board of Directors also comprises variable, performance-related components as well as long-term incentives. All forms of compensation are determined by the Supervisory Board. In accordance with the accrual principle (disbursed in 2007), EUR 2,349 thousand is reported as the total compensation for members of the Board of Directors in financial year 2007. This includes non-cash compensation of EUR 129 thousand which must be treated as monetary value benefits for tax purposes. In specific cases, the total remuneration also contains the remuneration granted for the financial year for assuming executive body functions at consolidated companies (EUR 40 thousand). Based on accrual accounting under commercial and accounting law, and subject to the Baader Wertpapierhandelsbank AG annual financial statements being available in the present form for financial year 2007, the variable remuneration for financial year 2007 (to be disbursed in 2008) amounts to EUR 2,029 thousand.

In accordance with the accrual principle:

	2007 EUR	**2006 EUR**
Board of Directors		
- fixed compensation	1,548,000.00	1,472,587.00
- variable compensation	671,787.93	257,983.24
Total	**2,219,787.93**	**1,730,570.24**

The members of the Board of Directors also receive, along with their fixed compensation and the performance-related variable compensation, options deriving from the Baader Wertpapierhandelsbank AG stock option plan (see note 24). A total of 63,750 stock options were issued to the Board of Directors in financial year 2007. The following table shows changes in members of the Board of Directors' stock options for financial years 2000 to 2006.

	2006	2005	2004	2003	2002	2001	2000	Total
Granted options	63,750	75,000	75,000	103,000	170,000	172,000	83,804	742,554
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	19,000	58,000	37,714	114,714
Exercised options	0	0	37,500	103,000	151,000	114,000	15,240	420,740
Outstanding options	**63,750**	**75,000**	**37,500**	**0**	**0**	**0**	**30,850**	**207,100**
Exercisable options	**0**	**0**	**37,500**	**0**	**0**	**0**	**30,850**	**68,350**
Residual term (in months)	76	65	53	41	28	16	4	-

The Bank provides for pensions for two members on the Board of Directors and one former member of the Board. The existing pension obligations (DBO) as at 31 December 2007 in accordance with IASs for active Board of Directors members amount to EUR 9,734,730 (previous year: EUR 8,075 thousand).

The transparency regulations of the German Corporate Governance Code, based on the legal regulations of section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), require details on Baader Wertpapierhandelsbank AG stock and stock option transactions conducted by the members of the Board of Directors to be provided in the notes. In accordance with section 15a of the WpHG, purchases and sales by members of the Board of Directors must be reported and published if they exceed a yearly exemption of EUR 5000.00. The Company publishes these on its Internet website. In the financial year, notification was provided of one purchase (3,000 shares with a transaction value of EUR 13,200.00).

Majority ownership of Baader Wertpapierhandelsbank AG lies with Baader Beteiligungs GmbH, Munich. No transactions were conducted between the two companies in the past year. The equity interest of Mr. Uto Baader in Baader Wertpapierhandelsbank AG is held by Baader Immobilienverwaltungs GmbH & Co. KG (2,492,788 shares) and Baader Beteiligungs GmbH (28,104,000 shares). In addition, Uto Baader holds 137,512 shares privately. In total, Uto Baader's shares equate to 66.95% of the issued capital of Baader Wertpapierhandelsbank AG. Over and beyond this, no member of the Board of Directors owned more than 1% of the share capital of Baader Wertpapierhandelsbank AG as at 31 December 2007. As at 31 December 2007, members of the Board of Directors held a total of 31,013,468 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The policy covers the personal liability risk in the event that claims are made against members of the Board of Directors for losses incurred in exercising their management functions. The members of the Board of Directors do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Board of Directors for their tasks.

Compensation of the members of the Supervisory Board is governed by section 13 of the Articles of Association of Baader Wertpapierhandelsbank AG. Accordingly, the Supervisory Board members receive compensation in addition to reimbursement of their expenditure, which consists of a fixed and a variable component. The amount of the variable compensation depends on the Group's profit from ordinary activities. It amounts to between 0.09% and 0.18% for the individual Supervisory Board members. Individually, the compensation of the individual Supervisory Board member may not exceed three times the basic compensation.

The fixed compensation is paid in the final month of the financial year. The variable compensation is payable after the ordinary General Meeting that resolves on utilisation of the unappropriated surplus for the relevant financial year.

For financial year 2007, the Supervisory Board received the following compensation according to the accrual principle:

	2007 **EUR**	**2006** **EUR**
Supervisory Board (without indemnification or disbursements)		
- fixed compensation (excluding sales tax)	150,000.00	150,000.00
- variable compensation (excluding sales tax)	172,237.72	75,250.80
Total	**322,237.72**	**225,250.80**

Subject to the General Meeting of Baader Wertpapierhandelsbank AG approving the annual financial statements for 2007 in the present form, this will result in a variable compensation for financial year 2007 totalling EUR 239,625.00.

The members of the Supervisory Board do not receive any stock options or other share-based compensation for their Supervisory Board activities. If employee representatives on the Supervisory Board receive stock options under the conditions of the stock option plans resolved by the General Meetings, these payments are due to their position as employees of Baader Wertpapierhandelsbank AG and are independent of their supervisory function.

As employees of the Company, the employee representatives on the Supervisory Board received 4,000 stock options overall in financial year 2007. The following table shows changes in the stock options of employee representatives in the Supervisory Board for financial years 2000 to 2006.

	2006	2005	2004	2003	2002	2001	2000	Total
Granted options	4,000	2,440	2,640	2,800	4,000	5,200	1,590	22,670
Exercise price	5.32	6.02	2.34	2.96	1.12	2.14	5.30	-
Forfeited options	0	0	0	0	0	0	0	0
Exercised options	0	0	0	0	4,000	5,200	0	9,200
Outstanding options	**4,000**	**2,440**	**2,640**	**2,800**	**0**	**0**	**1,590**	**13,470**
Exercisable options	**0**	**0**	**2,640**	**2,800**	**0**	**0**	**1,590**	**7,030**
Residual term (in months)	76	65	53	41	28	16	4	-

The monetary value of the stock options of employee representatives in the Supervisory Board, who received stock options as the Company's employees in 2006, amounts to EUR 5,600.40 (previous year: EUR 2,433.90). The monetary value was measured using the Black & Scholes option pricing formula. The monetary value amounts to EUR 1.4001 per share (previous year: EUR 0.9975 per share).

The transparency regulations of the German Corporate Governance Code, based on the legal regulations of section 15a of the WpHG, require details on Baader Wertpapierhandelsbank AG stock and stock option transactions conducted by the members of the Supervisory Board to be provided in the notes. In accordance with section 15a of the WpHG, purchases and sales by members of the Supervisory Board must be reported and published if they exceed a yearly exemption of EUR 5,000.00. The Company publishes these transactions on its Internet website. In the financial year, a total of 2 sales (5,600 shares with a nominal value of EUR 30,160.00) by members of the Supervisory Board were reported.

As at 31 December 2007, no Supervisory Board member owned more than 1% of the share capital of Baader Wertpapierhandelsbank AG. On 31 December 2007, the members of the Supervisory Board held a total of 7,600 shares in Baader Wertpapierhandelsbank AG.

The Company maintains a D&O (directors' and officers' liability insurance) policy. It is concluded for a period of one year and is extended annually. The insurance covers the personal liability risk in the event that claims are filed against the members of the Supervisory Board for financial loss arising when the members exercise their function. The members of the Supervisory Board do not have a deductible in the sense of the German Corporate Governance Code. The Company does not consider that a deductible improves the motivation and responsibility of members of the Supervisory Board for their tasks.

At the balance sheet date, the total amount of credit granted was as follows:

	2007 EUR	2006 EUR
Board of Directors	332,197.17	113,813.63
Supervisory Board	103,778.89	32,945.76

Loans to members of the Board of Directors in financial year 2007 were provided with maturity periods as at 31 December 2007 of 6 to 20 months and an interest rate of 5%. Loans to members of the Supervisory Board (including loans provided to the employee representatives in the Supervisory Board) were provided in financial year 2007 with a maturity period as at 31 December 2007 of 2 to 12 months and an interest rate of 5%.

(73) Letter of comfort

Baader Wertpapierhandelsbank AG has assumed responsibility for ensuring that in the period in which Baader Service Bank GmbH (BSB), which was included as a wholly-owned subsidiary in the consolidated financial statements, is named and acts as a portfolio manager for the special funds of Citigroup Investment Deutschland Kapitalanlagegesellschaft mbH (CID), is managed suitably and has the financial resources to meet its liabilities from the contractual relationship between CID and BSB punctually and for claims arising from unauthorised conduct by BSB in relation to CID. The liability of Baader Wertpapierhandelsbank AG is hereby limited to an amount of EUR 10 million.

Furthermore, Baader Wertpapierhandelsbank AG also assumes liability for its subsidiary Baader Service Bank GmbH for their liabilities from BSB’s contract with J.P. Morgan Securities Ltd. (JPM) to a maximum of EUR 20 million. There is a contractual agreement in place between BSB und JPM to settle foreign currency forward contracts.

(74) Corporate Governance Code

The company’s Declaration of Compliance was issued by the Board of Directors and the Supervisory Board in November/December 2007 and made permanently available to the shareholders. This took place by means of the publication of the Declaration of Compliance on the Company’s Internet website on 14 December 2007 and publication in the electronic *Bundesanzeiger* (German Federal Gazette) on 27 December 2007.

(75) Executive bodies of Baader Wertpapierhandelsbank AG

Board of Directors

Uto Baader, Munich

- Chairman of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Managing Director of Baader Beteiligungs GmbH, Munich
- Member of the Supervisory Board of Baader Management AG, Unterschleissheim
- Member of the Administrative Board of Medi-Globe Corp., Tempe AZ, USA
- Member of the Supervisory Board of Bayerische Börse AG, Munich
- Chairman of the Stock Exchange Council of the Munich Stock Exchange, Munich
- Chairman of the Administrative Board of Parsoli Corporation Ltd., Mumbai, India
- Chairman of the Administrative Board of Parsoli Insurance Brokers Ltd., Mumbai, India (since 20 April 2007)
- Chairman of the Administrative Board of Parsoli Commodities Ltd., Mumbai, India (since 20 April 2007)
- Chairman of the Administrative Board of Parsoli Travel House Ltd., Mumbai, India (since 20 April 2007)
- Member of the Administrative Board of Parsoli Motor Works PVT Ltd., Ahmedabad, India (since 2 November 2007)

- Member of the Administrative Board of Parsoli Infrastructure PVT Ltd., Ahmedabad, India (since 2 November 2007)
- Chairman of the Supervisory Board of STEICO AG, Munich (since 1 August 2007)
- Deputy Chairman of the Administrative Board of Gulf Baader Capital Markets S.A.O.C., Muscat, Oman (since 25 August 2007)

Dieter Brichmann, Penzberg

- Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Executive of Baader Service Bank GmbH, Unterschleissheim
- Chairman of the Supervisory Board of Baader Management AG, Unterschleissheim
- Chairman of the Supervisory Board of Baader Heins & Seitz Capital Management AG, Unterschleissheim
- Chairman of the Supervisory Board of Conservative Concept Portfolio Management AG, Bad Homburg

Stefan Hock, Munich

- Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Member of the Supervisory Board of Baader Management AG, Unterschleissheim
- Vice Chairman of the Supervisory Board of e-m-s new media AG, Dortmund

Dieter Silmen, Baldham

- Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Member of the Stock Exchange Council of the Baden-Württemberg Stock Exchange, Stuttgart
- Member of Stock Exchange Council of the Berlin Stock Exchange, Berlin
- Member of the Exchange Broker Committee of the Munich Stock Exchange, Munich

Christopher Schütz, Starnberg

- Member of the Board of Directors of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Member of the Administrative Board of Gulf Baader Capital Markets S.A.O.C., Muscat, Oman (since 25 August 2007)

Supervisory Board

Dr Horst Schiessl, Munich

Age: 66
Occupation: Lawyer
Member of the Supervisory Board since: 26 February 1999

- Chairman of the Supervisory Board of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Chairman of the Supervisory Board of Softing AG, Haar near Munich
- Vice Chairman of the Supervisory Board of SPAG St. Petersburg Immobilien und Beteiligungs AG, Darmstadt
- Member of the Supervisory Board of Dussmann AG & Co. KGaA, Berlin
- Chairman of the Advisory Committee of Trion Pharma GmbH, Munich
- Member of the Supervisory Board of System Consult AG, Munich (since 30 June 2007)

Dr Christoph Niemann, Meerbusch
Age: 71
Occupation: Banker
Member of the Supervisory Board since: 10 July 2002

- Vice Chairman of the Supervisory Board of Baader Wertpapierhandelsbank AG, Unterschleissheim
- Member of the Administrative Board of HSBC Trinkaus & Burkhard AG, Duesseldorf

Dr Norbert Juchem, Munich
Age: 55
Occupation: Management Consultant
Member of the Supervisory Board since: 15 July 2003

Helmut Schreyer, Munich
Age: 65
Occupation: Banker
Member of the Supervisory Board since: 14 July 004

- Member of the Supervisory Board of Reichmuth & Co. Integrale Vermögensverwaltung AG, Munich
- President of Afra Holdings Ltd., Toronto, Canada
- President of Herma Holdings S.C. Inc., Toronto, Canada

Rainer Merklinghaus, Vaterstetten
Age: 45
Occupation: Bank Employee
Member of the Supervisory Board since: 21 May 2003 (employee representative)

Thomas Wiegelmann, Sulzbach, Taunus
Age: 39
Occupation: Bank Employee
Member of the Supervisory Board since: 26 June 1998 (employee representative)

(76) Group shareholding

Name / headquarters	Equity share (%)	Most recent annual financial statements	Equity (total)	Net profit/loss of the previous financial year
Baader Management AG, Unterschleissheim *)	100.00	31 Dec. 2007	EUR 48,851.29	EUR 313.55
Baader Service Bank GmbH, Unterschleissheim *)	100.00	31 Dec. 2007	EUR 10,339,008.78	EUR 554,812.72
Baader Heins & Seitz Capital Management AG, Unterschleissheim *)	70.00	31 Dec. 2007	EUR 373,946.27	EUR 187,466.97
Conservative Concept Portfolio Management AG, Bad Homburg *)	55.36	31 Dec. 2007	EUR 1,785,509.07	EUR 123,246.45
Direcct AG, Bad Homburg *)	100.00	31 Dec. 2007	EUR 615,950.65	EUR 381,321.23
Conservative Concept AG, Zug, Switzerland *) [2])	99.99	31 Dec. 2007	EUR 493,306.16	EUR 306,598.13
SPAG St. Petersburg Immobilien- und Beteiligungs AG, Darmstadt *)	39.81	31 May 2007	EUR 4,173,018.54	EUR 1,330,185.69
Parsoli Corporation Ltd., Mumbai, India*) [1])	21.93	31 March 2007	EUR 9,335,821.82	EUR 685,236.90
Gulf Baader Capital Markets S.A.O.C., Muscat, Oman *) [4)]	24.90	31 Dec. 2007	EUR 12,072,311.94	EUR 1,389,502.36
U.C.A. AG, Munich	13.81	31 Dec. 2006	EUR 27,463,842.16	EUR 3,513,574.68
KST Beteiligungs AG, Stuttgart	9.19	31 Dec. 2006	EUR 34,245,370.28	EUR 9,108,279.66
BEN Bavarian Equity Network GmbH, Munich	20.00	31 Dec. 2006	EUR 54,398.43	EUR -9.736,88
Stillking Film Holdings Ltd., St. Helier, Jersey [3])	6.50	31 Dec. 2005	EUR 7,383 thou.	EUR 2,263 thou.
Brain Abwicklungsgesellschaft AG, Breisach	9.09			Insolvent

Company information based on audited and/or published single-entity financial statements

*) Companies included in the consolidated financial statements
[1]) The equity and net profit of the financial year ended 31 December 2007 were translated (EUR/INR 57.484)
[2]) The equity and net profit of the financial year ended 31 December 2007 were translated (EUR/CHF 1.6547)
[3]) The equity and net profit of the financial year ended 31 December 2005 were translated (EUR/USD 1.1797)
[4]) The equity and net profit of the financial year ended 31 December 2007 were translated (EUR/OMR 0.56165)

Unterschleissheim, 29 February 2008
Baader Wertpapierhandelsbank AG
Board of Directors

Uto Baader   Dieter Brichmann

Stefan Hock   Christopher Schütz   Dieter Silmen

Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Unterschleissheim, 29 February 2008
Baader Wertpapierhandelsbank AG
The Board of Directors

Uto Baader Dieter Brichmann

Stefan Hock Christopher Schütz Dieter Silmen

Auditors' Report

We audited the consolidated financial statements – comprising the balance sheet, the income statement, the statements of changes in equity and the cash flow statement, and the notes to the financial statements – as well as the Group management report, of **Baader Wertpapierhandelsbank AG, Unterschleissheim,** for the financial year 1 January to 31 December 2007. The preparation of the consolidated financial statements and Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code), are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides an adequately sound basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations and cash flows of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides an accurate view of the Group's position and accurately presents the opportunities and risks of future development.

Bremen, 21 March 2008

Clostermann & Jasper Partnerschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Clostermann) (Lamm)
Auditor Auditor

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