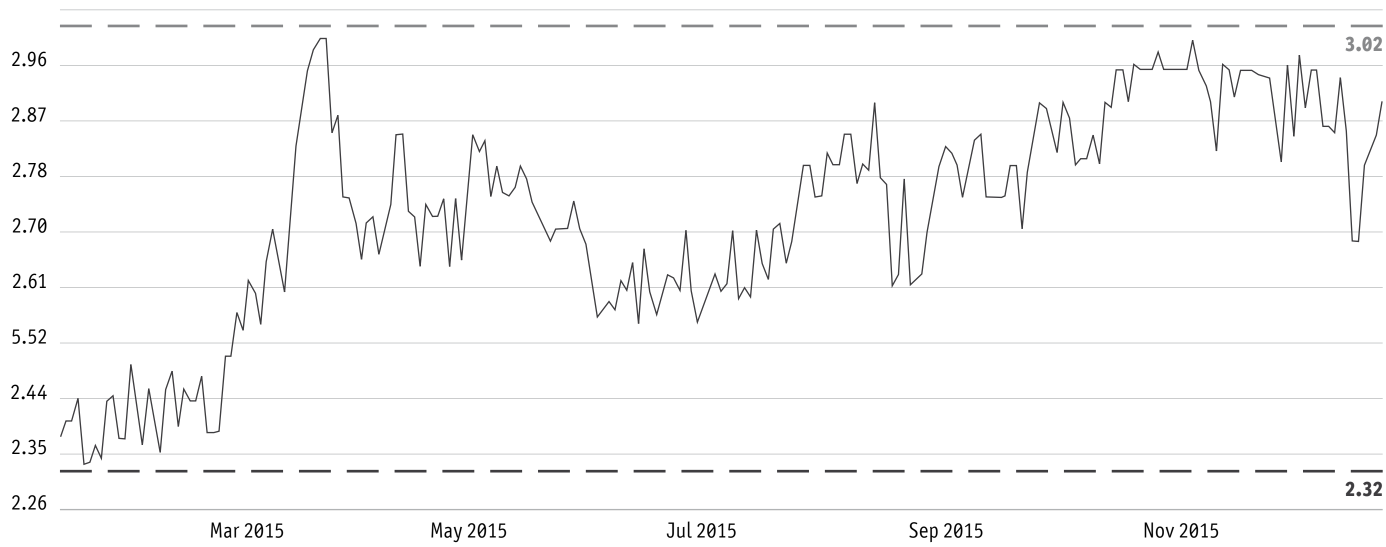
# Management Report of Baader Bank Group 2015

# Key Figures

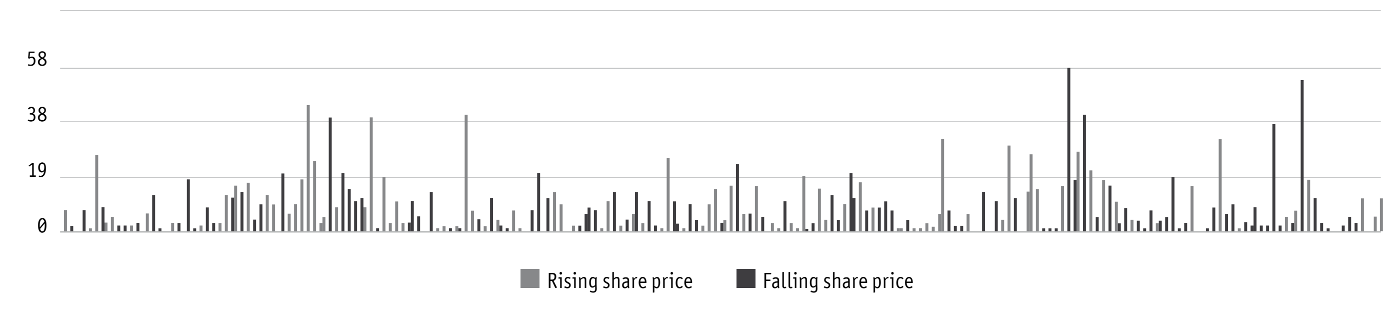
| Baader Bank Group | 2014 | 2015 | Change from Prior Year absolute | Change from Prior Year relative |
|---|---|---|---|---|
| | EUR'000 | EUR'000 | EUR'000 | % |
| **Income** | **116,512** | **111,997** | **−4,515** | **−4** |
| Net interest income and current income | 3,227 | 2,495 | −732 | −23 |
| Net commission income | 52,402 | 50,147 | −2,255 | −4 |
| Trading profit / loss | 43,761 | 52,553 | 8,792 | 20 |
| Other income | 17,122 | 6,802 | −10,320 | −60 |
| **Expenses** | **116,277** | **119,590** | **3,313** | **3** |
| Personnel expenses | 61,037 | 54,209 | −6,828 | −11 |
| Administrative expenses and other operating expenses | 42,044 | 42,242 | 198 | 0 |
| Depreciation, amortization, and impairments | 9,920 | 20,579 | 10,659 | > 100 |
| Net income/expenses from interests in associated companies | 3,276 | 2,560 | −716 | −22 |
| **Operating result *** | **−12,648** | **52** | **12,700** | **> 100** |
| **Earnings before taxes (EBT)** | **235** | **−7,593** | **−7,828** | **> −100** |
| **Total assets** | **663,293** | **576,330** | **−86,963** | **−13** |

* Gross profit less personnel and other administrative expenses and less depreciation, amortization, and impairments of intangible assets and property, plant, and equipment

**Share price** IN EUR




**Trading volumes** IN THOUSANDS OF SHARES

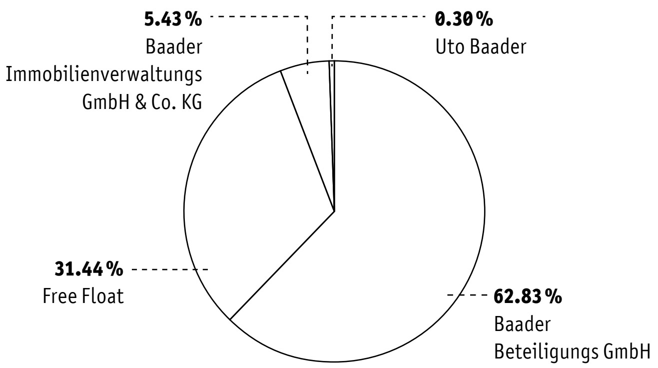


# Facts and Figures

**Key data and other information**

| | |
|---|---|
| **WKN** | 508810 |
| **ISIN** | DE0005088108 |
| **Reuters Code** | BLMG.MU |
| **Bloomberg Code** | BWB@GR |
| **Ticker** | BWB |
| **Branch** | Banking |
| **IPO** | 01.08.1994 |
| **Home Exchange** | Munich / m:access |
| **Stock Exchanges** | Xetra |
| | Frankfurt |
| | Berlin |
| | Düsseldorf |
| | Hamburg |
| | Stuttgart |

**Shareholder Structure of Baader Bank Aktiengesellschaft**




**Executive Board**

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

**Supervisory Board**

Dr. Horst Schiessel (Chairman)
Dr. Christoph Niemann (Deputy Chairman)
Karl-Ludwig Kamprath
Helmut Schreyer
Jan Vrbsky
Theresia Weber

Baader Bank AG is a stock corporation organized under the laws of the Federal Republic of Germany, with its head office in Munich.

Baader Bank AG is registered with the Local Court in Munich under record number HRB 121537 and is regulated by the German Federal Financial Supervisory Authority (BaFin), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main and Graurheindorfer Str. 108, 53117 Bonn.

The Value-Added Tax Identification Number of Baader Bank AG is DE 114123893.

The LEI (Legal Entity Identifier) serves to clearly identify all companies and funds domiciled in Germany that are required to file reports in accordance with future regulatory requirements: 529900JFOPPEDUR61H13.

The Creditor Identifier (CI) serves to clearly identify the receiver of a debit entry (creditor) in connection with a SEPA direct debit procedure: DE54ZZZ00000118113.

The GIIN (Global Intermediary Identification Number) serves the purpose of reporting to the Internal Revenue Service (USA) in connection with the FATCA (Foreign Account Tax Compliance Act) and confirming that Baader Bank AG is a FATCA-conformant institution: HPMLSE.00000.LE.276.

**Notes**
We consider the external data sources used in our report to be trustworthy and reliable. Although they were carefully researched, we assume no responsibility for the accuracy of this information.

The forward-looking statements made in this report are based on current expectations, presumptions, and forecasts that are derived from currently available information. No assurance is given that future developments will occur.

Insofar as registered trademarks or brand names are mentioned in this report, they are the property of the respective owners even if they are not expressly identified as such. Even without identification, they are not free names within the meaning of trademark and brand name legislation.

# Contents

# Group Management Report

## 1 General information about the Baader Bank Group

### 1.1 Organizational and legal structure

Baader Bank AG (Baader Bank) understands itself to be one of the leading investment banks in Germany and a market leader in trading with financial instruments. In fiscal year 2015, the Baader Bank Group comprised seven consolidated companies, including three subsidiaries and four sub-subsidiaries, in addition to the parent company. The Group headquarters is located in Unterschleißheim near Munich. Other German branches of Baader Bank are located in Frankfurt am Main, Stuttgart, and Düsseldorf.

The subsidiary Baader & Heins Capital Management AG (Baader & Heins), in which Baader Bank holds a 75% equity interest, and its wholly-owned subsidiary SKALIS Asset Management AG (SKALIS) have their registered offices in the Group headquarters building in Unterschleißheim. Conservative Concept Portfolio Management AG (CCPM AG), in which Baader Bank holds a 66.07% interest, has its registered office in Bad Homburg v.d. Höhe, but will move into the premises of Baader Bank in Frankfurt am Main in 2016. Furthermore, the liquidation of Conservative Concept AG (CC AG), Zug/Switzerland, the wholly-owned subsidiary of CCPM AG, has been resolved for 2016.

The wholly-owned Swiss subsidiary of Baader Bank, Helvea S.A., is represented in locations in Geneva and Zurich. This company, together with its wholly-owned subsidiaries Helvea Ltd. (registered office in London) and Helvea Inc. (registered office in New York), as well as the existing office in Montreal and a new office opened in Boston in early 2016, form the Helvea Group. The sales and research competencies of the Helvea Group, which are fully integrated into the Baader Bank's core business segment of investment banking, are conducted under the brand name Baader-Helvea.

Clueda AG (Clueda AG), Munich, was merged into Baader Bank (merger by absorption, Section 2 (1) Corporate Transformation Act, UmwG) with effect from January 1, 2015 as part of an effort to consolidate the Group's subsidiaries. The financial investment in U.C.A. AG, Munich, was completely sold with effect from November 30, 2015. No corporate-law changes were made to the equity interests in Gulf Baader Capital Markets S.A.O.C. Muscat/Oman, and Ophirum ETP GmbH in 2015 (Ophirum ETP GmbH), Frankfurt am Main.

A total of 449 employees worked for Baader Bank at the end of 2015. As in the prior year, the Group's business performance is mainly determined by the performance of Baader Bank.

The shares of Baader Bank are traded over-the-counter in the m:access Open Market segment of the Munich Stock Exchange, and in the Open Markets in the Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Hannover and Stuttgart Stock Exchanges.

Baader Beteiligungs GmbH, Munich, holds 62.83% of the equity in Baader Bank, Baader Immobilienverwaltungs GmbH & Co. KG holds 5.43%, the company founder and former Executive Board Chairman Uto Baader holds 0.30%, and the remaining 31.44% is widely held.

Baader Bank operates under a full banking license, is a member of the German banking association Bundesverband deutscher Banken e.V., and is a member of that association's deposit insurance fund.

Effective July 1, 2015, Nico Baader assumed the position of the company's Executive Board Chairman, while retaining responsibility for the Market Making Division. The company's founder, Uto Baader, annulled his contract effective June 30, 2015, in accordance with his wishes. The Chief Financial Officer Dieter Brichmann, whose contract had already been extended ahead of time, was appointed as the Vice Chairman with effect from July 1, 2015.

In recognition of the growing importance of the Institutional Investors and Corporate Customers segments, the Supervisory Board appointed the previous Division Heads Christian Bacherl and Oliver Riedel to the company's Executive Board with effect from July 1, 2015.

Important note: Changes of content and form have been made to the present Management Report 2015 of the Baader Bank Group compared to the Management Report for the 2014 reporting period. It is the opinion of the Management that these changes have improved the clarity, completeness, and clearness of the Group Management Report, the structure of which is now consistent across the Baader Bank Group.

### 1.2 Business model of the Baader Bank Group

The core business of Baader Bank consists of providing high-quality services in the areas of market making and investment banking. In addition, the supporting segments serve the purpose of task fulfillment and services for various customer groups in the core business segments. The supporting segments of Baader Bank are the Deposits, Custody Account, and Credit Department, the Research Department, and the Asset Management & Services Department. This latter department provides financial portfolio management services in the sense of the regulatory definition, and other services for institutional buyers in the white labeling business, which are not offered under the Baader Bank brand name.

The supplementary segments of Baader Bank include the Executive Board's Own-Account Trading Department, the Treasury Department charged with the task of preserving and controlling the bank's liquidity situation, and the Financial Portfolio Management Department that performs active investment management for the Group's own strategies and products. This latter department performs a necessary function because Baader Bank itself offers and distributes products that compete with clients' products only through Group companies and under their brand names.

The business model did not undergo any significant changes in fiscal year 2015. The performance of the individual business segments is presented and explained in the following sections.

#### 1.2.1 Market Making segment

In the core business segment of Market Making, Baader Bank handles more than 800,000 order books on German and foreign stock exchanges. Therefore, the institution is one of the leading market makers in the German-speaking world. Market making subsumes all those activities that are known as order book broker, specialist, and specialist or quality liquidity provider, depending on the organization and terminology of the respective stock exchange.

In its market making activities, Baader Bank acts on behalf of regulated stock exchanges in Germany (Berlin Stock Exchange, Frankfurt Stock Exchange, Stuttgart Stock Exchange, Munich Stock Exchange and Gettex, and Frankfurt Certificates Stock Exchange), in Switzerland (Bern Stock Exchange), and Austria (Vienna Stock Exchange). Depending on the respective market model, it quotes prices and executes orders for exchange-traded domestic and foreign shares, bonds, investment funds, participation certificates, Exchange Traded Products (ETPs), and securitized derivatives. This service is provided on the basis of uniform internal standards, stock exchange regulations, and regulatory requirements. It is the stated goal of Baader Bank to ensure fundamentally equal task fulfillment with a constantly high level of quality on all stock exchanges and in all categories of securities.

Baader Bank's activity in over-the-counter securities trading is also conducted within the Market Making segment. This business comprises the intermediary activities that Baader Bank conducts in cooperation with partner banks, mainly direct banks or online brokers. In this business, Baader Bank quotes tradable prices on OTC trading platforms in Germany and Austria at the respective trading times for equities, bonds, investment funds, and ETPs.

### 1.2.2 Investment Banking segment

Baader Bank's core business segment of Investment Banking subsumes the services provided to both institutional investors and corporate customers in the primary and secondary market. The former group of customers is served by the Equities & Derivatives Department, which performs sales and trading for institutional investors, and the latter group is served by the Financing Group, which provides capital market services.

Within the core business segment of Investment Banking, the Equities & Derivatives Division provides all services for clients in the secondary market and handles the placement and sales of primary market transactions. Specifically, this involves brokerage (electronic trading), i.e., automated order execution in shares, bonds, ETPs, securitized derivatives, and derivatives for clients on the national and international stock exchanges and trading platforms to which Baader Bank is directly connected. In its sales activity, Baader Bank actively addresses end customers and sells research products and trading ideas. The goal is to generate client orders in financial instruments and sell products from the bank's own primary market transactions. Sales-Trading comprises the acceptance and execution of client orders.

The services portfolio of the Financing Group comprises the provision of independent advice on financing deals and capital market transactions, the structuring and execution of equity or debt transactions in the capital markets, and selected project financing deals. In the independently offered services package of corporate broking, Baader Bank provides independent and continuous advice on financing deals and transactions, accompanied by support in the capital markets, and the support of selected, exchange-listed stocks through active designated sponsoring. The technical trading services offered, which are also known as Special Execution, include support on capital measures, capital increases and decreases, the support of voluntary and obligatory offers related to the purchase of shares, support of squeeze-out procedures, and the retirement of invalid physical share certificates.

### 1.2.3 Business segments of the subsidiaries and associated companies

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

## 1.3 Goals and strategies

Baader Bank did not make any significant changes to the definition, organization, or prioritization of the core business segments, basic business segments, and supplementary business segments in fiscal year 2015. At the present time, moreover, no fundamental changes to the Group's strategy are planned for 2016. The Group's strategic action is focused on core competencies, expanding the core business, the consolidation of the Group's structure, the review of business processes to ensure efficiency and efficacy, raising cost awareness, and optimizing the cost structure in all areas of the Group.

Market making on the German-speaking stock exchanges will undergo further structural changes in the medium term. Traditional price determination and order execution in closed order books will have to compete with multi-market-maker systems or quote-request systems. Baader Bank will face this transformation and the related challenges and maintain its competitiveness in the market models and trading systems of the future. In adapting to this structural market change, Baader Bank will benefit from its strong position as one of the leading German-speaking specialists. Moreover, Baader Bank's proven ability to conduct business as a market maker in the international context will open up the chance of scalability to other international trading platforms.

In its second core business segment of Investment Banking, Baader Bank strives to generate consistently strong growth. The bank will strive to expand its position in capital market services fundamentally on the basis of the adopted strategy and mainly through the organizations established in the past, which have proven themselves in the market. The strategic goal is to defend the bank's leading position in the segment of transactions of up to EUR 100,000 thousand and further improve its position in the segment of transactions between EUR 100,000 thousand and EUR 250,000 thousand. In this segment, Baader Bank strives to be among the best five service providers in Germany. In addition, the bank is working intensively on improving its target placement in other segments with larger transaction volumes. Besides winning additional equity mandates, the bank will strive to generate further growth in this segment by broadening the product universe and pursuing selected project financing deals.

In the Equities & Derivatives Department, the bank will strive to expand its traditional business activities through the already initiated deployment of its own ETF Sales department, by increasing business with asset managers, and by means of additional market cultivation measures, efficiency enhancement measures, and efficacy enhancement measures.

Another important element of growing importance for market success is the consolidated, increasingly intensified cooperation between Baader Bank's Investment Banking segment and the Swiss subsidiary Helvea SA, also in the interest of realizing attractive cross-selling synergies.

## 2 Economic report

### 2.1 General economic environment and conditions in the investment banking sector

#### 2.1.1 General economic environment

Review of capital markets in 2015: Worldwide financial markets dominated by monetary policy

Financial markets were dominated by the prospect of rising U.S. interest rates and the asymmetrical performance of the global economy. Emerging-market countries were plagued by economic weakness, which was exacerbated by the strength of the US dollar, which made their foreign debts more costly, and by the dramatic decline of commodity prices, which crimped purchasing power in the commodity-exporting countries. The German economy expanded in spite of the economic headwinds emanating from emerging markets, thanks to solid domestic demand and the weak euro, which favored German exports.

By contrast, Eurozone economic growth remained subdued and was burdened by stubborn deflationary pressures. In response to various factors, including the growth-inhibiting effect of rising Eurozone government bond yields, a renewed flare-up of the Greek debt crisis in the second quarter, and the concentrated emergence appearance of crisis symptoms in China in the second half of 2015, the ECB finally went beyond verbal intervention by increasing its bond purchases in the time from September 2016 to March 2017 and lowering the deposit rate from –0.2% to –0.3%.

Monetary policy advanced to become an economic stabilizing factor worldwide in 2015. For example, the People's Bank of China was compelled to loosen its monetary policy further in order to prevent a lasting collapse of the stock market and the bursting of credit and real estate bubbles, which would have imperiled not only the Chinese economy, but the entire world economy as well.

Despite manifold risks, risk asset classes proved to be relatively robust in 2015. In euro terms, the Japanese stock market (Nikkei 225 Index), supported as it was by monetary policy and stock purchases by Japanese pension funds, was the top performer with a gain of 20.4% on the year. The U.S. S&P 500 index rose by 10.6%, primarily due to the strength of the U.S. dollar against the euro. Export-sensitive and industry-sensitive stocks in Germany (DAX: +9.6%) and the Eurozone (Euro Stoxx 50: +3.9%) benefited from the ECB's monetary policy support. By contrast, emerging-market stocks were down as a result of asset allocation underweighting by key investor groups and capital outflows. Commodity prices were depressed by concerns about global economic growth and the marked imbalance of supply and demand. The price of gold, which is quoted in US dollars, traded within a fluctuation-intensive sideways pattern, mainly due to euro weakness.

On the level of German industry, automobile stocks tumbled in 2015 in reaction to the VW emissions scandal, while other export-sensitive sectors traded within a volatile sideways pattern despite the global economic slowdown, due to the weak euro. The consumer sector was solid, thanks to the strengthened purchasing power of consumers. The pharmaceuticals sector was likewise robust, thanks to its defensive orientation. Utilities were increasingly burdened by the consequences of Germany's transition to a sustainable energy system.

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

As one of the three biggest order book-keeping market makers in the German-speaking securities trading sector, Baader Bank operates within a competition-intensive and increasingly fragmented market environment. The market models of closed order books employed in the German physical exchanges are subject to growing competition from, and/or will need to develop in the direction of multi-market-maker models and other functional innovations in physical exchange trading, such as quote request methods, for example. Baader Bank too must confront this new competition situation. Smaller order book-keeping trading firms, which cannot withstand the coming regulatory, technical, and model-driven changes, are increasingly being driven out of the market. At the same time, internationally active market-making firms are eyeing the German market as it opens up for them.

The competition situation that has prevailed in the investment banking sector in the last few years will continue in the future. The market will be characterized by intensive, very much price-driven competition for capital market mandates on the corporate side, and price-driven and service-driven competition that has a real effect on margins. However, no significant changes in the number of competitors and competing firms are expected. Baader Bank will be able to further solidify its market position on the strength of its efficient organization and its specialized knowledge of clients and products.

### 2.2 Business developments

#### 2.2.1 Development of the main performance and profit drivers

International capital markets were dominated by the turbulence in the Chinese stock market, the economic slowdown in emerging-market countries, and the uncertainty regarding the Fed's decision to raise interest rates, which lingered until December 2015. The securities markets in which Baader Bank operates were marked by very high volatility, especially in the second half of the year. Furthermore, investors were notably restrained in their trading activity in some product segments, including equities in this phase, for example. The inevitable outcome was very low trading volumes at times.

Generally speaking, it can be noted that high volatility and low trading volumes in financial markets have a negative impact on Baader Bank's commission income. By contrast, wide price fluctuations and heavy trading volumes have a positive impact on the trading profit.

Nonetheless, net commission income accounted for a significant proportion (45%) of Baader Bank's total income, mainly due to the positive development of the Investment Banking segment. The slight decrease in net commission income compared to the prior year resulted mainly from the discontinuation of interbank bond trading in 2014. By contrast, the trading profit was considerably higher than the prior-year figure, thanks to the volatile market conditions.

##### 2.2.1.1 Market Making segment

The contract for market making in foreign equities and participation certificates on the Stuttgart Stock Exchange was extended in 2015 for another five years until the end of 2020. In the second half of 2015, trading there was converted to the new stock exchange system Xitaro, which replaced the previous Xontro system. Since January 2015, moreover, Baader Bank has served as market maker for the Munich Stock Exchange's new trading platform Gettex, where more than 13,000 securities can be traded without brokerage or exchange fees. On the BX Swiss Exchange in Bern, Baader Bank began market making in listed Swiss stocks, in addition to foreign stocks and Exchange Traded Funds. In the business of securitized derivatives, Baader Bank acquired the promising new issuers Natixis, the French investment bank for savings banks und cooperative banks, and Royal Bank of Canada.

Baader Bank acquired most of the order books awarded in connection with IPOs on the Frankfurt Stock Exchange in 2015, including Convestro AG, Deutsche Pfandbriefbank AG, Elumeo AG, Tele Columbus AG, and SIXT Leasing AG. This accomplishment is a reflection of Baader Bank's strong market position and the good trading quality in this traditional, but nonetheless strategically important core business.

In over-the-counter trading, Baader Bank expanded its cooperation with partner banks decisively in 2015. Following the connection of direct banks to Baader Bank, the order volume in this segment rose by 65% over the prior year.

##### 2.2.1.2 Investment Banking segment

In the capital markets business, Baader Bank has established a very good market positioning in the segments which it has defined as relevant and proved its capability since beginning to focus on this business in 2010. A very good market response was observed in 2015, as evidenced above all by the quality and number of capital measures and capital market transactions compared to the competition, as well as the placement ability demonstrated in this business.

In the second quarter of 2015, Baader Bank served as joint bookrunner (member of the underwriting syndicate responsible for the allotment and placement of an issue) on the IPO of SIXT Leasing AG, and as listing agent and Deutsche Börse listing partner on the IPO of publity AG. The bank also served as sole lead manager on the capital increase by way of a rights offering of WILEX AG, as joint global coordinator (lead underwriter of a financial transaction) and joint bookrunner on the capital increase of UBM Development AG, and as sole global coordinator and sole bookrunner on the capital increase of Medigene AG. Baader Bank also served as global coordinator and sole bookrunner on the capital increase of 4SC AG, and as joint bookrunner and joint global coordinator on the IPO of elumeo SE. Baader Bank executed a stock buy-back by way of tradable tender rights for Rhön-Klinikum AG and served as sole financial advisor on this transaction. It also executed the share buy-back program of WashTec AG as buy-back agent and served as joint bookrunner on the capital increase of mutares AG.

As of the reporting date, Baader Bank led the Equity League Tables for transactions of up to EUR 100,000 thousand in the countries of Germany and Austria in 2015 and ranked among the top ten institutions for transactions of up to EUR 250,000 thousand.

Baader Bank's research program plays an important role in supporting the core business and is widely recognized in the market. Numerous awards, top-place rankings (including in the prestigious "Extel Survey 2015," for example), and regular mentions in the print media and TV media attest the high quality and professionalism of the in-house analysts of both Baader Bank and the Swiss subsidiary Helvea. The good coverage level attained through the now sufficient breadth of covered companies in Germany, Austria, and Switzerland will be cemented in 2016 and beyond.

At the end of fiscal year 2015, assets under management in the supporting segment of Asset Management & Services amounted to EUR 2.45 billion, reflecting a 10.4% increase over the prior-year figure. Baader Bank added two new asset management mandates in 2015, bringing the total to 47. The decrease in the absolute number of mandates compared to 2014 (from 49 to 47) resulted from the merger of four individual funds with existing mandates during the course of 2015.

#### 2.2.1.3 Developments at the subsidiaries

The portfolio management income of the financial services institution Conservative Concept Portfolio Management AG is mainly determined by the investment performance of assets under management, the agreed management fees, and the earned performance fees. Assets under management increased by more than a third in 2015, with most of this growth generated in the fourth quarter of 2015 by an investment fund that pursues a volatility strategy in the context of the Athena strategy. Although the investment performance of the assets managed in the context of the TriStone strategy failed to meet expectations, the overall increase in assets under management at the end of 2015 represents a good starting base for institution's development in 2016.

Nonetheless, CCPM AG's overall development in fiscal year 2015 was rather subdued, due in part to the company's pronounced dependence on assets under management, but mainly due to the capital appreciation achieved through the management of these assets.

The increase in management fees and performance fees in the fourth quarter of 2015 led to higher income for the full year. Because, however, the modest increase in total income was more than offset by a somewhat greater increase in expenses, the company posted a rather small net loss before taxes of an amount in the single-digit thousands. Given the strong balance sheet and liquidity ratios, however, this small loss does not pose a threat to the company's medium-term development, from today's perspective.

Baader & Heins Capital Management AG is a financial services institution specializing in the brokerage of predominantly illiquid, interest-bearing financial products between issuers and institutional investors. Clients include large institutional investors in the insurance sector, the public sector, and the banking sector in Germany and abroad. The business model of this subsidiary is mainly based on net commission income, the development of which depends on the number and volume of brokered transactions. Due in particular to the prolonged low interest-rate environment, the number of brokered transactions declined by approximately 10%, and the volume of brokered transactions declined by somewhat more than 25% in 2015. Compared to the plan figures, however, both transactions and business volumes were in line with expectations in 2015. The company's net commission income declined by 22% percent in 2015. EBT fell by almost half, but adjusted for the non-recurring effects generated in the prior year, it declined by only 25%, as forecast at the time. The earnings decline was partially mitigated by the fact that expenses were also significantly lower in 2015. On the whole, the company generated good full-year results, with a profit from ordinary activities of EUR 1,872 and fiscal year net income of EUR 1,300. Therefore, the company's financial position and liquidity remained adequate in 2015, as in prior years.

As a financial services institution, SKALIS Asset Management AG serves its clients by managing mixed fund concepts for retail funds and special funds with systematic risk limitation based on its own, internally developed investment approach. Mixed funds are products that contain more than two asset classes, such as equities and bonds, for example. The mutual fund SKALIS Evolution Defensive launched at the end of 2014 comprises two tranches, a traditional retail tranche and a tranche for institutional investors. The fund's performance after costs was satisfactory in 2015. The SKALIS Evolution Flex fund closed the year 2015 with a solid performance after costs, one that was above-average for the segment and therefore better than most competitors.

Thanks to the positive performance in 2015, the assets under management (AuM) of the SKALIS Evolution Flex fund rose to more than EUR 100,000 thousand. The roughly EUR 61,000 thousand increase in the fund's AuM over the prior year was achieved particularly in the second quarter and at the start of the third quarter of 2015.

Amid a generally demanding market environment, SKALIS expanded its market presence and improved its name recognition in 2015, its second full year in operation. Despite the considerably higher commission income generated in 2015, mainly in the form of management fees for managed funds, SKALIS posted a net loss of EUR 1,061 thousand for fiscal year 2015 due to the fact that personnel and administrative expenses exceeded commission income. SKALIS expects to reach the break-even point only at the beginning of 2018. Nonetheless, the substantial increase in the fund's assets under management, which was in line with expectations, and the solid performance of the flagship mandate SKALIS Evolution Flex compared to the peer group represent a strong basis for future performance. Furthermore, the company has adopted a course of consolidation to counter a further increase in costs. Therefore, the financial performance, liquidity, and financial position of this still young company are to be regarded as adequate and generally satisfactory in fiscal year 2015.

The Swiss subsidiary Helvea has cultivated business relationships with institutional investors all over the world for more than ten years, with a strong focus on the United Kingdom, Switzerland, and the United States. The acquisition of the Helvea Group made Baader Bank one of the biggest local brokers of German, Austrian, and Swiss equities. Under the brand name Baader-Helvea, Baader Bank earned top placements in the core markets of Germany, Switzerland, and Austria in the Extel Survey 2015 conducted in early June. In the survey of institutional investors, Baader-Helvea won first place in the categories "Germany: Equity Sales," 'Germany: Trading/Execution," and "Germany: Small & Mid Caps Trading/Execution." In all categories, it placed in the top 3 ten times.

Baader-Helvea organized the 11th Swiss Equities Conference in Switzerland in January 2015. At this now well established conference, 53 Swiss companies presented themselves to approximately 250 investors from 17 countries. Baader-Helvea's new ETF research product presented at the annual Baader Investment Conference that was held in Munich in September 2015 understored its strong market position as an ETF broker in the German-speaking countries. The number of companies and investors attending this conference increased for the fourth year in a row, with more than 130 exchange-listed companies from Germany and Austria and more than 600 institutional investors from 27 countries attending this year's event.

The Helvea Group posted a solidly positive financial result in fiscal year 2015. The Group's equity rose by EUR 2,291 thousand to EUR 11,279 thousand. Thus, the Group's financial position and liquidity situation, which were already adequate in prior years, improved further in 2015.

### 2.2.2 Comparison of actual business performance in 2015 with the forecasts published in the prior year

Whereas the revenues generated in securities trading, capital market services, and other services in 2015 were largely in line with the planned performance, so that Baader Bank generated an operationally satisfactory net commission income and trading profit, the fiscal year profit was considerably weighed down mainly by unexpected impairments in the bank's investment book.

The Management initiated a cost reduction program to counteract the difficult situation of valuations and earnings. This program can be credited for the fact that the item of other administrative expenses came out below plan.

### 2.3 Economic situation and financial performance indicators

#### 2.3.1 Financial performance

Based on the performance and earnings drivers discussed above, the financial performance of the Baader Bank Group in fiscal year 2015 was satisfactory, considering the persistently demanding operating environment. However, the overall result was adversely affected by the impairments recognized in interests in associated companies and in the investment book. Details of the Group's financial performance (including income statement items and financial performance indicators) in fiscal years 2015, 2013, and 2014 are presented in the table below: → **Table 1**

**Table 1** Financial Performance Indicators

| | 2013 | 2014 | 2015 | Change from Prior Year absolute | Change from Prior Year relative |
|---|---|---|---|---|---|
| | EUR'000 / % | EUR'000 / % | EUR'000 / % | EUR'000 | in % |
| **Income** | **108,120** | **116,512** | **111,997** | **–4,515** | **–4%** |
| thereof net interest income [1] and current income | 6,195 | 3,227 | 2,495 | –732 | –23% |
| thereof net interest income | 4,515 | 1,318 | 579 | –739 | –56% |
| thereof current income | 1,680 | 1,909 | 1,916 | 7 | 0% |
| *As % of total income* | *6%* | *3%* | *2%* | | |
| thereof net commission income [1] | 49,536 | 52,402 | 50,147 | –2,255 | –4% |
| *As % of total income* | *46%* | *45%* | *45%* | | |
| thereof trading profit/loss [1, 2] | 42,613 | 43,761 | 52,553 | 8,792 | 20% |
| *As % of total income* | *39%* | *38%* | *47%* | | |
| thereof other income | 9,776 | 17,122 | 6,802 | –10,320 | –60% |
| thereof other operating income | 1,923 | 3,131 | 5,088 | 1,957 | 63% |
| thereof income from reversals of impairments [3] and income from the reversal of provisions in the credit business | 5,723 | 12,071 | 0 | –12,071 | –100% |
| thereof income from the reversal of the fund for general banking risks | 2,130 | 1,920 | 1,714 | –206 | –11% |
| *As % of total income* | *9%* | *15%* | *6%* | | |
| **Expenses** | **106,633** | **116,277** | **119,590** | **3,313** | **3%** |
| thereof personnel expenses | 55,284 | 61,037 | 54,209 | –6,828 | –11% |
| *As % of total expenses* | *52%* | *52%* | *45%* | | |
| thereof administrative expenses and other operating expenses | 41,330 | 42,044 | 42,242 | 198 | 0% |
| thereof other administrative expenses | 40,111 | 41,081 | 39,943 | –1,138 | –3% |
| thereof other operating expenses | 1,219 | 963 | 2,299 | 1,336 | > 100% |
| *As % of total expenses* | *39%* | *36%* | *35%* | | |
| thereof depreciation, amortization, and impairments | 9,976 | 9,920 | 20,579 | 10,659 | > 100% |
| thereof depreciation, amortization, and impairments of intangible assets and property, plant, and equipment | 9,976 | 9,920 | 10,991 | 1,071 | 11% |
| thereof other depreciation, amortization, and impairments [4] and appropriations to provisions in the credit business | 0 | 0 | 9,588 | 9,588 | 100% |
| *As % of total expenses* | *9%* | *9%* | *17%* | | |
| thereof net income/expenses from interests in associated companies | 43 | 3,276 | 2,560 | –716 | –22% |
| *As % of total expenses* | *0%* | *3%* | *2%* | | |
| **Earnings before taxes (EBT)** | **1,487** | **235** | **–7,593** | **–7,828** | **> –100%** |
| Taxes | 1,269 | 1,400 | 803 | –597 | –43% |
| *Tax rate* | *85%* | *> 100 %* | *–11%* | | |
| **Consolidated profit / loss before non-controlling interests** | **218** | **–1,165** | **–8,396** | **–7,231** | **> –100%** |
| **Share of profit / loss attributable to non-controlling interests** | **–400** | **–355** | **19** | **374** | **> 100%** |
| **Profit carried forward of the parent company** | **657** | **660** | **918** | **258** | **39%** |
| **Appropriations to / withdrawals from retained earnings** | **641** | **2,234** | **913** | **–1,321** | **–59%** |
| **Consolidated distributable profit / accumulated loss** | **1,116** | **1,374** | **–6,546** | **–7,920** | **> –100%** |
| **Key ratios** | | | | | |
| Gross profit (revenues) [5] | 98,344 | 99,390 | 105,195 | 5,805 | 6% |
| Operating result [6] | –7,027 | –12,648 | 52 | 12,700 | > 100% |
| Cost-income ratio | 99% | 100% | 107% | | |
| Ratio of personnel expenses to revenues [7] | 56% | 61% | 52% | | |
| Ratio of administrative expenses to revenues [8] | 41% | 41% | 38% | | |
| Return on capital before taxes [9] | 1% | 0% | –8% | | |

1 Corresponding income and expense items are presented on a net basis.
2 Net profit on the trading portfolio
3 Reversals of value adjustments of receivables and certain securities, and reversals of impairments of equity interests and securities classified as noncurrent assets
4 Writedowns and value adjustments of receivables and certain securities, and impairments of equity investments and securities classified as noncurrent assets
5 Equal to gross profit, which is composed of net interest income and current income, net commission income, and trading profit/loss
6 Gross profit less personnel expenses and other administrative expenses, and depreciation, amortization, and impairments of intangible assets and property, plant and equipment
7 Personnel expenses as a percent of revenues or gross profit
8 Administrative expenses as a percent of revenues or gross profit
9 EBT as a percent of equity

Whereas current income from dividend payments was nearly equal to the prior-year figures, net interest income declined to EUR 579 thousand. Net interest income consisted mainly of interest income on fixed-income securities (EUR 8,638 thousand) and on credit and money market transactions (EUR 666 thousand), less interest expenses from the issuance of own promissory note loans (EUR 7,530 thousand), and the refinancing of the Group's headquarters in Unterschleißheim (EUR 943 thousand). The protracted low interest-rate environment and the limitation of risks in order to fulfill the current requirements of Basel III, among other reasons, caused the bank to re-allocate investment funds to highly liquid, but lower-return securities and therefore made it impossible to generate higher net interest income. Accounting for only 2% of total income, net interest income and current income are of subordinate importance for the Group's financial performance.

As in prior years, net commission income made a much bigger contribution, accounting for 45% of total income in 2015. However, the net commission income of EUR 50,147 thousand was EUR 2,255 thousand or 4% less than the corresponding figure for 2014. Aside from the lower brokerage/ transaction result (EUR –1,077 thousand), the main reason for the lower net commission income in 2015 was the closure of Baader Bank's bond trading brokerage business at the end of 2014. Baader Bank had generated EUR 3,795 thousand in commission income in his business in 2014. By contrast, the Equities & Derivatives Department together with the Helvea Group generated considerably higher net commission income. Consequently, the Helvea Group achieved a turnaround and made a positive contribution to the consolidated profit/loss, due in large part to the realization of valuable cross-selling synergies. Furthermore, the number and quality of capital market transactions handled in 2015 had a positive effect on the Baader Bank Group's results in fiscal year 2015.

In contrast to net commission income, Baader Bank increased its trading profit considerably, by 20% or EUR 8,792 thousand to EUR 52,553 thousand. In what the Management considers to be a very positive development, the core business segment of Market Making made an important contribution to this result. The Market Making segment strengthened its competitive position by acquiring additional order books. Furthermore, the trading volume in exchange-traded funds, ETPs, and foreign securities increased markedly.

Other income declined considerably, by EUR 10,320 thousand to EUR 6,802 thousand, primarily due to lower gains on disposal of securities from the liquidity reserve.

in accordance with Section 340e (4) of the German Commercial Code (HGB), an amount of EUR 1,714 thousand was reversed from the fund for general banking risks and recognized in profit or loss in fiscal year 2015. This special reserve amounted to EUR 21,536 thousand as of the reporting date.

Expenses rose modestly by 3% or EUR 3,313 thousand to EUR 119,590 thousand. Whereas personnel expenses declined significantly by 11% or EUR 6,828 thousand to EUR 54,209 thousand, and administrative expenses and other operating expenses were nearly unchanged from the prior year and were therefore considerably below plan, depreciation, amortization, and impairments rose to EUR 20,579 thousand. Besides the depreciation and amortization charged against intangible assets and property, plant, and equipment in the normal course of business (EUR +1,071 thousand to EUR 10,991 thousand), the increase over the prior-year figure resulted particularly from writedowns and impairments of receivables and securities (EUR +6,704 thousand), which led to substantial valuation losses in Baader Bank's investment book, particularly due to the massive decline (in some cases) in the prices of equities and corporate bonds in the second half of 2015. Amid the tense market environment, moreover, the Baader Bank Group's interests in associated companies did not perform in accordance with expectations or business plans in all cases, for which reason impairments were recognized in the amount of EUR 2,189 thousand, in accordance with prudent accounting practices. For the same reason, impairments of EUR 2,774 thousand were recognized in the equities and variable-yield securities classified as noncurrent assets, which are held for long-term investment purposes.

The decrease in personnel expenses resulted mainly from the lower amount of variable, performance-based compensation components. This decrease can be attributed in part to the implementation of the new requirements of the Financial Institutions Compensation Regulation, according to which consideration must be given to the institution's overall result in setting the amount of variable compensation components.

Thanks to the positive effects of the cost reduction measures initiated at the beginning of 2015, other administrative expenses declined by EUR 1,138 thousand to EUR 39,943 thousand (PY: EUR 41,081 thousand), despite the heightened regulatory requirements.

As a result of the factors described above, the consolidated profit/loss before taxes was negative, at EUR –7,593 thousand (PY: EUR 235 thousand). As this result can be attributed mainly to negative non-recurring effects, the Management is generally optimistic about the further development of the Baader Bank Group, especially considering the positive development of operating results and the Group's solid financial position and liquidity situation.

The analysis of key profitability indicators confirms this assessment. Both the gross profit and the operating result were considerably higher than the respective prior-year figures.

### 2.3.2 Liquidity and financial position

The total assets of EUR 576,330 thousand were 13% or EUR 86,963 thousand less than the prior-year figure. Changes occurred in both the assets and the equity and liabilities of the Baader Bank Group. The decline in assets resulted mainly from the maturation of money market positions taken in the prior year, a decrease in securities holdings due to reporting date effects, and the lower carrying amounts of noncurrent assets. The main change on the equity and liabilities side was the reduction of liabilities due to banks and customers. Mainly due to the consolidated loss for 2015, equity declined to EUR 100,155 thousand. The equity ratio rose by one percentage point to 17%.

The financial position and changes in various items of the statement of financial position of the Baader Bank Group are presented in the table below: → **Table 2**

**Table 2** Indicators of Liquidity and Financial Position

| | | | | Change from Prior Year | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **absolute** | **relative** |
| | EUR'000 / % | EUR'000 / % | EUR'000 / % | EUR'000 | in % |
| **Current assets** | **516.551** | **569.295** | **492.627** | **– 76.668** | **– 13 %** |
| *Current assets as % of total assets* | *84 %* | *86 %* | *85 %* | | |
| thereof cash reserve | 11.153 | 7.683 | 14.593 | 6.910 | 90 % |
| thereof receivables due from banks | 83.324 | 199.321 | 117.067 | – 82.254 | – 41 % |
| thereof due at call | 70.109 | 76.291 | 98.204 | 21.913 | 29 % |
| thereof other receivables | 13.215 | 123.030 | 18.863 | – 104.167 | – 85 % |
| thereof receivables due from customers | 34.665 | 37.148 | 30.253 | – 6.895 | – 19 % |
| thereof bonds and other fixed-interest securities | 288.849 | 205.483 | 225.003 | 19.520 | 9 % |
| thereof equities and other variable-yield securities | 33.641 | 29.507 | 27.124 | – 2.383 | – 8 % |
| thereof trading portfolio | 51.708 | 75.989 | 59.995 | – 15.994 | – 21 % |
| thereof other assets and prepaid expenses | 13.211 | 14.164 | 18.592 | 4.428 | 31 % |
| **Noncurrent assets** | **101.314** | **93.998** | **83.703** | **– 10.295** | **– 11 %** |
| *Noncurrent assets as % of total assets* | *16 %* | *14 %* | *15 %* | | |
| thereof equity investments and interests in associated companies | 10.243 | 10.048 | 5.968 | – 4.080 | – 41 % |
| thereof intangible assets | 35.278 | 30.891 | 27.006 | – 3.885 | – 13 % |
| thereof property, plant, and equipment | 47.692 | 46.608 | 43.980 | – 2.628 | – 6 % |
| thereof excess of plan assets over pension liability | 8.101 | 6.451 | 6.749 | 298 | 5 % |
| thereof pension obligations | – 5.124 | – 5.659 | – 7.158 | 1.499 | 26 % |
| thereof fair value of plan assets [1] | 13.225 | 12.110 | 13.907 | 1.797 | 15 % |
| **Total assets** | **617.865** | **663.293** | **576.330** | **– 86.963** | **– 13 %** |
| **Liabilities** | **467.710** | **511.332** | **444.183** | **– 67.149** | **– 13 %** |
| *Liabilities as % of total equity and liabilities* | *76 %* | *77 %* | *77 %* | | |
| thereof liabilities due to banks | 109.576 | 87.568 | 53.223 | – 34.345 | – 39 % |
| thereof due at call | 18.043 | 20.443 | 21.214 | 771 | 4 % |
| thereof with agreed term or notice period | 91.533 | 67.125 | 32.009 | – 35.116 | – 52 % |
| thereof liabilities due to customers | 352.653 | 416.755 | 386.031 | – 30.724 | – 7 % |
| thereof due at call | 127.730 | 139.410 | 154.536 | 15.126 | 11 % |
| thereof with agreed term or notice period | 224.923 | 277.345 | 231.495 | – 45.850 | – 17 % |
| thereof other liabilities | 5.481 | 7.009 | 4.929 | – 2.080 | – 30 % |
| **Other funding resources** | **39.942** | **43.213** | **31.992** | **– 11.221** | **– 26 %** |
| *Other funding resources as % of equity and liabilities* | *6 %* | *7 %* | *6 %* | | |
| thereof trading portfolio | 4.754 | 8.684 | 1.686 | – 6.998 | – 81 % |
| thereof provisions | 10.018 | 11.272 | 8.770 | – 2.502 | – 22 % |
| thereof fund for general banking risks | 25.170 | 23.250 | 21.536 | – 1.714 | – 7 % |
| thereof deferred income | 0 | 7 | 0 | – 7 | – 100 % |
| **Equity** | **110.213** | **108.748** | **100.155** | **– 8.593** | **– 8 %** |
| *Equity ratio* | *18 %* | *16 %* | *17 %* | | |
| thereof subscribed capital | 45.632 | 45.632 | 45.632 | 0 | 0 % |
| thereof additional paid-in capital | 31.431 | 31.431 | 31.431 | 0 | 0 % |
| thereof revenue reserves | 29.893 | 28.315 | 28.230 | – 85 | 0 % |
| thereof non-controlling interests | 2.141 | 1.996 | 1.408 | – 588 | – 29 % |
| thereof distributable profit/accumulated loss | 1.116 | 1.374 | – 6.546 | – 7.920 | > – 100 % |
| **Off-balance sheet commitments** | **1.756** | **1.335** | **10.102** | **8.767** | **> 100 %** |
| thereof contingent liabilities under sureties and guarantee agreements | 8 | 3 | 5 | 2 | 67 % |
| thereof credit commitments | 1.748 | 1.332 | 10.097 | 8.765 | > 100 % |
| **Key ratios** | | | | | |
| Cash and cash equivalents [2] | 81.262 | 83.974 | 112.797 | 28.823 | 34 % |
| Liquidity surplus [3] | 314.056 | 240.319 | 257.202 | 16.883 | 7 % |
| Modified equity ratio [4] | 21,91 % | 19,90 % | 21,11 % | | |

1 Plan assets consist of the fair values of the following items of the statement of financial position: receivables due from banks, equities and other variable-yield securities, reinsured assets.
2 By definition, cash and cash equivalents consist of the cash reserve and receivables due from banks, due at call.
3 The liquidity surplus is the sum of current receivables, available-for-sale securities, and current liabilities.
4 Equity ratio including the fund for general banking risks

#### 2.3.2.1 Current assets

The carrying amounts of receivables due from customers declined by almost EUR 6,895 thousand to EUR 30,253 thousand. The increase in bonds and other fixed-income securities resulted mainly from the acquisition of public-sector bonds, all of which were allocated to the liquidity reserve in 2015, together with the newly acquired holdings of equities and other variable-yield securities. As in prior years, most (approximately EUR 185,815 thousand) of the total bond holdings in the amount of EUR 225,003 thousand consisted of corporate bonds. Due to reporting date effects, the trading portfolio declined by EUR 15,994 thousand to EUR 59,995 thousand.

As of December 31, 2015, the securities portfolio included the following bonds and debentures (market values) of issuers domiciled in the following GIIPS countries (Greece, Italy, Ireland, Portugal, Spain):→ Table 3

**Table 3** Holdings of GIIPS Securities as of December 31, 2015 in EUR thousand

| | Other issuers | Public-sector issuers |
|---|---|---|
| Greece | 0 | 36 |
| Italy | 0 | 0 |
| Ireland | 0 | 4,111 |
| Portugal | 0 | 0 |
| Spain | 0 | 1 |
| **GIIPS countries as of 12/31/2015** | **0** | **4,148** |

Other assets and prepaid expenses rose by EUR 4,428 thousand to EUR 18,592 thousand. This increase is mainly attributable to a EUR 4,940 thousand increase in the carrying amounts of other assets, which was countered by a EUR 512 thousand decrease in prepaid expenses, reducing the total to EUR 2,606 thousand. This increase in other assets resulted mainly from the acquisition of available-for-sale corporate bonds in the amount of EUR 8,829 thousand, which was countered by a decrease in receivables due from the German Federal Financial Supervisory Office (BaFin), receivables for brokerage commissions, exchange rate differences, transaction fees, corporate income tax credits, and a reduced amount of other receivables (EUR 5,341 thousand).

The excess of plan assets over pension liability also rose modestly by EUR 298 thousand to EUR 6,749 thousand, mainly due to a EUR 13,907 thousand increase in plan assets, which were measured at fair value. Plan assets consisted of receivables due from banks (EUR 75 thousand) and equities and other variable-yield securities in the total amount of EUR 13,832 thousand.

#### 2.3.2.2 Equity interests and interests in associated companies

The carrying amounts of equity interests and interests in associated companies declined by EUR 4,080 thousand to EUR 5,968 thousand in 2015, mainly due to the recognition of impairments in the amount of EUR 2,189 thousand.

Other changes resulted from the merger of Clueda AG and the sale of the equity interest in U.C.A. AG, Munich. The assets and liabilities of Clueda AG were recognized in the statement of financial position of Baader Bank AG at the same carrying amounts with effect from January 1, 2015.

#### 2.3.2.3 Intangible assets and property, plant, and equipment

The decrease in intangible assets and property, plant, and equipment, which fell by EUR 6,513 thousand to EUR 70,986 thousand, resulted mainly from the amortization and depreciation charged in fiscal year 2015 (EUR 10,991 thousand), which were countered by investments, including transfers from down payments in the amount of EUR 6,089 thousand.

Investments in intangible assets related to EDP software (EUR 4,422 thousand) and order books (EUR 222 thousand). The main acquisitions of EDP software resulted mainly from the merger of Clueda AG and the resulting additional capitalization of a purchased software solution for semantic and associative knowledge exploitation and analysis (EUR 2,690 thousand), and upgrades and acquisitions of certain software products (EUR 1,732 thousand).

Depreciation of property, plant, and equipment amounted to EUR 2,735 thousand, and amortization of intangible assets amounted to EUR 8,256 thousand (goodwill EUR 2,634 thousand, order books EUR 2,639 thousand, software EUR 2,750 thousand, licenses and industrial property rights EUR 183 thousand).

No other significant investments were planned at the reporting date or at the time of preparation of the present report. Subject to this condition, intangible assets and property, plant, and equipment will be reduced by regular amortization and depreciation in the future.

#### 2.3.2.4 Liabilities

Liabilities consisted mainly of liabilities due to banks and customers and other liabilities. Total liabilities declined by EUR 67,149 thousand as of the prior-year reporting date to EUR 444,183 thousand as of December 31, 2015. The decrease in bank liabilities, which fell by EUR 34,345 thousand to EUR 53,223 thousand, was mainly caused by the maturation of money market positions taken in the prior year. Secondly, the promissory note loans issued by the bank, which are presented within liabilities due to customers with agreed term or notice period, were reduced by EUR 33,283 thousand to EUR 195,053 thousand, due to the repayment of individual acceptances.

Other liabilities were modestly lower, by EUR 2,080 thousand to EUR 4,929 thousand, due to reporting date effects.

#### 2.3.2.5 Other funding resources

Other funding resources declined by EUR 11,221 thousand to EUR 31,992 thousand in 2015, mainly due to the decrease in trading liabilities, which fell by EUR 8,684 thousand to EUR 1,686 thousand (–81%), due to reporting date effects.

#### 2.3.2.6 Equity

There were no changes to subscribed capital or the additional paid-in capital reserves during the course of 2015. The EUR 8,593 thousand decrease in equity resulted mainly from the consolidated loss before non-controlling interests (EUR –8,396 thousand), changes in other comprehensive income due to currency translation (EUR +1,007 thousand), and dividend payments (EUR –1,025 thousand).

The equity ratio came to 17.38% and the modified equity ratio came to 21.11%.

#### 2.3.2.7 Off-balance sheet commitments

As of the reporting date, off-balance sheet commitments consisted of contingent liabilities (guarantees) in the amount of EUR 5 thousand and irrevocable credit commitments to customers in the amount of EUR 10,097 thousand.

#### 2.3.2.8 Liquidity

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

The Group's cash position, which was already very solid in prior years, improved further in 2015, as the liquidity surplus rose by 7% or EUR 16,883 thousand to EUR 257,202 thousand.

Baader Bank's regulatory Liquidity Ratio was 4.23 as of December 31, 2015 (PY: 2.53). The Liquidity Ratio prescribed by the Liquidity Regulation is the ratio of cash to payment obligations due in up to one month. Baader Bank's payment obligations may not exceed the amount of available cash, meaning that the Liquidity Ratio may not be less than 1.0.

Unutilized credit facility agreements with domestic banks were in effect as of the reporting date.

In summary, it can be noted that the financial position and liquidity situation of the Baader Bank Group have been adequate and orderly for years. The bank's solvency was assured at all times in fiscal year 2015 and will be assured in the future by the bank's risk monitoring systems.

### 2.4 Non-financial performance indicators

#### 2.4.1 Employees

The number of employees working for the Baader Bank Group declined from 480 in the prior year to 449 in fiscal year 2015. The Group workforce is composed of 118 female employees and 331 male employees from 20 nations.

The high qualifications and continuing education of employees are particularly important to the Baader Bank Group. As in prior years, the promotion of young experts and managers and measures to improve the work-life balance were crucial aspects of the Group's HR activities in 2015.

Baader Bank's enhances its attractiveness as an employer by offering additional employee benefits. For example, Baader Bank AG and the Helvea Group grant voluntary financial support of EUR 10 thousand and CHF 10,000, respectively, to every employee who gives birth to a child. EUR 200 thousand and CHF 10,000 were paid under this program in 2014.

The Group maintains its own provident fund, Baader Unterstützungskasse e. V., to provide company pension benefits.

#### 2.4.2 Environmental report

The services provided by Baader Bank and its subsidiaries do not harm the environment in any appreciable way. Internally, the Group places a high priority on resource conservation in the operation of production equipment (copiers, printers, and other office equipment) and the use of consumable supplies. The Group's headquarters in Unterschleißheim was built and is operated in accordance with state-of-the-art ecological standards, particularly with regard to water, heating, and air conditioning systems.

### 2.5 Summary conclusions of the Economic Report

Baader Bank Group's business performance in fiscal year 2015 was considerably influenced by the demanding business environment and non-recurring impairment effects, which had a net negative effect on the overall result.

The Group's Management had initiated an intensive cost reduction program in the prior fiscal year to counter the difficult situation of earnings and valuations. The measures aimed at assessing the efficiency and effectiveness of current business processes and raising of cost awareness led to the optimization of the Group's cost structure already in fiscal year 2015. These measures will continue to produce positive effects on the overall result of the Baader Bank Group.

A positive development in fiscal year 2015 was the higher profits generated in the parent company's core business segment of Market Making, which resulted from an increase in the trading profit. The Company further strengthened its position in the internationally oriented competition environment through the acquisition of new order books and increased trading activity in exchange-traded funds, ETPs, and foreign securities.

The rather modest business performance of the CCPM Group can be attributed to this company's pronounced dependence on assets under management, which led to a smaller loss on the whole. Despite a substantial, nearly 25% decrease in net commission income, the Baader & Heins Group generated a mostly satisfactory result and made a positive, seven-digit contribution to the Group's overall result in fiscal year 2015. Having been acquired in 2013, the Helvea Group generated a positive full-year result for the first time since the successful integration with the Baader Bank Group.

Despite generating an operating result that generally exceeded expectations, the Baader Bank Group reported a fiscal year loss due to the high level of impairments of investment book positions and interests in associated companies.

### 2.6 Events after the reporting date

No events of particular importance occurred after the close of the fiscal year.

## 3 Forecast, opportunities, and risk report

### 3.1 Risk report

The statements made in this section refer to the risk situation of the Baader Bank Group as of December 31, 2015.

#### 3.1.1 The risk management system of the Baader Bank Group

By their nature, the business activities of the Baader Bank Group are subject to risks. Therefore, the Group's Management has installed a comprehensive risk management system designed to fulfil both the regulatory requirements as set out in the relevant pronouncements of the national and international regulatory authorities, and the bank's internal business requirements.

#### 3.1.2 Goals of risk management

The overriding goal of the risk management system of the Baader Bank Group is to permanently secure the Group's risk-bearing capacity and therefore ensure its survival as a going concern. Therefore, the conscious assumption, active management, and ongoing monitoring of risks are the core elements of the Baader Bank Group's business and risk management system. The Group identifies, assesses, and monitors the risks arising in connection with its business activities. By this means, the Group manages its activities in a risk-conscious manner, meaning that it assumes calculable risks with due regard to the Group's risk-bearing capacity and categorically avoids existential risks.

As part of a comprehensive risk reporting system, the Group's management reviews a daily summary of all significant risks, including the degree of risk assumed in every case, and the limit utilization rates of the Baader Bank Group. Due consideration is given to the Group's risk bearing capacity particularly with regard to the adoption of the Group's business and risk strategy.

#### 3.1.3 Risk-bearing capacity

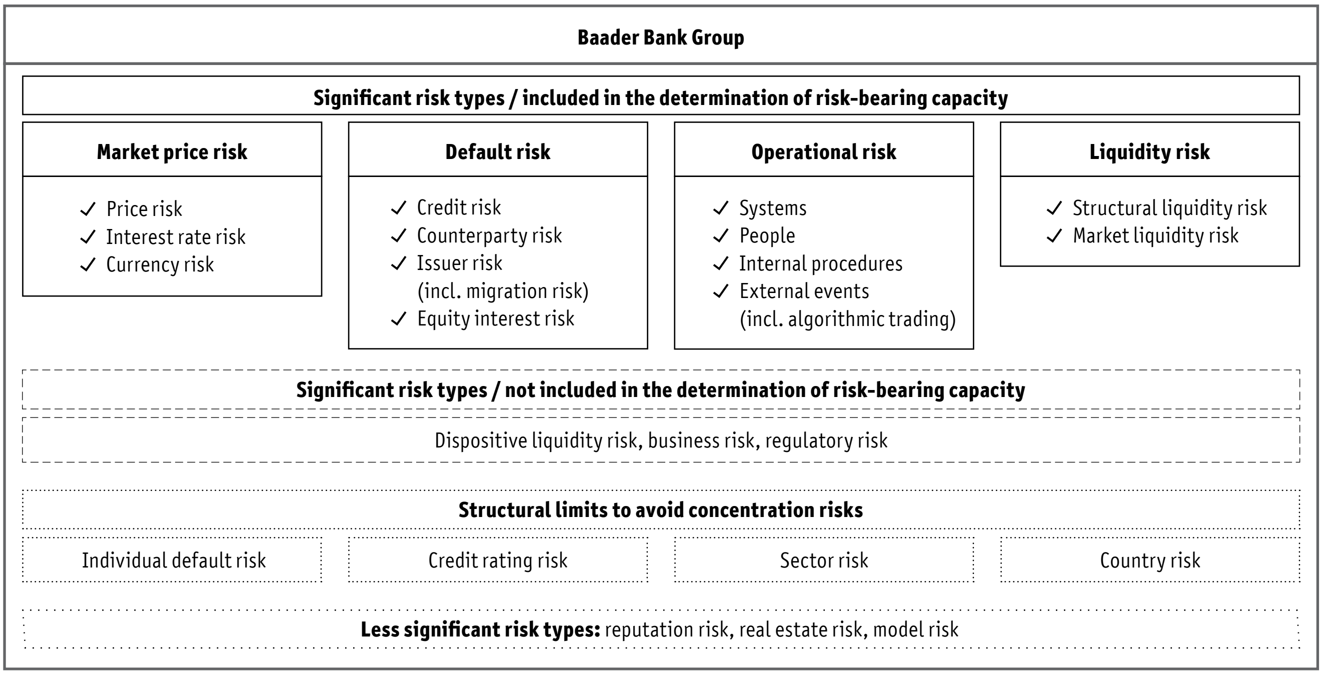
The Group's risk-bearing capacity is regularly reviewed by the Risk Controlling Department of the parent company Baader Bank AG, which is responsible for risk controlling on the Group level. As part of this review, the available risk coverage potential (RCP) is checked against the risk potential. For purposes of controlling the Group's risk-bearing capacity, a period-oriented going-concern approach is employed to derive the risk coverage potential. Under this approach, the regulatory capital requirements set out in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) (REGULATION (EU) No. 575/2013 and Directive 2013/36/EU of June 26, 2013) may not be used for risk coverage purposes. Therefore, the objective of the going-concern approach is to ensure the continuation of business activities, subject to the secondary condition that the minimum capital requirements would be permanently fulfilled even if the considered risks would materialize.

The primary and secondary risk coverage potential of the Baader Bank Group is composed of the planned profit (primary RCP) and components of balance-sheet equity (secondary RCP). Therefore, this approach is based on the income statement and statement of financial position. The planned profit (expected profit/loss before taxes or profit/loss from ordinary activities) represents the amount that the Group expects to generate in the coming fiscal year based on the business plan, with due regard to the anticipated market environment. For this purpose, a distinction is made between the expected profit before taxes in the normal case (based on normal-case plan assumptions), the middle case (median value between the normal and worst cases), and the worst case (based on the worst-case plan assumptions). The planned profit is inherently uncertain. At the beginning of every fiscal year, therefore, the Group's Management decides whether the normal case can be applied as the basis for determining the primary risk coverage potential. Depending on current business developments, the underlying plan numbers may also be adjusted during the course of a fiscal year, in which case an extraordinary review of the risk-bearing capacity must always be conducted.

The available risk coverage potential is checked against the risk potential. Because the planned profit already includes expected losses, only unexpected losses are quantified in calculating the risk potential.

The overall risk of the Baader Bank Group is limited by the available risk coverage potential. As a general rule, the Group's Management makes only part of the risk coverage potential available (so-called risk capital) to permanently secure the Group's risk-bearing capacity. The RCP is then allocated to the individual risk types or the respective business segments on a top-down basis and serves as a risk limit. Consequently, losses are consistently limited by a system of risk limits. The risk coverage potential, the risk potential, and the risk capital are reviewed at least every quarter so that any income-statement variances between plan and actual numbers can be taken into account. In addition, an extraordinary adjustment is promptly made to account for any serious losses incurred.

**GRAPHIC 1** SUMMARY OF RISKS FOR BAADER BANK




In order to ensure that the fixed capital (tertiary risk coverage potential) does not need not be drawn upon even in hypothetical crisis times (stress scenarios), the Risk Controlling Department checks the greatest losses arising from the stress scenarios against the available risk coverage potential for all relevant risk types. In a stress case, the expected profit before taxes from the worst-case scenario is applied for the primary risk cover amount, and the fund for general banking risks is additionally applied as the secondary risk cover amount. According to the Minimum Requirements for Risk Management (MaRisk) AT 4.1, the results of the stress tests "do not automatically necessitate the allocation of risk coverage potential," but they are to be applied as the basis for critical reflection and for determining any need for action.

Besides the going-concern approach, the Baader Bank Group is also obligated to calculate the so-called liquidation (gone-concern) approach. In contrast to the going-concern approach, the capital requirements prescribed by bank oversight regulations may also be applied as the risk coverage potential under the liquidation approach. The primary interest in the hypothetical liquidation case is the protection of creditors. Thus, the goal is to keep enough assets in reserve to satisfy creditors in the event that the corresponding risks would be realized.

In summary, it can be noted that Baader Bank's risk-bearing capacity was not endangered at any time in fiscal year 2015 and the Baader Bank Group's survival as a going concern would have been assured even if the scenario involving the greatest financial losses would have occurred. In consideration of the development of Baader Bank's earnings, the calculation of the primary risk coverage potential was converted to a middle case as of September 30, 2015. The middle case represents the midpoint between the normal case and the worst case in terms of the planned profit.

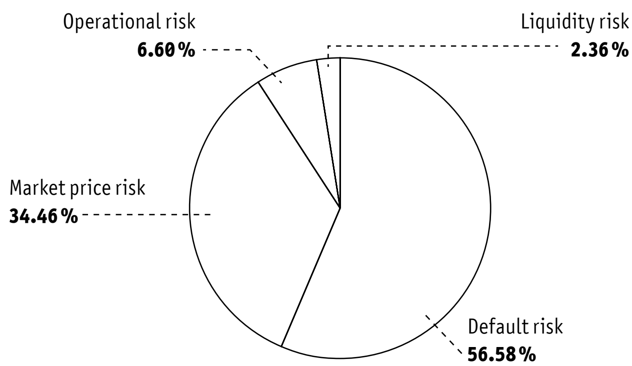
### 3.1.4 Risk inventory and risk strategy

The business strategy and goals are defined for the main business activities of Baader Bank Group as part of the annual strategy meeting of the Group's management. In this strategy process, due consideration is given to external factors and the underlying assumptions regarding external factors, as well as internal factors such as the risk-bearing capacity, financial performance, liquidity, etc.

Based on the business strategy, the Group's Management adopts a risk strategy for the coming fiscal year that is consistent with the business strategy, with due consideration given to internal and external factors. For this purpose, it is necessary to conduct a risk inventory for the Baader Bank Group, one that takes the new aspects arising from the business strategy into account. The risk inventory is conducted for the Baader Bank Group by the Risk Controlling Department of Baader Bank AG at least once a year. In addition to the annual risk inventory, an extraordinary review may be conducted during the year to account for changes in the significance of risks or the commencement of business activities in new products or new markets, for example. In order to ensure that the Risk Controlling Department is immediately informed of such changes, this department is to be involved in all "new products and markets" processes and projects, and is to be informed immediately of any changes in the strategic orientation, equity interest structure, market expectations, etc. Identified changes in the risk profile are promptly taken into consideration and reported to the Group's Management. The following risks were identified as significant risks in fiscal year 2015: → **GRAPHIC 1**

The risk strategy devised on this basis is then divided into sub-strategies according to the significant risk types. The fundamental objective of the risk strategy is to assure the bank's risk-bearing capacity at all times. Therefore, the Executive Board allocates a certain amount of risk capital to each significant risk type, which serves as the loss limit for that risk type. For 2016, the Executive Board allocated the total risk capital of EUR 21,210 thousand to the individual risk types as follows, based on figures as of December 31, 2015: → **GRAPHIC 2**

**GRAPHIC 2** ALLOCATION OF RISK CAPITAL IN THE BAADER BANK GROUP



### 3.1.5 Risk management structures and processes

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

To ensure the **identification** of new risks, all risk-prone activities and/or the positions arising from such activities are immediately entered into the portfolio management systems. Furthermore, the Risk Controlling Department is promptly informed of possible changes to the existing risk profile by means of the "activities in new products or new markets" process. In this process, the planned activities are reviewed and the corresponding risk content is identified. Existing activities are reviewed on a regular basis. In addition, the Risk Controlling Department of Baader Bank AG conducts a risk inventory for the Baader Bank Group and its individual institutions at least once a year.

Risks are **assessed** on the basis of detailed analysis conducted by the Risk Controlling Department, which develops a concept for managing and monitoring these risks and presents it to the Group's Management. As a general rule, identified risks are quantified by application of a value-at-risk concept and checked against the risk capital. A rolling 12-month horizon is always applied for this purpose. The methods employed for each risk type are described in detail in the section on the risks of the Baader Bank Group.

Risks are **managed** by means of a system of limits for material risks. The limits are usually adopted every quarter by resolution of the Group's Management on the basis of the risk-bearing capacity. Independently of the quarterly process, these limits can be adjusted whenever necessitated by the business activity and/or financial performance of the Baader Bank Group. The limits are loss limits, meaning that the respective limit is reduced by the amount of any losses incurred; by contrast, profits are not considered for this purpose. Therefore, the limit system limits potential losses and also specifies maximum loss limits. In the Baader Bank Group, risk management is organized for each risk type as follows: → **Table 4**

**Table 4** Risk Management by Risk Type in the Baader Bank Group

| Risk type | Responsible for risk management |
|---|---|
| Market price risk | Profit center manager or person responsible for the position |
| Default risk | Treasury Department |
| Operational risk | All departments |
| Liquidity risk | Treasury Department, Executive Boards of the subsidiaries |

The permanent imputation of risks to limits enables the Risk Controlling Department to conduct adequate **monitoring.** The Risk Controlling Department detects any limit overrun and recommends appropriate actions such as position reduction or short-term limit increases to the person responsible for the position. This person then resolves the action to be taken and communicates it to the affected front-office department and to Risk Controlling. The Risk Controlling Department than monitors the action taken and initiates an escalation process if the action was not properly implemented. The Risk Controlling Department has additionally installed an early risk detection system for monitoring purposes.

The Group's Management is responsible for assuring an adequate and orderly business organization and for the further development of that system. This responsibility encompasses all key elements of risk management, including the adoption of the risk strategy. To assist the Group's Management in exercising this responsibility, the Risk Controlling Department maintains a comprehensive reporting system to assure the **communication** required by the MaRisk in the form of daily reports and special limit overrun reports to the Group's Management.

In addition, the Risk Controlling Department conducts **stress tests** for all significant risk types at least every quarter. For purposes of the stress tests, Risk Controlling defines various unusual, but plausibly possible scenarios and examines the effects of these scenarios on the existing portfolio. The scenario entailing the greatest losses is known as the worst-case scenario. The results of the stress tests are communicated to the Group's Management in the monthly MaRisk Report and discussed with the Management whenever appropriate. Furthermore, due consideration is given to the results of the stress tests in the review of the Group's risk-bearing capacity. As of December 31, 2015, the worst-case loss for the Baader Bank Group amounted to EUR 36,576 thousand.

The processes described above ensure that material risks are promptly identified, completely registered, and appropriately managed and monitored. Furthermore, the processes are regularly reviewed and promptly adjusted to reflect changing conditions. Moreover, the methods and procedures applied are subjected to a regular validation process, in which the appropriateness of the procedures and the underlying assumptions are reviewed and any need for adjustments is identified.

The technical resources consisting of the risk monitoring and management systems are appropriate for the risk management system. In addition, steps are continually taken to ensure appropriate personnel qualifications. The risk management process is audited by the Internal Audit Department at least once a year.

### 3.1.6 Significant changes compared to the prior year

The following changes were made to the models employed by the Risk Controlling Department in 2015:

#### Liquidity limits

Liquidity limits were introduced to the systems of the front-office departments in July 2015 to manage and monitor the Liquidity Coverage Ratio (LCR) to be observed as per the Capital Requirements Regulation (CRR) and to identify very high liquidity outflows. This limit system comprises two new limit types. The flow limit is a daily limit for all netted payments and receipts per currency and profit center, which limits the net liquidity outflow per day. The balance limit is a limit on the total fixed capital per currency and profit center, which limits the liquidity-binding securities holdings (carrying amounts based on historical acquisition costs). The liquidity limits enable the profit center managers to manage outflows during the day and enable the Treasury Department to manage the trading book during the day. The Treasury Department employs an overall limit covering both limit types and all profit centers as an additional control element for the LCR.

#### Rating system

The internal rating models for banks and insurance companies were revised in December 2015. For this purpose, an appropriate data basis (balance sheet and income statement ratios of numerous banks and insurance companies) was first developed with the aid of various data providers, depending on the rating model. In the next step, external credit ratings (S&P ratings) representing external default probabilities were assigned to the banks and insurance companies of this population. On the basis of this target variable (external default probability), various regression analysis tests (statistical tests) were conducted and significant key indicators for the rating model were identified with due regard to the coefficient of determination. After that, the new model was benchmarked against the external default probabilities, meaning that the degree of probability with which the rating model correctly predicts the external probabilities was examined. This procedure is also referred to as shadow rating.

Furthermore, the main default probabilities of the various rating classes were updated in June 2015. The update was conducted on the basis of Standard & Poors' average one-year default probabilities for global companies with different credit ratings over the last 33 years (1981 to 2014), which were validated prior to use.

### 3.1.7 Risks of the Baader Bank Group

As in prior years, the main risks identified in fiscal year 2015 were market price risks, default risks, operational risks, liquidity risks, regulatory risks, and business risks. In the following, this risk types are described and assessed (quantified on the basis of a net view with due regard to risk-reducing effects) and the measures employed to limit risks are described.

#### 3.1.7.1 Market price risk

In general, market price risks are understood to mean all risks that result from changes in the market price of a financial instrument over a certain time period. These risks are sub-divided into equity price risk, interest rate risks, and exchange rate risk, depending on the influence parameters. Equity price risk refers to the risk of changes in the price of an equity instrument, interest rate risk refers to the risk of reduction of the present value of an interest rate-sensitive financial instrument resulting from changes in market interest rates, and exchange rate risk refers to the risk of losses resulting from exchange rate changes that have a negative effect on the bank's own position.

**Table 5** Summary of Holdings of Baader Bank Group as of December 31, 2015 in EUR thousands

**Spot market**

| | 2015 | 2014 |
|---|---|---|
| Equities | 32,854 | 29,717 |
| Bonds | 221,528 | 211,078 |
| Securitized derivatives | 645 | 1,133 |
| Funds, index certificates and fund-like certificates | 47,756 | 42,037 |

**Futures market**

| | 2015 | 2014 |
|---|---|---|
| Options | 28 | 3 |
| Futures | –5,962 | –25,859 |
| Swaps | 0 | 0 |

As a general rule, market price risks result from proprietary trading, and not from the bank's brokerage activities. Therefore, the positions of the Market Making segment, Executive Board, and the Treasury Department in particular are affected by market price risks. The risk positions inherent in the trading portfolio and in the securities of the liquidity reserve as of December 31, 2015 are presented on the basis of market values in the table below: → Table 5

Equity price risks are measured by application of a value-at-risk (VaR) model based on Monte-Carlo simulations in the Baader Bank Group's central trading system. The VaR is determined for the assumed holding period with a chosen confidence level of 99%. By way of exception, the interest rate risk of the bank book and the exchange rate risk are determined on the basis of historical simulation in special systems. Also in this case, the VaR is determined as the 99% quantile of the sorted value changes. As of December 31, 2015, the value-at-risk for the trading portfolio and the securities held in the liquidity reserve amounted to EUR 5,350 thousand, with a limit utilization of 70.22%.

The risk model employed to determine the value-at-risk represents an approximation of reality. In reality, extreme events can occur somewhat more frequently than would be expected under the assumption of normal distribution. The quality of the VaR model is regularly verified by means of backtesting (clean backtesting) with reference to the relation between the VaR values and the market value changes of a position on the basis of actual price changes. If the number of so-called outliers resulting from the backtesting is higher than a predefined critical limit, Risk Controlling makes appropriate adjustments to the VaR model when necessary. This leads to a better representation of actual losses by the value-at-risk and therefore reduces the number of outliers over time. The value-at-risk model can be described as generally appropriate.

To limit market price risks, the Baader Bank Group installed a comprehensive limit system in the central trading and position management software program. All positions of the profit centers are applied to the respective limits in this system. The Executive Board member in charge of trading is responsible for distributing the limits established for each department to the individual profit centers.

In the event of limit overruns, which are immediately displayed in the monitoring system, Risk Controlling immediately sends a report to the person in charge of the front-office department and also informs the Group's Management in the daily report. The measures to be initiated are notified to Risk Controlling and the implementation of those measures is appropriately monitored.

The average market price risk of the Baader Bank Group declined considerably in fiscal year 2015, mainly as a result of smaller holdings. The risk capital allocated to cover market price risks was enough at all times to cover potential unexpected losses. Therefore, there was no need for action to reduce risks as of December 31, 2015.

#### 3.1.7.2 Default risk

Default risk is generally understood to mean the risk that a borrower or counterparty would be unable to render the owed performance, or not in full, due to insolvency. Default risk also includes migration risk, meaning the risk of deterioration of the debtor's credit rating.

To limit default risks, the total default risk is limited and monitored with reference to the risk capital allocated by the Group's Management (default risk limit). If the front-office department intends to assume a default risk with an as yet unknown borrower unit, it must first request permission in writing from the Risk Controlling Department. Risk Controlling then determines a credit rating for the new borrower unit on the basis of an internal rating system, prepares a draft resolution, and submits it to the Executive Board member in charge of trading and to the Executive Board member in charge of back-office operations. If the default risk limit is exceeded on a given trading day, Risk Controlling reports the limit overrun to the Executive Board member in charge of front-office operations and the Executive Board member in charge of monitoring and recommends an appropriate action. The Executive Board then resolves an action to be taken and informs the front-office department and Risk Controlling of the resolved action. Risk Controlling then monitors the implementation of the resolved action. In addition, overruns of the default risk limit are reported to the Group's Management as part of the Group reporting system.

An external rating class representing an appropriate probability of expected losses (PD = probability of default) is assigned to every internal rating class. Following the Internal Rating-Based Approach (IRBA) of Regulation (EU) No. 575/2013 (Article 142 ff.), the so-called IRBA risk-weighted exposure amounts for unexpected losses are determined for each one of these credit rating categories by application of the bank's own procedure. Based on these risk-weighted exposure amounts, the unexpected loss can be calculated for each borrower unit. This is comparable to a value-at-risk. For this purpose, a loss rate of 100% is always assumed in the event of default of the respective borrower unit (LGD = loss given default). The total risk for all borrower units is determined by adding up the individual risks. Correlations between borrower units are disregarded. The resulting total risk may not exceed the risk capital allocated to cover default risks by the Group's Management. This total loss limit for default risk is adopted on a quarterly basis as part of the resolution defining risk limits and risk-bearing capacity.

The Baader Bank Group sub-divides default risks into credit risks, counterparty risks, issuer risks, and equity interest risks.

In connection with the credit business as defined in Section 1 (1) (2) KWG, (non-genuine) Lombard loans are granted against collateral to individual and corporate clients. The collateral usually consists of exchange-listed securities, the loan value of which is determined by a conservative valuation method, or bank guarantees.

As of December 31, 2015, the credit business was exposed to a risk in the amount of EUR 361 thousand resulting from unsecured overdrafts at the reporting date.

Individual value adjustments are charged against receivables due from customers whenever the receivables are past-due by longer than 90 days or when the loans are deemed to be non-performing loans based on the evaluation of the customer's ability to repay the loan. Loans are deemed to be non-performing when it appears improbable that the debtor will be able to completely fulfill its loan obligations without the bank resorting to collateral liquidation measures.. A risk provision in the total amount of EUR 873 thousand covering all customer loans was established as of December 31, 2015.

Also in connection with the credit business, the Treasury Department makes money market investments with banks. Receivables due from banks were subject to a total risk of EUR 1,641 thousand as of December 31, 2015.

Counterparty risk can arise in the settlement of trades if a trading partner does not completely satisfy his obligations. Counterparty risk is sub-divided into replacement risk and advance performance risk. Replacement risk represents the risk of default by the respective counterparty, leading to non-fulfillment of the executed trades. According to Minimum Requirements for Risk Management (MaRisk), stock exchange transactions and spot transactions in which the equivalent has been purchased or is to be purchased concurrently with delivery, or for which appropriate collateral has been furnished, are exempt from replacement risk. Therefore, only over-the-counter derivative transactions are subject to replacement risk. Due to the fact that the Baader Bank Group trades derivatives exclusively via derivative exchanges and Baader Bank is not itself a clearing member of these exchanges, the transactions must be settled between Baader Bank and the corresponding clearing member. Therefore, these transactions are to be classified as over-the-counter transactions and the settlement claim against the clearing member is therefore subject to default risk in the form of replacement risk. As of December 31, 2015, the replacement risk inherent in both the bank's own derivative positions held for hedging purposes in the market making business and in customers' derivative positions amounted to EUR 62 thousand.

Advance performance risk arises whenever transactions are not settled on the basis of concurrent payment and delivery. Advance performance risk is inherent in the brokerage of promissory note loans, in which Baader Bank acts as counterparty under the purchase agreement because under these transactions the payment and the assignment in rem of the certificate, including the act of assignment, occur at different times. This risk exists only in relation to the seller of the promissory note loan and only from the time between the payment of money and the assignment in rem of the certificate. As of December 31, 2015, the Baader Bank Group was not subject to any advance performance risk.

Issuer risk is understood to mean the risk of credit rating deterioration or default of an issuer of securities. The potential loss under issuer risk manifests as a reduction in value of the securities of the issuer. As of December 31, 2015, issuer risk amounted to EUR 7,893 thousand, particularly in the bank's treasury holdings.

Equity interests are understood to mean both equity interests according to the definition of Section 19 (1) (1) (7) KWG and equity interests according to the definition of (8) KWG (affiliated companies). Default risk in equity interests arises from the lasting credit rating deterioration or default of the respective investee, which would manifest in the form of a reduction in value of the equity interest. As of December 31, 2015, equity interest risk amounted to EUR 801 thousand.

There are no default risks from off-balance sheet transactions.

In connection with the management of default risk, the bank also considers concentration risks involving individual default risks, credit rating risks, sector risks, and country risks, in order to identify, limit, and monitor potential concentration risks (cluster risks) in the Baader Bank Group. However, risk capital is not separately allocated to cover these risks, so as to avoid redundant allocations. The Risk Controlling Department monitors the utilization of concentration limits and reports to the Group's Management once a day. If a limit overrun occurs during a trading day, Risk Controlling immediately sends a report to the Executive Board member in charge of front-office operations and the Executive Board member in charge of back-office operations. The measures to be initiated are reported to Risk Controlling, which monitors implementation.

To limit the cluster risk of a borrower unit (individual default risk), a limit is established for each borrower on the basis of the internal credit rating category, the category of receivables, and the applicable large exposure limits as per the Large Exposures Regulation. The exposure at default of all credit risk transactions is permanently applied against the borrower unit's limit in the monitoring system.

To limit exposure to credit rating risk, a limit is established for each credit rating category. As a general rule, no limit is established for and no new business is conducted with borrower units in the credit rating category of 5 or worse. Limits are established for borrower units in this credit rating category only in the case of existing exposures when the credit rating of the affected borrower unit worsens; in this case, the limit only serves the purpose of "capping" the exposure. The positions subject to default risk on the basis of exposure at default with regard to the stated concentration risks are presented as of December 31, 2015 and the prior reporting date in the table below: → **Table 6**

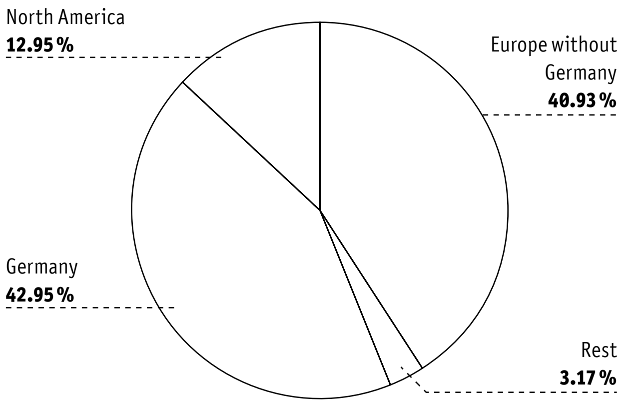
**Table 6** Breakdown of Exposures by Credit Rating Category in the Baader Bank Group as of December 31, 2015

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Credit rating category** | **EUR'000** | **%** | **EUR'000** | **%** |
| Credit rating category 1 | 89,887 | 23.04 | 62,380 | 14.66 |
| Credit rating category 2 | 92,043 | 23.60 | 148,930 | 35.00 |
| Credit rating category 3 | 125,722 | 32.23 | 162,510 | 38.19 |
| Credit rating category 4 | 52,186 | 13.38 | 51,700 | 12.15 |
| Credit rating category 5 | 30,244 | 7.75 | 0 | 0.00 |

With respect to sector risk, a limit is established for the credit risk exposure to each sector, so as to ensure reasonable diversification across sectors. As in prior years, the sector of "banks, savings banks, and financial institutions" accounts for the greatest share of credit risk exposure (42.07%, PY: 57.70%), although this share has been considerably reduced since December 31, 2015, resulting in greater diversification. The reason why the sector of "banks, savings banks, and financial institutions" accounts for such a large share of total credit risk exposure is due to the short-term investment of surplus liquidity with banks and the depositing of collateral with the respective clearing member for derivatives transactions.

With respect to country risk, country limits are established in order to ensure diversification in the credit portfolio and to limit credit exposure to countries deemed to be critical. The breakdown by country as of December 31, 2015 is presented in the graph below: → **Graphic 3**

**Graphic 3** Breakdown of Exposures by Country in the Baader Bank Group as of December 31, 2015




Country risk is mainly inherent in the bond holdings of the treasury portfolio, most of which consists of exposures to German borrower units. The country of domicile of the respective Group parent company is determining. The bank's exposure to GIIPS countries is extremely low and practically unchanged from the prior fiscal year (2.23%; PY: 2.26%).

The development of the bank's default risk during the course of fiscal year 2015 is additionally presented in the graph below: → **Graphic 4**

Baader Bank's default risk rose markedly during the course of 2015, due to credit rating deterioration in the existing portfolio, which resulted particularly from the tense market environment in the past fiscal year. Consequently, the Executive Board allocated more risk capital as a transitional measure. In the medium term, however, Baader Bank plans to continuously improve the credit rating strength of the portfolio and bring about greater diversification. The default risk was considerably reduced already towards the end of the year, and this trend continued at the beginning of fiscal year 2016. In mid-March, default risk had returned to the lowest level registered in 2015. Therefore, there is no further need for action in this respect.

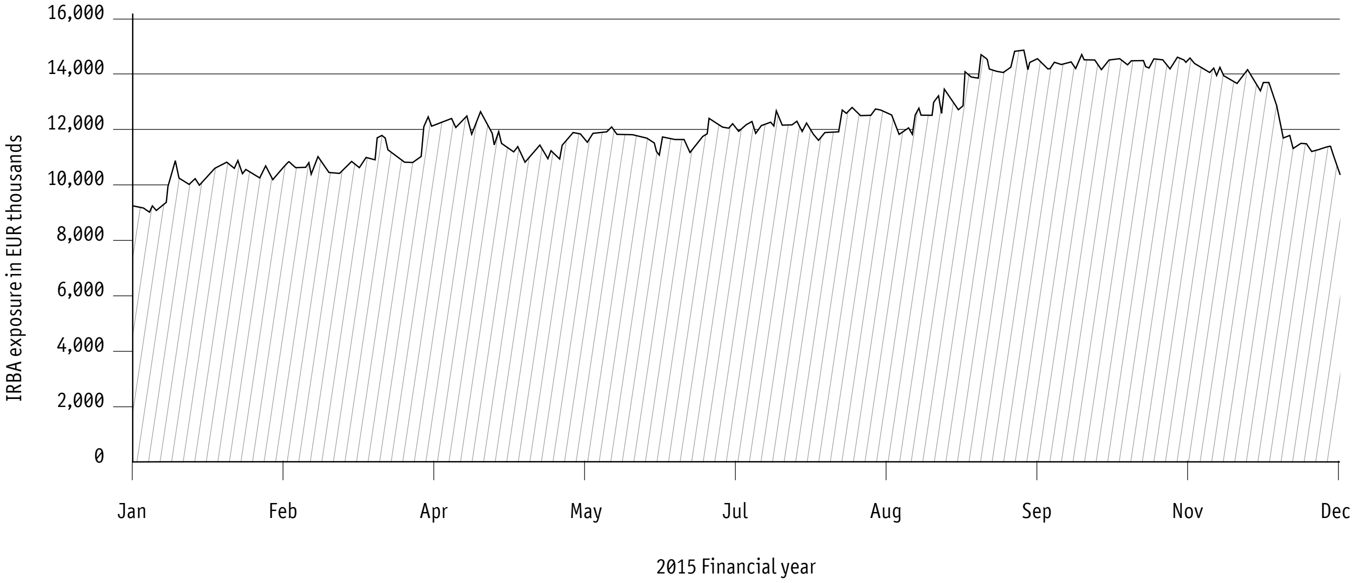
### 3.1.7.3 Operational risk

Operational risk refers to the risk of losses resulting from the inadequacy or failure of internal procedures, human beings and/or systems, or from the occurrence of external events. Operational risk also includes legal risks.

The security concept of the Baader Bank Group (Baader Bank Security Concept = BSC) is based on the three pillars of contingency management, IT baseline security, and the complex of topics subsumed under the term "operational risk." The BSC Security Committee is the organizational and topical body in charge of all security-relevant issues. In its regular meetings, the Committee addresses matters of operational risk, contingency management, and IT baseline security, as well as all other security-relevant topics. The Security Committee is authorized to make proposals and recommendations to the Group's Management in all such crucial matters.

The Risk Controlling Department of Baader Bank AG conducts a risk potential assessment, which entails the Groupwide identification and assessment of operational risks, once a year on the basis of the questionnaires or special self-assessments to be completed by the OpRisk Managers. The results of these surveys are submitted to the BSC Security Committee for discussion. The Security Committee considers Risk Controlling's recommendations for additional necessary actions and submits a corresponding proposal to the Group's Management, which makes the final decision as to what measures will be implemented and orders the Security Committee to proceed with implementation. The results of the questionnaires are reported to the Group's Management and the Supervisory Board of Baader Bank AG in the MaRisk Report.

**Graphic 4** Development of Default Risk in the Baader Bank Group in 2015




Besides their involvement in the assessment of the bank's risk potential, the OpRisk Managers are also responsible for reporting any losses incurred under operational risks. To this end, they enter all losses of EUR 1 thousand or more into an application. "Loss" is defined as a financial loss that is directly connected with operational risk. This also includes unrealized losses.

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

In addition, three noteworthy legal disputes involving significant financial risks were known at the end of fiscal year 2015. Even if the full amounts in dispute in each of these cases were awarded to the respective opponents, the financial effect on the bank's risk-bearing capacity would not be significant.

Unexpected losses that could arise under operational risk are quantified every quarter on the basis of observed historical losses in the Baader Bank Group. The procedure is modelled after the loss distribution approach, under which parameters of amount distribution and frequency distribution are estimated on the basis of the maximum likelihood method in order to arrive at a total loss per year. The following assumptions are applied for this purpose: the loss amount is lognormal-distributed, the number of loss incidents follows a Poisson process, and the losses are independently and identically distributed. The total loss distribution is estimated with the aid of a statistics software program on the basis of a Monte Carlo simulation. The 99% quantile is applied to calculate the amount of risk capital to be allocated to cover the unexpected loss. As of December 31, 2015, the value at risk was EUR 1,383 thousand (PY: EUR 1,183 thousand) and the limit utilization was 97.58%.

The Group's Management allocates a certain amount of risk capital to limit operational risks. The determination as to whether the allocated risk capital (maximum loss limit) is sufficient to cover unexpected losses under operational risks is made by the Risk Controlling Department on a daily basis, and this determination is also covered in the daily report to the Group's Management.

In addition, quarterly stress tests are conducted for operational risk. The losses arising under the stress tests are basically quantified in a similar manner as in the determination of unexpected losses. A 99.9% quantile was considered for the stress case. The results of the stress tests are also presented in the MaRisk report and are taken into consideration in reviewing the risk-bearing capacity.

Losses totaling EUR 1,172 thousand were reported in fiscal year 2015 (PY: EUR 360 thousand). Despite the considerable increase in losses in the past fiscal year, the Risk Controlling Department still considers the operational risk to be uncritical. The increase can be attributed particularly to two losses that occurred as a result of external misconduct and not due to the failure of internal processes. Moreover, the allocated risk capital was sufficient at all times. The technical resources in the form of risk systems were deemed to be appropriate in fiscal year 2015. Therefore, there is no further need for action with respect to operational risk.

#### 3.1.7.4 Liquidity risk

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

The dispositive (short-term) liquidity risk is the risk that committed credit lines would be unexpectedly drawn down or deposits would be unexpectedly withdrawn (withdrawal risk). Besides unexpected outflows, payment receipts could be delayed, thus leading to an unplanned lengthening of the capital commitment period for lending transactions (maturity risk). This could affect the bank's ability to fulfill its own payment obligations.

The Treasury Department is responsible for the operational control and assurance of payment obligations. The front-office departments work closely with the Treasury Department and the Payments Department to coordinate the daily cash flows in these departments. Unusual liquidity drains from other areas of the bank are promptly reported to the Treasury Department and Payments Department. In its management of dispositive liquidity risk, the Treasury Department prepares a daily liquidity status report describing the current liquidity situation and forwards it to Risk Controlling. The short-term liquidity needs of the Baader Bank Group are covered by means of various credit facilities and the bank's participation in the GC pooling market.

Risk Controlling is responsible for monitoring dispositive liquidity risk in the Baader Bank Group. Various monitoring mechanisms have been installed to properly exercise this function and promptly initiate countermeasures when necessary. For the purpose of managing and monitoring the Liquidity Coverage Ratio or LCR (as required by the CRD IV), a limit system was installed in the front-office departments in 2015. This system sets limits on all netted inflows and outflows, on the one hand, and on the total committed capital per value date and profit center. These liquidity limits enable the Treasury Department to manage liquidity and thus also the LCR on an intraday basis. In addition, observance of the LCR is monitored daily in connection with the Group Risk Report to the Group's Management. Furthermore, the Treasury Department submits a daily liquidity report detailing the current liquidity situation to Risk Controlling, which subjects it to a plausibility check and reviews it. Responsible decision makers are informed immediately of any threatened liquidity shortfall.

Given the form of manifestation of dispositive liquidity risk, it does not make sense to quantify it and allocate risk capital to cover it. In this area, heightened attention is given to the quality of the risk management process.

Structural liquidity risk (funding risk) refers to the risk that (present-value) funding costs would increase as a result of the possible widening of the institution's individual spread. A credit rating deterioration could mean that the bank would be able to conduct borrowing transactions only at worse terms. In addition, market-induced changes could also have a major effect. If the market rate of interest rises, funding tends to become more expensive. Operational liabilities management is conducted by means of issuing promissory note loans in the capital market. The liquidity so raised is mainly invested in ECB-eligible bonds, which can be deposited in turn with the German Bundesbank as funding facilities as part of the latter's open market policy, or invested in the GC pooling market.

The possible funding loss is quantified by means of liquidity gap analysis and the determination of potential liquidity shortfalls. Funding at currently applicable market terms is checked against funding in the unexpected case every quarter. A scenario involving considerable most costly funding and unexpected cash outflows is applied in the unexpected case. The difference is the funding loss in the unexpected case; this is taken into consideration in determining the risk-bearing capacity of the Baader Bank Group and risk capital is allocated when appropriate. As of December 31, 2015, the value-at-risk for structural liquidity risk was found to be EUR 0 thousand because there was no shortfall in the normal case and therefore funding would not be required.

Furthermore, the Baader Bank Group holds securities with different degrees of market liquidity, leading to liquidity risk in the case of less liquid securities. A low degree of market liquidity in individual trading products makes it difficult or impossible to take or close positions in these products due to little or no market liquidity. To counter this risk, Risk Controlling generates analytical market liquidity reports and forwards them to the Executive Board member in charge of front-office operations. The risk potential of market liquidity risk is calculated every quarter on the basis of an expert assessment and risk capital is allocated to cover it. As of December 31, 2015, the respective experts estimated a risk from unexpected losses in the amount of EUR 438 thousand. Besides this allocation of risk capital, additional risk management and controlling processes, including (for example) the monitoring and reporting of illiquid positions, are conducted as part of the operational management of market liquidity risk as a significant risk category.

Risk Controlling conducts a quarterly review to determine whether the allocated capital is sufficient to cover unexpected losses from liquidity risks. As of December 31, 2015, the limit utilization rate for the total liquidity risk was 97.36%.

In addition, quarterly stress tests are conducted for liquidity risk. The losses arising under the stress tests are quantified in a similar manner as in the determination of unexpected losses. The results of the stress tests are presented in the MaRisk report to the Group's Management and are taken into consideration in reviewing the risk-bearing capacity.

Overall, no loss potential was determined for structural liquidity risk in the unexpected case. The risk potential for market liquidity risk is negligible in comparison with the available risk cover amount. In addition, Baader Bank Group has only insignificant exposures in low-liquidity markets. Therefore, liquidity risk is deemed to be uncritical.

#### 3.1.7.5 Regulatory risk

Regulatory risk results from the non-fulfillment or non-detection of new regulatory requirements. The occurrence of such a risk can lead to heightened internal costs as a result of stricter regulatory oversight, financial losses due to fines, or even the forced closure of a business unit. The regulatory requirements have risen dramatically in the last few years. The detection and coverage of regulatory risk presents a major challenge for financial institutions and is therefore to be considered significant. Given the special nature of this risk type, it is not reliably possible to quantify this risk and allocate risk capital to cover it. Instead, the primary emphasis is placed on qualitative management. For this purpose, the Baader Bank Group employs a software program that supports the detection and monitoring of new requirements in order to avoidthat new requirements are not observed.

The instruments employed to manage regulatory risk are deemed to be adequate with respect to the current and expected regulatory requirements. Therefore, there is no further need for action at the present time.

#### 3.1.7.6 Business risk

Business risk refers to the risk of unexpected losses resulting from management decisions on the business-strategy positioning of the Baader Bank Group. Business risks can also result from unexpected changes in market and environmental conditions that entail negative effects on the Group's financial performance. With respect to these risks, therefore, careful attention must be paid to unexpected profit declines and negative plan variances that are not caused by other defined risk categories. Because the Baader Bank Group's business activity is particularly dependent on the development of the general stock market environment, this risk type is deemed to be significant.

In the Baader Bank Group, business risk is quantified as part of the worst-case business planning and is therefore indirectly considered in connection the risk-bearing capacity analysis. Furthermore, it is not considered useful to quantify business risk on the basis of mathematical models. Therefore, the primary emphasis is placed on qualitative management of this risk type as well. For this purpose, a business and risk strategy is developed at least once a year for the subsequent years as part of the strategy meeting of the Baader Bank Group. In this process, particular consideration is given to market expectations and the influence thereof on the business model and profit situation of the Baader Bank Group. This strategy is reviewed at regular intervals of time and adjusted when necessary to reflect new market conditions, etc.. In addition, Risk Controlling checks the planned business performance with the actual business performance on a regular basis.

The Risk Controlling Department measures and monitors risks and income on a daily basis. The quarterly stress tests also analyze possible adverse market developments and the consequences thereof on the financial situation of the Baader Bank Group.

Based on the results of the stress tests and in consideration of the business and risk strategy for 2016 and beyond, the business risk of the Baader Bank Group is deemed to be acceptable.

### 3.1.8 Summary assessment of the risk situation of the Baader Bank Group

The Baader Bank Group manages significant risks through the use of a precise risk management and controlling process and effective risk management tools. The proactive approach to identifying the risks associated with our business activities and assessing the potential consequences is designed to detect the negative effects of these risks on our financial results and our long-term strategic goals and to mitigate these effects by means of suitable measures. The work of the central Risk Controlling Department, which quantifies and monitors all risks in the Baader Bank Group, ensures at all times that interdependencies between the risk types are detected, so that countermeasures can be initiated immediately.

As part of our risk strategy, the Management of the Baader Bank Group allocated only part of available risk capital to cover unexpected losses in financial year 2015, as in prior years. The allocation and reallocation during the year of risk capital to the individual risk types is particularly based on the current risk potential of the individual risk types, as well as the business strategy for the subsequent years and market expectations. No risk-reducing correlation effects between the risk types were considered, meaning that the Baader Bank Group pursues a conservative approach also in this respect. The tense market environment and the accompanying deterioration of credit ratings within the existing portfolio led to a substantial increase in default risk in 2015. Thanks to the countermeasures initiated in the meantime, default risk has since been reduced to a moderate level again. Because Baader Bank's risk-bearing capacity was and is assured at all times even under these conditions, despite the assumption that the regulatory minimum capital requirements as per the CRR may not be placed at risk, there is no further need for action with respect to Baader Bank's overall risk situation.

## 3.2 Forecast and opportunities report

### 3.2.1 Expected development of general economic conditions and financial industry conditions

<u>Outlook for capital markets in 2016: Monetary policy remains the conditio sine qua non for fundamental improvements</u>

China's economic problems, which could potentially spill over to neighboring countries and exporting nations, and speculation concerning the number and magnitude of further US interest rate hikes will continue to be potentially adverse factors for equity markets in 2016. Other potentially adverse factors include the global economic loss of purchasing power in commodity-exporting countries in the wake of the drastic declines in prices of oil and industrial metals. Aside from the geopolitical flashpoints in the Middle East and the threat of terrorism, the deep-seated differences of opinion within the European Union represent the greatest of all risks. The values and stability of the European Union are fundamentally at risk, as evidenced by the inadequately coordinated response to the refugee crisis and the fate of Greece, which will continue to receive financial aid in spite of not enacting sufficient reforms. If the divergent attitudes of EU nations persist, and if EU citizens become further disillusioned by the reluctance to enact needed reforms, the cause of European unity could suffer even more economic harm and the desire for renationalization could become more widespread. Moreover, Britain's possible exit from the EU could serve as a warning sign. This "Brexit" could encourage radical parties in other EU and Eurozone countries to pursue a similarly undesirable policy.

In view of this difficult state of affairs, the ECB can be expected to take preventive action to combat new debt and economic crises and prevent a further weakening of the euro. In this scenario, European equities can be expected to benefit from the interest rate-driven decline in the euro exchange rate, which will support a cyclical recovery just as much as low oil prices.

In the United States, the U.S. Federal Reserve can be expected to raise interest rates only cautiously, in order to further stabilize the U.S. economy and prevent economically harmful capital flight from emerging-market countries. If the global economic climate worsens or if deflationary pressures become too great, it may choose to forego any further tightening of interest rates. According to historical precedents, the first interest rate hikes are generally accompanied by rising equity prices because they are regarded as a sign that the U.S. economy is stable. Moreover, U.S. equities could benefit from economic promises made in the U.S. presidential election campaign in the second half of 2016.

Based on the new Five-Year Plan for 2016 to 2020, China will presumably seek to stimulate its economy by creating large amounts of new debt and taking massive monetary policy measures. These economic-planning measures can be expected to stabilize the Chinese economy. Improved sentiment in the Chinese financial markets will be particularly important for this stabilization. While the extreme volatility of the stock exchange in Shanghai is not a reflection of the Chinese economy, which is certainly robust, a lasting downturn of the stock market could influence the real economy by crimping fixed investment and consumer spending. All in all, one can expect a gradual calming of the situation in China, which will also foster confidence in the international financial markets.

In this environment, cyclically sensitive equities in Europe and especially Germany could exhibit relative strength. At any rate, Europe continues to offer considerable economic catch-up potential due to the long-lasting inhibiting effects of the sovereign debt crisis. Moreover, the comparatively weak and therefore export-supporting euro and record-low interest rates provide fertile ground for stable economic data. Low commodity prices are especially good for German industrial enterprises, as they lead to appreciable profit margin improvements and increased purchasing power for consumers.

Finally, the liquidity argument remains in effect for Eurozone equity markets. High-dividend stocks offer a distinct advantage over other unattractive fixed-income investments. After all, high dividends represent a risk buffer against capital losses. In view of the substantial crisis potential, however, one should expect heightened volatility in the equity markets.

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

#### 3.2.2.1 Outlook for the Market Making segment

As in prior years, the financial performance of the Market Making segment will be influenced in 2016 mainly by market developments, trading volumes in the various types of securities, and market volatility. Baader Bank anticipates moderately increasing trading volumes and a normalization of market volatility. In all probability, these factors will continue to have a positive effect on the trading profit of Baader Bank. In this regard, it should be emphasized that these profit drivers are mainly determined by exogenous global economic and monetary policy developments, which cannot be influenced by Baader Bank, making it very difficult to forecast the expected development of general economic conditions and the effect of those conditions on this trading income.

Another decisive factor that can hardly be influenced by Baader Bank is the introduction of the second Markets in Financial Instruments Directive (MiFID II), for which the date of first-time application has not yet been finally determined. The probable changes will mainly affect trading platform operators, and particularly the topic areas of classification, fulfillment of regulatory requirements, documentation and transparency criteria, and the configuration of market models. The latter point could potentially have the greatest impact on the business activity of Baader Bank.

Despite these uncertainties, the Management of Baader Bank anticipates moderately rising trading volumes and income in the securities categories traded by the Market Making segment in fiscal year 2016. Baader Bank sees itself well equipped to attain its stated strategic goals in this core business segment, namely to secure the current market position in the German-speaking exchanges, to further expand its successful activity in over-the-counter trading, and create the conditions that will enable the bank to compete in multi-market models.

Nonetheless, Baader Bank is still exposed to the risk that substantial order volumes, including those of individual investors, could be shifted to exchanges in which Baader Bank controls no or little market share. Moreover, the changing market models of exchange operators could usher new competitors into the market. Other risks include the possibility of consolidation in exchange trading without the participation of Baader Bank and the possibility that existing cooperation agreements are not renewed. In over-the-counter trading, it may not be possible for Baader Bank to further expand its activities beyond Germany to the expected degree, in which case the bank would remain dependent on the German market.

#### 3.2.2.2 Outlook for the Investment Banking segment

Financing Group

The main drivers of orders in the capital markets business, the Financing Group of Baader Bank, are the general performance of equity markets, including the development of securities trading volumes, and the prevailing volatility in the secondary markets. Generally speaking, the development of the first half of every year is determining. The assumptions regarding market developments that were formulated in the description of general economic conditions (see Section 3.2.1) form the basis for the Financing Group's business activities in fiscal year 2016. Because there is still great investment potential on the part of investors, Baader Bank expects a moderate improvement of the market for capital market services in 2016, even though basic market conditions will remain difficult. In this connection, the number of mandates, transaction volumes, and thus trading volumes could also increase moderately. Furthermore, a number of IPOs in the private equity environment, as well as IPOs of innovative business models to finance growth, are expected also in 2016. Baader Bank expects to generate moderately higher commission income on these transactions. Capital measures will likewise be characterized by the financing of further organic and acquisitions-driven growth. Baader Bank will further expand its leading position in innovative products such as the dividend option and tradable tender rights. The pioneering role which the bank played in this area in 2015 was a major factor contributing to the consolidation of its good market position. If successful, these factors will lead to a stabilization, if not a further improvement of the bank's financial performance in this business segment.

However, these market opportunities are limited by Baader Bank's relatively small balance sheet, particularly in the case of transactions with guarantee components, which are typical of large transaction mandates. Moreover, Baader Bank will continue to face intense competition for mandates for conventional equity transactions in 2016. Therefore, the bank is exposed to the risk that pending transactions will not come to fruition in the expected manner. Nonetheless, the Executive Board of Baader Bank will continue in 2016 to pursue the medium-term goal of constantly growing revenues and profits in this core business segment.

Equities & Derivatives

Much like the Market Making and Financing Group segments, the main factors influencing the profitability of the Equities & Derivatives are the basic economic sentiment, the general performance of equity markets, and the prevailing volatility in the secondary markets.

Following the integration of the Helvea Group into the Baader Bank Group, the structure of this market unit can be regarded as largely finalized. Baader Bank will continue to pursue the goal of strengthening existing client relationships and acquiring new clients by expanding the cash equity activities to new regions.

From the Group's perspective as a full-range service provider, the asset manager business is seen as an integral part of the Baader Bank's product portfolio. Adding the above-mentioned product lines to the portfolio of products and services will create the potential for additional business volumes in Baader Bank's bank account and custody account systems, as well as its trading activities.

In terms of its regional focus, Baader Bank understands itself to be the local broker for worldwide clients in the German-speaking region (Germany, Austria, Switzerland). Accordingly, the bank has not taken a pan-European approach to market cultivation in the past and will not do so in the foreseeable future either. Thus, attaining the market leadership position as the leading broker of specified product groups and services in the German-speaking region continues to be the highest strategic goal in this business segment. Furthermore, Baader Bank seeks to position itself clearly as a provider of services to asset managers. Baader Bank's established infrastructure and market position should enable it to achieve these goals.

As in the Market Making segment, the primary risk in this segment is that institutional investors would reduce their commission volumes and therefore also the number of brokers they work with. In particular, regulatory developments such as the FCA initiative affecting the compensation paid for services such as research and corporate access and the introduction of the MiFID II could have adverse effects on the available commissions of investors, particularly in the United Kingdom and the Eurozone.

Baader Bank possesses decisive competitive advantages in the area of asset management and services. In particular, the speed and quality of trading and the diversity of execution venues and tradable securities represent a unique selling proposition for Baader Bank compared to its competitors in this segment. However, the operating challenge is to translate this market and income potential into real business success.

#### 3.2.2.3 Outlook for the business performance of subsidiaries

CCPM Group

Conservative Concept Portfolio Management AG will need to focus its attention in securing the substantially increased business volume in the area of its main strategy. To this end, CCPM Group will seek to diversify its strategy by adding new product variants. As in the past, the capital appreciation of the offered products will be critical to CCPM AG's business performance, both with respect to assets under management and management fees and with respect to the income generated from performance fees. The extremely high market volatility in some cases gives increased confidence to the Management of CCPM AG regarding the company's performance in the future. The Executive Board expects that the company's business performance in fiscal year 2016 will be generally oriented to the prior year's performance, but will be particularly influenced by the capital appreciation generated in the managed funds by the end of 2015. The company expects to generate considerably higher income on the funds managed in accordance with the Athena strategy, particularly in the form of management fees, but also performance fees assuming positive capital appreciation. With regard to the TriStone fund, the Executive Board of CCPM AG is likewise confident of being able to generate a positive earnings contribution in this segment.

In total, the positive income effects described above should be sufficient to cover the company's fixed costs (personnel and general administrative expenses), which are expected to rise by approximately 20% in 2016. The combination of capital appreciation and the resulting growth in assets under management, which is not improbable given the already observed increase in volatility, should support a positive business performance for CCPM AG in 2016. Based on the current situation, the goal of reaching or exceeding the break-even point for the first time since 2013 appears to be realistic. Furthermore, the liquidation of Conservative Concept AG (CC AG) in Switzerland has been resolved for 2016.

Baader & Heins Group

The most important goal of Baader & Heins in 2016 will be to secure the company's strong market position in the brokerage of debt instruments and in money market trading amid a persistently difficult market environment. Above all, the company will strive to maintain its profitability. If the ECB continues to pursue a policy of low interest rates for a longer period of time, thereby causing investors to shift investments to equities, mutual funds, and real estate, a pronounced decline in the number of transactions and the volume of brokered securities cannot be ruled out. Based on an even more cautious assessment of business opportunities, the Executive Board of Baader & Heins has therefore lowered its 2016 forecast of brokerage commissions and the resulting commission income by around 20%. Although earnings before taxes are expected to be 10% to 15% lower than the prior-year figure, they will be clearly positive. However, the company will seek to offset any negative exogenous conditions as much as possible through active cost management. The goal is to generate a solid profit in fiscal year 2016.

Considering the substantial increase in assets under management in 2015, the Management is cautiously optimistic about the future performance of SKALIS. The Executive Board expects that SKALIS's business performance in fiscal year 2016 will be generally oriented to the prior year's performance and the capital appreciation generated in the managed funds by the end of 2016. Accordingly, the Management anticipates continued steady inflows to assets under management. The start-up phase of SKALIS can be regarded as being largely completed. Assuming that business develops as planned, SKALIS also plans to broaden the product portfolio in its core business by introducing a new mutual fund, a new "dynamic" balanced fund.

Assuming that the generally conservative planning assumptions prove to be correct, the Executive Board of SKALIS expects to generate a nearly break-even result to start the year 2018. A further significant decrease in fixed costs is planned for 2016. Despite the expectation of an income increase accompanied by cost limitation, SKALIS cannot yet be expected to reach the break-even point in 2016, based on its business plan, which was drawn up in coordination with the parent company Baader & Heins. In order to finance current operations, cover total costs, ensure liquidity and solvency, and fulfill the regulatory capital requirements of SKALIS, the Executive Board of Baader & Heins has contractually undertaken to make an additional payment to the additional paid-in capital reserve in 2016, one which is deemed to be sufficient on the basis of currently available information to set off any losses of the subsidiary.

Helvea Group

Also in 2016, the Helvea Group will make an important contribution to the successful support of the international client group and therefore represents the most important element of Baader Bank's consolidated Groupwide investment banking strategy in the three German-speaking countries. Far-reaching synergies will be realized in 2016 now that the integration of Helvea into the Baader Bank Group has been completed. Furthermore, the resolved relocation of the Group's headquarters to Zurich (Switzerland) and the associated closure of the Geneva Office in 2016 should give rise to additional, significant cost savings. Moreover, Helvea Inc. will open a new office in Boston to reinforce the sales activity of the Helvea Group in the North American market.

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

The basic operating environment in the markets in which Baader Bank operates will continue to present a major challenge in 2016 and subsequent years. The high volatility and equity market losses observed around the world at the beginning of 2016 can be seen as a precursor of future developments. On the one hand, the ongoing liquidity programs of major central banks and the persistence of low interest rates will support the demand for investments and should therefore be conducive to an upswing in the segment of equity instruments. On the other hand, basic economic conditions point to a possibly long-lasting downward trend in capital markets, which could be exacerbated by geopolitical instabilities, which would also have a pronounced effect on commodity prices. In view of these fundamentally exogenous uncertainties, it is not possible to make unqualified, reliable forecasts of the Group's future business performance, in the opinion of the Executive Board. Therefore, the forward-looking statements, expectations, and forecasts of Baader Bank's future development contained in the present Management Report are based on the information and knowledge available to the Management at the present time. The assumptions and premises on which the forecasts and forward-looking statements are based are subject to the customary uncertainties, imponderabilities, and risks. On this basis, the Executive Board is of the opinion that trading volumes and transaction volumes will rise moderately to significantly in 2016, assuming the continuation of high volatility in the markets.

With respect to the individual earnings components, this scenario would support a planned, moderate increase in net commission income and a significant increase in the company's trading profit. Accordingly, the gross profit to be generated in 2016 should be markedly higher than the corresponding figure for 2015.

Given that administrative expenses are not expected to increase by as much as the gross profit, Baader Bank should cross the break-even point in fiscal year 2016. However, this estimation of the Executive Board is subject to the caveat of valuation risks, which cannot be ruled out due to the imponderability of the general market situation.

Unterschleißheim, March 16, 2016

Baader Bank AG
The Executive Board

Nico Baader Dieter Brichmann Christian Bacherl Oliver Riedel

# Report of the Supervisory Board

**General information**
The Supervisory Board performed the duties incumbent upon it in accordance with the law and the company's Articles of Incorporation in fiscal year 2015. It obtained regular updates about the situation of Baader Bank Aktiengesellschaft and the Group from the Executive Board and supervised and supported the work of the Executive Board.

The Executive Board provided prompt and comprehensive information to the Supervisory Board, both in writing and orally, about the business strategy, fundamental questions of future management, the economic situation and strategic future development, the risk situation and risk management, and important transactions and events, and discussed these matters with the Supervisory Board. Differences between actual business performance and earnings and the company's plans and targets were discussed in detail and examined by the Supervisory Board. The Supervisory Board was always involved in decisions of material importance.

**Important topics and meetings of the Supervisory Board**
The Supervisory Board of Baader Bank held five meetings in 2015. The Supervisory Board focused intensively on the generational change of the institution's top management and the related restructuring of the Executive Board. Other points of emphasis included the development of operating earnings and the reduction of the cost intensity of banking operations and the related strategic and tactical development options of the company. In collaboration with the Executive Board, the Supervisory Board initiated a consolidated project to realize cost savings at Baader Bank. This project yielded appreciable results already in 2015. The Supervisory Board also focused intensively on the competition situation of Baader Bank and the orientation of individual organizational units.

Other important topics of discussion between the Supervisory Board and Executive Board in 2015 included key projects, specific loan exposures, and the medium-to-long-term effects of regulatory and statutory rules on banks in Europe. Also between meetings, the Supervisory Board was always informed about plans of particular importance.

In its monthly reports, the Executive Board regularly informed the Supervisory Board of the most important indicators of the financial performance and risk situation of Baader Bank Aktiengesellschaft and the Group. The business figures, earnings, and employment situation of the Group, including the subsidiaries and associates, and the performance of all operating segments were the subject of regular deliberations.

Insofar as the Supervisory Board's consent was required for specific measures by virtue of a law, the Articles of Incorporation, or the rules of procedure, the Supervisory Board adopted a corresponding resolution after thorough review and deliberations. The Supervisory Board adopts resolutions in its meetings, as a general rule. When necessary, resolutions are also adopted by written circulation outside of meetings, by order of the Supervisory Board Chairman.

Finally, the Supervisory Board deliberated on the future business and risk strategy and business plan of Baader Bank in its meeting of December 18, 2015.

The Compliance Officer presented his detailed semiannual report to the Supervisory Board Chairman. In addition, the Supervisory Board Chairman was informed of important decisions and specific transactions in regular discussions with the Executive Board. The minutes of the Executive Board meetings were always promptly provided to the Supervisory Board Chairman.

**Audit of the separate and consolidated financial statements**
The Executive Board of Baader Bank Aktiengesellschaft prepared the separate financial statements and management report, as well as the consolidated financial statements and Group management report for fiscal year 2015, in accordance with the regulations of the German Commercial Code, the German Stock Corporations Act, and the German Bank Accounting Regulation.

The independent auditor of the separate and consolidated financial statements elected by the general meeting of shareholders, PriceWaterhouseCoopers Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the financial statements and management reports. The independent auditor conducted the audit in accordance with the German generally accepted standards for the audit of financial statements promulgated by the German accountancy institute Institut der Wirtschaftsprüfer (IDW).

The Supervisory Board thoroughly examined the documents presented to it. All financial statement documents and the audit reports of the independent auditor were made available to the members of the Supervisory Board in due time. The financial statement documents were discussed extensively by the Supervisory Board in the presence of the independent auditor. The independent auditor also reported on the principal results of his audit. In addition, the independent auditor explained the scope and focal points of the audit.

The Supervisory Board acknowledged and approved the results of the audit and after concluding its own review determined that it had no objections to raise. The separate and consolidated financial statements and the separate management report and Group management report prepared by the Executive Board and audited by the independent auditor were approved by the Supervisory Board in its meeting of March 24, 2016. The separate financial statements were thereby adopted.

**Utilization of profit**
Finally, the Supervisory Board reviewed the Executive Board's profit utilization proposal and concurred with this proposal after due consideration particularly of the fiscal year net income and the Company's liquidity and financial planning.

**Dependency Report**
In accordance with Section 312 of the German Stock Corporations Act, the Executive Board prepared a Dependency Report on the company's dealings with affiliated companies. The independent auditor PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the Executive Board's Dependency Report in accordance with the statutory regulations and issued the following unqualified audit opinion: "Based on the audit and assessment conducted in accordance with our professional obligations, we confirm that 1. the factual information presented in the report is correct, and 2. the consideration paid by the company for the transactions listed in the report was not inappropriately high, and 3. there are no circumstances that would support a materially different assessment than the assessment offered by the Executive Board for the measures listed in the report."

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

**Composition of the Executive Board and Supervisory Board**
There were no changes in the composition of the Supervisory Board in fiscal year 2015.

The following changes occurred in the composition of the Executive Board: Effective July 1, 2015, Mr. Nico Baader assumed the position of Chairman of the company's Executive Board. In addition to his duties as Executive Board Chairman, he remains responsible for the Market Making segment. The contract with the company's founder, Mr. Uto Baader, was terminated at his own request effective June 30, 2015. The Executive Board member in charge of finance, Mr. Dieter Brichmann, whose contract had already been prolonged ahead of time, was appointed the Vice Chairman of the Executive Board with effect from July 1, 2015.

In recognition of the growing importance of the business segments serving institutional investors and corporate customers, the Supervisory Board appointed the former department heads Mr. Christian Bacherl and Mr. Oliver Riedel as additional members of the company's Executive Board with effect from July 1, 2015, and thus expanded the Executive Board to four members again.

The Supervisory Board wishes to expressly thank Mr. Uto Baader for his outstanding entrepreneurial accomplishments in the last 32 years since the company was founded. The Supervisory Board is pleased to have successfully supported this generational change and wishes Mr. Nico Baader and the entire Executive Board all the best in their future leadership of the company.

**Thanks to the Executive Board and employees**
Finally, the Supervisory Board of Baader Bank wishes to thank the Executive Board and all employees of the company for their always motivated, constructive, and responsible work in the past fiscal year.

Unterschleißheim, March 24, 2016

The Supervisory Board

Dr. Horst Schiessl
Chairman

# Consolidated financial statements

# Contents Consolidated financial statements

# Consolidated Statement of Financial Position

**as as of 31. Dezember 2015**

| **Assets** in EUR | | **31.12.2015** | | **31.12.2014** |
|---|---|---|---|---|
| **1. Cash reserve** | | | | |
| a) Cash on hand | 688.35 | | 439.54 | |
| b) Cash in central banks | 14,591,844.40 | **14,592,532.75** | 7,682,199.84 | 7,682,639.38 |
| thereof: | | | | |
| with the German Bundesbank EUR 14,591,844.40 (PY: EUR 7,682,199.84) | | | | |
| **2. Receivables due from banks** | | | | |
| a) Due at call | 98,203,620.07 | | 76,291,458.11 | |
| b) Other receivables | 18,863,236.90 | **117,066,856.97** | 123,030,116.38 | 199,321,574.49 |
| **3. Receivables due from customers** | | **30,252,520.34** | | 37,147,839.30 |
| **4. Debentures and other fixed-income securities** | | | | |
| a) Bonds and debentures | | | | |
| aa) of public-sector issuers | 39,188,707.13 | | 12,217,567.04 | |
| thereof: | | | | |
| Acceptable as collateral with the German Bundesbank EUR 39,188,707.13 (PY: EUR 7,497,028.09) | | | | |
| ab) of other issuers | 185,814,685.32 | **225,003,392.45** | 193,265,039.26 | 205,482,606.30 |
| thereof: | | | | |
| Acceptable as collateral with the German Bundesbank EUR 102,349,359.54 (PY: EUR 99,495,235.18) | | | | |
| **5. Equities and other variable-yield securities** | | **27,123,977.09** | | 29,506,650.03 |
| **5a. Trading portfolio** | | **59,994,930.69** | | 75,989,489.70 |
| **6. Equity interests** | | **233,947.00** | | 1,440,081.48 |
| thereof: | | | | |
| in financial services institutions EUR 231,336.00 (PY: EUR 231,336.00) | | | | |
| **7. Interests in associated companies** | | **5,733,856.84** | | 8,607,909.61 |
| **8. Intangible assets** | | | | |
| a) Purchased franchises, industrial property rights and similar rights, and licenses to such rights | 18,732,272.04 | | 19,706,122.06 | |
| b) Goodwill | 7,920,158.91 | | 9,921,837.06 | |
| c) Advance payments made | 353,914.62 | **27,006,345.57** | 1,262,645.66 | 30,890,604.78 |
| **9. Property, plant and equipment** | | **43,979,769.16** | | 46,608,389.45 |
| **10. Other assets** | | **15,986,427.47** | | 11,046,597.93 |
| **11. Prepaid expenses** | | **2,606,394.35** | | 3,118,167.77 |
| **12. Excess of plan assets over pension liability** | | **6,748,804.08** | | 6,450,502.51 |
| **Total assets** | | **576,329,754.76** | | **663,293,052.73** |

| **Equity and Liabilities** in EUR | | | **31.12.2015** | | **31.12.2014** |
|---|---|---|---|---|---|
| **1. Liabilities due to banks** | | | | | |
| a) due at call | | 21,213,409.89 | | 20,443,346.12 | |
| b) with agreed term or notice period | | 32,009,051.65 | **53,222,461.54** | 67,125,091.66 | 87,568,437.78 |
| | | | | | |
| **2. Liabilities due to customers** | | | | | |
| a) Other liabilities | | | | | |
| aa) due at call | | 154,536,003.46 | | 139,409,677.88 | |
| ab) with agreed term or notice period | | 231,494,758.92 | **386,030,762.38** | 277,344,675.62 | 416,754,353.50 |
| | | | | | |
| **3. Trading portfolio** | | | **1,686,026.66** | | 8,683,631.47 |
| | | | | | |
| **4. Other liabilities** | | | **4,929,258.22** | | 7,008,830.68 |
| | | | | | |
| **5. Deferred income** | | | **0.00** | | 7,651.36 |
| | | | | | |
| **6. Provisions** | | | | | |
| a) Provisions for pensions and similar obligations | | 1,588,796.51 | | 1,367,989.11 | |
| b) Tax provisions | | 264,942.88 | | 943,875.21 | |
| c) Other provisions | | 6,916,527.46 | **8,770,266.85** | 8,959,916.23 | 11,271,780.55 |
| | | | | | |
| **7. Fund for general banking risks** | | | **23,250,000.00** | | 25,170,000.00 |
| thereof: | | | | | |
| Special reserve pursuant to Section 340e (4) HGB | | 21,536,000.00 | **21,536,000.00** | 23,250,000.00 | **23,250,000.00** |
| | | | | | |
| **8. Equity** | | | | | |
| a) Called-up capital | | | | | |
| aa) Subscribed capital | 45,908,682.00 | | | 45,908,682.00 | |
| ab) less par value of treasury shares | – 276,996.00 | 45,631,686.00 | | – 276,996.00 | |
| b) Additional paid-in capital | | 31,431,265.61 | | 31,431,265.61 | |
| c) Retained earnings | | | | | |
| ca) Other retained earnings | 26,689,372.29 | | | 27,780,766.67 | |
| cb) Change in equity from currency translation | 1,540,992.51 | 28,230,364.80 | | 534,117.07 | |
| d) Non-controlling interests | | 1,408,002.91 | | 1,996,026.18 | |
| e) Accumulated loss / distributable profit | | – 6,546,340.21 | **100,154,979.11** | 1,374,505.86 | 108,748,367.39 |

| | | |
|---|---|---|
| **Total equity and liabilities** | **576,329,754.76** | **663,293,052.73** |
| | | |
| **1. Contingent liabilities** | | |
| a) Liabilities under sureties and warranty agreements | **5,340.00** | 2,583.00 |
| | | |
| **2. Other commitments** | | |
| a) Irrevocable credit commitments | **10,096,585.66** | 1,332,340.09 |

# Consolidated Income Statement

**FOR THE PERIOD FROM 1. JANUAR 2015 TO 31. DEZEMBER 2015**

| in EUR | | | **31.12.2015** | | **31.12.2014** |
|---|---|---|---|---|---|
| **1. Interest income from** | | | | | |
| a) Credit and money market transactions | 624,220.89 | | | 1,160,882.13 | |
| b) Fixed-income securities and debt register claims | 9,124,501.75 | 9,748,722.64 | | 10,511,554.30 | |
| **2. Interest expenses** | | – 9,169,569.06 | **579,153.58** | – 10,354,862.58 | 1,317,573.85 |
| **3. Current income from** | | | | | |
| a) Equities and other variable-yield securities | | 1,851,269.83 | | 1,898,992.42 | |
| b) Equity interests | | 64,504.80 | **1,915,774.63** | 9,639.00 | 1,908,631.42 |
| **4. Commission income** | | 74,500,201.66 | | 74,670,076.69 | |
| **5. Commission expenses** | | – 24,352,687.37 | **50,147,514.29** | – 22,267,834.40 | 52,402,242.29 |
| **6. Net profit from trading portfolio** | | | **52,552,521.43** | | 43,760,655.84 |
| **7. Other operating income** | | | **5,088,405.06** | | 3,131,458.32 |
| **8. General administrative expenses** | | | | | |
| a) Personnel expenses | | | | | |
| aa) Wages and salaries | – 44,670,470.54 | | | – 54,351,606.67 | |
| ab) Social security, pension and other benefit expenses | – 9,538,899.19 | – 54,209,369.73 | | – 6,685,450.57 | |
| thereof: | | | | | |
| for pensions EUR – 3,498,724.48 (PY: EUR – 836,418.60) | | | | | |
| b) Other administrative expenses | | – 39,942,306.93 | **– 94,151,676.66** | – 41,081,006.40 | – 102,118,063.64 |
| **9. Depreciation, amortization and impairments of intangible assets and property, plant and equipment** | | | **– 10,990,932.55** | | – 9,920,302.00 |
| **10. Other operating expenses** | | | **– 2,299,423.64** | | – 962,904.19 |
| **11. Value adjustments and impairments of receivables and certain securities, and appropriations to credit risk provisions** | | | **– 6,704,386.62** | | 0.00 |
| **Amount carried forward** | | | **– 3,863,050.48** | | – 10,480,708.11 |

| in EUR | | 31.12.2015 | | 31.12.2014 |
|---|---|---|---|---|
| **Amount carried forward** | | **−3,863,050.48** | | −10,480,708.11 |
| **12. Income from reversals of value adjustments and impairments of receivables and certain securities, and from reversals of credit risk provisions** | | **0.00** | | 11,574,419.05 |
| **13. Impairments of equity interests, interests in affiliated companies, and securities classified as noncurrent assets** | | **−2,884,114.64** | | 0.00 |
| **14. Income from reversals of impairments of equity interests, interests in affiliated companies, and securities classified as noncurrent assets** | | **0.00** | | 497,085.36 |
| **15. Income from reversals of the fund for general banking risks** | | **1,714,000.00** | | 1,920,000.00 |
| thereof: | | | | |
| Reversals pursuant to Section 340e (4) HGB EUR 1,714,000.00 (PY: EUR 1,920,000.00) | | | | |
| **16. Profit / loss from interests in associated companies** | | **−2,559,774.61** | | −3,275,768.45 |
| **17. Profit / loss from ordinary activities** | | **−7,592,939.73** | | 235,027.85 |
| **18. Income taxes** | | **−636,517.93** | | −1,263,476.67 |
| **19. Other taxes, if not presented under Item 10** | | **−166,822.75** | | −136,881.91 |
| **20. Consolidated net income/loss before non-controlling interests** | | **−8,396,280.41** | | −1,165,330.73 |
| **21. Share of net income / loss attributable to non-controlling interests** | | **19,148.27** | | −354,527.59 |
| **22. Parent company's profit carried forward** | | **918,189.00** | | 660,027.82 |
| **23. Withdrawals from retained earnings** | | | | |
| a) from other retained earnings | 4,846,822.69 | **4,846,822.69** | 6,178,519.37 | 6,178,519.37 |
| **24. Appropriations to retained earnings** | | | | |
| a) to other retained earnings | −3,934,219.76 | **−3,934,219.76** | −3,944,183.01 | −3,944,183.01 |
| **25. Accumulated loss / distributable profit** | | **−6,546,340.21** | | **1,374,505.86** |

# Statement of Changes in Equity of the Baader Bank Group

**AS OF 31.12.2014 AND 31.12.2015**

| Fiscal Year 2014 | Parent Company | | | |
|---|---|---|---|---|
| | Subscribed capital | | Consolidated net income / loss | |
| in EUR'000 | Common shares | Additional paid-in capital | Retained earnings | Distributable profit |
| **Balance at January 1, 2014** | **45,909** | **31,431** | **30,015** | **1,116** |
| Purchase/ retirement of treasury shares | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | –456 |
| Change in consolidation group | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 |
| Consolidated net income/loss | 0 | 0 | 0 | –1,520 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| **Consolidated comprehensive income** | **0** | **0** | **0** | **–1,520** |
| Appropriations to/ withdrawals from reserves | 0 | 0 | –2,234 | 2,234 |
| **Balance at December 31, 2014** | **45,909** | **31,431** | **27,781** | **1,374** |

| Fiscal Year 2015 | Parent Company | | | |
|---|---|---|---|---|
| | Subscribed capital | | Consolidated net income / loss | |
| in EUR'000 | Common shares | Additional paid-in capital | Retained earnings | Distributable profit |
| **Balance at January 1, 2015** | **45,909** | **31,431** | **27,781** | **1,374** |
| Purchase/ retirement of treasury shares | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | –456 |
| Change in consolidation group | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | –179 | 0 |
| Consolidated net income/loss | 0 | 0 | 0 | –8,377 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| **Consolidated comprehensive income** | **0** | **0** | **0** | **–8,377** |
| Appropriations to/ withdrawals from reserves | 0 | 0 | –913 | 913 |
| **Balance at December 31, 2015** | **45,909** | **31,431** | **26,689** | **–6,546** |

| | | | Non-controlling interests | |
|---|---|---|---|---|
| Treasury shares | Equity | Change in equity from currency translation | Non-controlling interests in equity | Group equity |
| **−277** | **108,194** | **−123** | **2,142** | **110,213** |
| 0 | 0 | 0 | 0 | 0 |
| 0 | −456 | 0 | −500 | −956 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | −1,520 | 0 | 354 | −1,166 |
| 0 | 0 | 657 | 0 | 657 |
| **0** | **−1,520** | **657** | **354** | **−509** |
| 0 | 0 | 0 | 0 | 0 |
| **−277** | **106,218** | **534** | **1,996** | **108,748** |

| | | | Non-controlling interests | |
|---|---|---|---|---|
| Treasury shares | Equity | Change in equity from currency translation | Non-controlling interests in equity | Group equity |
| **−277** | **106,218** | **534** | **1,996** | **108,748** |
| 0 | 0 | 0 | 0 | 0 |
| 0 | −456 | 0 | −569 | −1,025 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | −179 | 0 | 0 | −179 |
| 0 | −8,377 | 0 | −19 | −8,396 |
| 0 | 0 | 1,007 | 0 | 1,007 |
| **0** | **−8,377** | **1,007** | **−19** | **−7,389** |
| 0 | 0 | 0 | 0 | 0 |
| **−277** | **97,206** | **1,541** | **1,408** | **100,155** |

# Cash Flow Statement of the Baader Bank Group

| in EUR'000 | 2015 | 2014 |
|---|---|---|
| **1. Period result (including non-controlling interests)** | **−8,396** | **−1,165** |
| **Non-cash items contained in the period result and reconciliation with the cash flow from operating activities:** | | |
| 2. Depreciation, amortization, impairments and reversals of impairments of receiv-ables and noncurrent assets | 24,194 | 16,156 |
| 3. Change in provisions | −2,502 | 1,254 |
| 4. Other non-cash expenses / income | −5,682 | 2,170 |
| 5. Gains and losses on disposal of noncurrent assets | 191 | −489 |
| 6. Other adjustments (net) | 595 | −4,152 |
| **7. Subtotal** | **8,400** | **13,774** |
| **Change in assets and liabilities from operating activities:** | | |
| 8. Receivables | | |
| 8a. Due to banks | 81,335 | −127,135 |
| 8b. Due to customers | 6,925 | −2,844 |
| 9. Securities (if not classified as noncurrent assets) | −9,772 | 48,296 |
| 10. Other assets from operating activities | −2,786 | 677 |
| 11. Liabilities | | |
| 11a. Due to banks | −34,300 | −22,186 |
| 11b. Due to customers | −30,474 | 63,523 |
| 12. Trading liabilities | −6,998 | 3,929 |
| 13. Other liabilities from operating activities | −2,087 | 1,536 |
| 14. Interest and dividends collected | 9,933 | 16,915 |
| 15. Interest paid | −8,982 | −10,703 |
| 16. Income tax payments | −1,545 | −2,060 |
| **17. Cash flow from operating activities** | **9,649** | **−16,278** |
| 18. Cash inflows from disposals of | | |
| 18a. Noncurrent financial assets | 1,096 | 11,146 |
| 19. Cash outflows for investments in | | |
| 19a. Noncurrent financial assets | 0 | −4,712 |
| 19b. Property, plant, and equipment and intangible assets | −4,548 | −4,470 |
| 20. Cash outflows for the acquisition of consolidated companies and other business units | 0 | 0 |
| **21. Cash flow from investing activities** | **−3,452** | **1,964** |
| 22. Cash outflows to company owners and non-controlling interests | | |
| 22a. Dividend payments | −456 | −956 |
| 22b. Other payments | 0 | 0 |
| 23. Change in cash and cash equivalents from other debt capital (net) | −569 | 0 [1] |
| **24. Cash flow from financing activities** | **−1,025** | **−956** |
| **25. Cash-effective changes in cash and cash equivalents (total of 17, 21 and 24)** | **5,172** | **−15,270** |
| 26. Changes in cash and cash equivalents due to exchange rates, consolidation group, and valuations | 996 | 657 |
| **27. Cash and cash equivalents at beginning of period** | **19,558 [2]** | **34,171 [2]** |
| **28. Cash and cash equivalents at end of period** | **25,726** | **19,558** |

1 Starting in the current fiscal year, cash flows from borrowing and from repayment of bank liabilities will be presented within the cash flow from operating activities.
2 Sigh deposits are included if they serve to fulfill short-term payment obligations.

# Notes to the consolidated financial statements

## I. General information

The consolidated financial statements of Baader Bank AG for fiscal year 2015 were prepared in accordance with the regulations of the German Commercial Code ("HGB") and the German Bank Accounting Regulation ("RechKredV"). The regulations of the German Stock Corporations Act ("AktG") were also observed.

The consolidated financial statements were also prepared in accordance with the standards adopted by the German accounting standards committee Deutsche Rechnungslegungs Standards Committee e.V. ("DRSC") and published by the German Federal Ministry of Justice ("BMJ") in accordance with Section 342 (2) HGB.

Besides the consolidated statement of financial position and the consolidated income statement, the other components of the consolidated financial statements are the statement of changes in equity, the cash flow statement, and the notes to the consolidated financial statements. The company did not exercise the option according to Section 297 (1) sentence 2 HGB and opted not to prepare a segment report.

In the interest of clarity, figures are presented in EUR thousands. Rounding differences of +/- unit may occur in the tables due to computational reasons.

The annual reporting date is December 31, 2015. The fiscal year is the same as the calendar year.

## II. Recognition, measurement, and presentation methods

The general measurement principles (Sections 252 ff. HGB), the special regulations for corporations (Sections 264 ff. HGB), and the supplementary regulations for banks and financial services institutions (Sections 340 ff. HGB) were observed in the measurement of the assets and liabilities presented in the consolidated financial statements.

In the interest of improved clarity, disclosures that may be made either in the statement of financial position and income statement or in the notes to the consolidated financial statements are all presented in the notes. Whenever individual items of the statement of financial position and income statement are aggregated, the corresponding breakdowns are presented in the notes.

The following recognition and measurement methods are applied:

**Cash reserve**
The cash reserve is presented at nominal value.

**Receivables**
Receivables due from banks and customers are generally presented at nominal value or cost, less adequate value adjustments when necessary. The company exercises the option of permissible netting according to Section 340f (3) HGB.

**Securities (excluding trading book)**
Securities that are intended for permanent use in business operations are presented as noncurrent financial assets and measured at amortized cost in accordance with the modified lower-of-cost-or-market rule according to Section 253 (1) and (3) HGB. An impairment loss is recognized when an impairment is expected to be permanent. When necessary, impairments are reversed in accordance with the requirement to reinstate original values (Section 253 (5) HGB). The company exercises the option of permissible netting according to Section 340c (2) HGB. The company does not exercise the measurement option according to Section 340e (1) sentence 3 HGB in conjunction with Section 253 (3) sentence 4 HGB.

Securities that are neither intended for permanent use in business operations nor are attributable to the trading book are presented as current assets and measured at cost or at the lower stock exchange value or at the lower fair value, in accordance with the strict lower-of-cost-or-market rule of Section 253 (1) and (4) HGB.

The fair value according to Section 255 (4) HGB is generally equal to the market price. If no market price can be ascertained at the reporting date, the fair value is determined by application of known valuation models. If no fair value can be determined, the corresponding item is measured at amortized cost in accordance with Section 255 (4) sentence 4 HGB.

**Trading book**
Upon initial recognition, the financial instruments of the trading book are measured at cost. In subsequent periods, such financial instruments are measured at fair value less a risk discount for financial assets or plus a risk premium for financial liabilities, in accordance with Section 340e (3) HGB in conjunction with IDW RS BFA 2 and 5. If no daily market value is available for derivative financial instruments, the fair value is determined on the basis of the market prices of the individual components of the derivative by application of the Black-Scholes model.

The value-at-risk (VaR) is the starting point for calculating the risk discount. The value-at-risk indicates the maximum loss in a given portfolio at a given probability over a given time horizon. The Baader Bank Group employs the Monte Carlo simulation method to calculate the market price risk. The assumed confidence level is 99% and the necessary parameters (particularly including volatilities, correlations, etc.) are estimated on the basis of historical data. The calculation conducted as of December 31, 2015 is based on individual holding periods of between 6 hours and 12 days. The holding periods are updated on a quarterly basis.

The value-at-risk is determined for all proprietary trading positions at the last day of every month.

The risk discount is determined on a netted basis for all trading positions, including both assets and liabilities. Because it is not possible to properly apportion this amount between trading assets and liabilities, the risk discount for the larger of the respective positions is applied. In the Baader Bank Group, this larger position was trading assets as of December 31, 2015.

No changes were made to the internally established criteria for the attribution of financial instruments to the trading book in fiscal year 2015.

**Reclassification**
The intended purpose at the acquisition date is determining for the attribution of receivables and securities to the trading book, the liquidity reserve, or assets classified as noncurrent assets (Section 247 (1) and (2) HGB).

No financial instruments are ever reclassified to the trading book and financial instruments are reclassified from the trading book only when unusual circumstances, particularly including significant restrictions on the tradability of financial instruments, lead to the abandonment of the trading intention.

Financial instruments are reclassified between the liquidity reserve and assets classified as noncurrent assets when the intended purpose has changed since initial recognition and this change has been documented. Receivables or securities are reclassified at the time when the intended purpose changes.

No reclassifications were conducted in fiscal year 2015.

**Derivative financial instruments in the trading book**
Derivative financial instruments are recognized and measured as follows:

– Option premiums paid on the purchase of call or put options are recognized as trading book assets and measured at fair value less a risk discount.

– Option premiums received on the sale of call or put options are recognized as trading book liabilities and measured at fair value plus a risk premium.

– Margin receivables under futures contracts are recognized as "other assets" and measured at nominal value.

– Margin liabilities under futures contracts are recognized as "other liabilities" and measured at nominal value.

**Loss-free valuation of interest-rate instruments in the banking book**
IDW RS BFA 3 governs the details of the loss-free valuation of the banking book in accordance with the German Commercial Code. Given the nature of the business activity of banks as it relates to the banking book, it is usually not possible to directly attribute individual financial instruments to each other. These financial instruments are managed in their entirety in the banking book. With respect to the interest rate-based assets and liabilities of the banking book, the principle of prudence prescribed by German commercial law is upheld by recognizing a provision according to Section 249 HGB to account for any excess liability ("provision for onerous contracts"), with due regard to the expected necessary expenses to be incurred in managing the banking book (funding costs, risk costs, and administrative costs). In the delimitation of the banking book, Baader Bank exercised the option of not including the directly attributed funding of non-interest-bearing assets and the corresponding assets in the netting process. Baader Bank applies the periodic method to determine the need for a provision for onerous contracts. Under this method, a provision for onerous contracts must be recognized when the sum of discounted future period results of the banking book is negative. A discount from the cash flows is applied to account for risk costs and administrative costs. There was no excess liability for the Baader Bank Group at the reporting date. Therefore, it was not necessary to recognize a provision for onerous contracts in connection with loss-free valuation.

**Equity interests and interests in associated companies**
Equity interests and interests in associated companies are measured at amortized cost in accordance with the rules applicable to noncurrent assets. Impairment losses are recognized to account for impairments that are expected to be permanent. If the reasons for an impairment are no longer in effect, the impairment is reversed up to the maximum amount of original cost. Please refer to the separate section "Securities (excluding the trading book)" for details on the calculation of the theoretical price.

**Intangible assets and property, plant and equipment**
The Baader Bank Group presents its standard software programs under intangible assets. Purchased intangible assets are measured at cost less straight-line amortization. Impairment losses are recognized to account for impairments that are expected to be permanent.

The goodwill arising on mergers and acquired order books is amortized on a straight-line basis over a life of 10 years. Impairment losses are recognized to account for impairments that are expected to be permanent.

Based on actual useful lives, it has been determined that a useful life of 5 years is much too short and therefore the assumption of a useful life of longer than 5 years is appropriate.

Property, plant and equipment are measured at cost less straight-line depreciation. Depreciation is charged pro rata temporis. Low-value assets up to EUR 150.00 (net) are expensed immediately. In addition, low-value assets up to EUR 1,000.00 are recognized within an annual compound item and depreciated on a straight-line basis over 5 years. The actual useful lives and disposals of the low-value assets aggregated within the compound item are disregarded.

Advance payments made on account of intangible assets and property, plant and equipment are measured at nominal value, less any necessary value adjustments of adequate amounts.

**Other assets**
Other assets are measured at nominal value, less any necessary impairments or value adjustments.

**Liabilities and provisions**
Liabilities are measured at their settlement amount.

Provisions for pensions were measured by application of the ratably degressive projected unit credit method based on the average market rate of interest for an assumed term to maturity of 15 years. In accordance with fixing of the German Bundesbank, this interest rate was 3.89% at the reporting date.

Pension provisions for which the amount is determined on the basis of the fair values of securities in the liquidity reserve or the fair value of a reinsurance claim are measured as the fair value of these securities or the fair value of the reinsurance claim insofar as this value exceeds a guaranteed minimum amount. In accordance with Section 246 (2) sentence 2 HGB, assets intended exclusively for the purpose of satisfying pension obligations are netted with this fair value.

Other provisions are measured at the necessary settlement amount, which is determined in accordance with the principles of sound business judgment according to Section 253 (1) HGB. If the expected term to maturity of a provision is longer than one year, the provision is discounted to present value by application of the respective interest rate published by the German Bundesbank.

**Pension plan assets**
Assets that are exclusively intended to fulfill pension obligations or comparable long-term obligations and are rendered inaccessible to all other creditors (pension plan assets) are measured at fair value and netted with the respective underlying obligation, in accordance with Section 246 (2) HGB.

**Fund for general banking risks**
The fund for general banking risks contains contributions that are necessary to protect against general banking risks according to sound business judgment. Independently thereof, appropriations are made to this fund from the net profit on the trading book, in accordance with Section 340e (4) HGB.

**Deferred taxes**
A deferred tax liability must be recognized to account for differences between the commercial-law values of assets, liabilities, accruals and deferrals, on the one hand, and the tax bases of those items, on the other hand, if these differences are expected to reverse in subsequent fiscal years. An overall tax reduction resulting from such differences may be recognized as a deferred tax asset.

Because Baader Bank exercises the option allowed by Section 274 (1) sentence 2 HGB, it does not recognize an excess of deferred tax assets over deferred tax liabilities in the statement of financial position.

**Purchases of treasury shares**
The imputed value of purchased treasury shares is openly deducted from subscribed capital in a preliminary column to yield the stated amount of capital outstanding. The difference between the imputed value and the purchase cost of treasury shares is netted with freely disposable reserves (retained earnings) and not recognized in profit or loss.

When treasury shares are sold again, the deduction applied in the preliminary column is removed. Any positive difference between the imputed value and the sale proceeds is appropriated to the respective reserves up to the amount that was netted with the freely disposable reserves. Any further difference is appropriated to additional paid-in capital, whereas a loss incurred on the sale is deducted from retained earnings.

**Currency translation**
Currency translation is performed in accordance with the methods specified in Sections 256a, 308a and 340h HGB.

Assets and liabilities denominated in foreign currency and as yet unsettled spot transactions are translated at the mean spot rate on the reporting date, forward exchange transactions at the forward rate on the reporting date.

The treatment of the results of foreign currency translation depends on whether the foreign currency transactions are attributed to the trading book or are separately covered. There was no separate coverage at the reporting date. In the case of transactions attributable to the trading book, both the expenses and income of currency translation are recognized in profit or loss and presented within the trading profit. In the case of foreign currency-denominated items with a term to maturity of more than one year, however, only the expenses of currency translation are recognized in profit or loss, in accordance with the imparity principle, and presented within other operating expenses. In the case of foreign currency-denominated items with a term to maturity of up to one year, expenses and income are presented on a gross basis within the other operating result.

## III. Changes to measurement, recognition, and presentation methods

No changes were made to the measurement, recognition, and presentation methods in fiscal year 2015.

## IV. Consolidation group

In addition to Baader Bank AG as the parent company, a total of seven subsidiaries (PY: seven subsidiaries) are included in the consolidated financial statements as of December 31, 2015 (Baader Bank Group). Baader Bank AG directly or indirectly holds more than 50% of the equity or exerts control over these subsidiaries. Three of these companies are domiciled in Germany and four of them are domiciled in foreign countries.

The following fully consolidated companies were included in the consolidated financial statements as of December 31, 2015: → Table 7

On November 30, 2012, Baader Bank AG agreed with the management and the majority of shareholders of **Helvea Holding SA, Geneva,** to conduct a friendly takeover of this company. The purchase agreement was subject to the approval of the regulatory authorities and other customary conditions. Upon receiving the regulatory approvals, the purchase agreement was closed on August 2, 2013, and all equity interests (100.00%) were transferred to Baader Bank AG. This company has been included in the financial statements of the Baader Bank Group by way of full consolidation since August 31, 2013. Upon registration in the Commercial Register on May 2, 2014, all assets and liabilities were transferred to **Helvea SA, Geneva,** as the legal successor by way of singular succession. Baader Bank AG directly holds 100.00% of the company's equity. Subsequent acquisition costs of EUR 632 thousand were capitalized in fiscal year 2015 on the basis of ancillary contractual agreements.

By virtue of the notarized merger agreement of June 30, 2015, the company **Clueda AG, Unterschleißheim,** was merged into Baader Bank AG upon being registered with the Munich Commercial Register on August 28, 2015. At the time of the merger, Baader Bank AG held 100.00% of the company's share capital. The merger into the parent company was conducted as a merger by absorption in accordance with the provisions of Sections 2 ff., 4 ff. and 60ff. of the German Corporate Transformation Act (UmwG). Accordingly, Clueda AG as the transferring company transferred all its assets, including all related rights and obligations, to Baader Bank AG as the absorbing company, under a merger by dissolution without liquidation according to Section 2 (1) UmwG and in observance of IDW RS HFA 42. The merger gave rise to a merger profit of EUR 1,626 thousand. The assets and liabilities of Clueda AG were incorporated into the statement of financial position of Baader Bank AG at the same carrying amounts with effect from January 1, 2015.

Baader Bank AG maintains a special-purpose entity according to Section 290 (2) (4) HGB, named **Baader Unterstützungskasse e. V., Unterschleißheim,** which is fundamentally subject to inclusion in the consolidated financial statements. In accordance with Section 296 (2) (1) HGB, the company opted not to consolidate this company as of December 31, 2015, for materiality reasons.

The following associated companies are included in the consolidated financial statements: → Table 8

By purchase agreement of August 19, 2013, Baader Bank AG purchased 25.00% of the equity of **Ophirum ETP GmbH, Frankfurt am Main.** In March 2014, Baader Bank AG increased its equity interest in Ophirum ETP GmbH to 50.00%.

As of December 31, 2015, Baader Bank AG still held 21.93% of the equity in **Parsoli Corporation Ltd., Mumbai (India).** Since the resignation of Baader Bank AG's representatives from the board of directors of Parsoli Corporation Ltd. in fiscal year 2009, it can no longer be said that Baader Bank AG exercises significant influence over the company. Therefore, this equity interest is presented within the item of equity interests at a memo value of EUR 1.00.

**Table 7** Fully consolidated companies in EUR'000

| Name / head office | Share of equity held in % | Share capital | Equity | Total assets | Fiscal year net income / loss | Date of initial consolidation |
|---|---|---|---|---|---|---|
| Helvea SA, Genf (Switzerland) [4] | 100.00 | 4,967 | 5,259 | 8,354 | 353 | August 31, 2013 |
| Helvea Inc., New York (United States of America) [1, 5] | 100.00 | 277 | 6,146 | 6,657 | 1,211 | August 31, 2013 |
| Helvea Ltd., London (United Kingdom) [1, 6] | 100.00 | 0 | 1,172 | 1,520 | – 74 | August 31, 2013 |
| Skalis Asset Management AG, Unterschleißheim [3] | 100.00 | 50 | 501 | 605 | – 1,061 | December 31, 2003 |
| Baader & Heins Capital Management AG, Unterschleißheim | 75.00 | 50 | 5,096 | 7,595 | 1,301 | January 1, 2005 |
| Conservative Concept Portfolio Management AG, Bad Homburg | 66.07 | 140 | 2,308 | 2,599 | – 11 | October 1, 2006 |
| Conservative Concept AG, Zug (Switzerland) [2, 4] | 100.00 | 62 | 673 | 711 | – 231 | October 1, 2006 |

1 The shares are held indirectly via the equity interest in Helvea SA, Geneva (Switzerland).
2 The shares are held indirectly via the equity interest in Conservative Concept Portfolio Management AG, Bad Homburg.
3 The shares are held indirectly via the equity interest in Baader & Heins Capital Management AG, Unterschleißheim.
4 The figures for the fiscal year ended December 31, 2015 were translated to the reporting currency (EUR / CHF 1.0835).
5 The figures for the fiscal year ended December 31, 2015 were translated to the reporting currency (EUR / USD 1.0887).
6 The figures for the fiscal year ended December 31, 2015 were translated to the reporting currency (EUR / GBP 0.7339).

**Table 8** Associated companies in EUR'000

| Name / head office | Share of equity held in % | Carrying amount of equity interest | Equity | Total assets | Fiscal year net income / loss | Market value of shares |
|---|---|---|---|---|---|---|
| Gulf Baader Capital Markets, S. A. O. C., Muscat (Oman) | 30.00 | 4,413 | 16,725 [1] | 33,710 [1] | – 1,024 [1] | n/a [3] |
| Ophirum ETP GmbH, Frankfurt am Main | 50.00 | 1,321 | 524 [2] | 2,142 [2] | – 67 [2] | n/a [3] |

1 These figures are based on the unaudited separate financial statements as of December 31, 2015.
Equity, total assets, and fiscal year net income/loss were translated to the reporting currency (EUR / OMR 0.4177).
2 These figures are based on the separate financial statements as of December 31, 2015.
3 No public market price was available at December 31, 2015.

## V. Consolidation methods

The consolidated financial statements contain the financial information of the parent company Baader Bank AG and the subsidiaries and present the individual Group companies as a single economic entity (Baader Bank Group).

**Subsidiaries**

The subsidiaries of the Baader Bank Group are those companies which it controls. The Baader Bank Group controls subsidiaries when it can dictate their financial and business policies. This is generally assumed to be the case when the Group holds, directly or indirectly, more than half of the voting rights in the company. In determining whether the Group controls another company, due consideration is given to the existence of potential voting rights that are currently exercisable or convertible. No potential voting rights were in effect at the reporting date.

Subsidiaries are fully consolidated from the date when the Baader Bank Group gains control over them. Consolidation ends on the date when the Baader Bank Group no longer has control over them.

The Baader Bank Group reviews the appropriateness of previously made consolidation decisions at least as of every reporting date. For this purpose, due consideration is directly given to any organizational changes that may have occurred since the last review, including not only changes in ownership interests, but also any and all changes in the Group's existing contractual obligations or new contractual obligations.

The separate financial statements of the companies included within the Baader Bank Group are prepared in accordance with uniform recognition and measurement methods.

Subsidiaries are fully consolidated in accordance with the principles set out in Sections 300 ff. HGB, as a general rule.

Article 66 (3) sentence 4 of the Introductory Act to the German Commercial Code (EGHGB) allows the option of continuing to apply the book value method in the capital consolidation of subsidiaries (acquired prior to December 31, 2009) instead of the purchase method. Otherwise, the revaluation method must be applied as a rule to acquisitions made on or after January 1, 2010, in accordance with Section 301 (1) HGB.

Exercising this option, the Baader Bank Group continues to apply the book value method to all subsidiaries acquired up to December 31, 2008. It applies the revaluation method to subsidiaries acquired on or after January 1, 2009.

**Book value method**

Consolidation is conducted on the basis of the book values presented in the separate financial statements. The subsidiary's proportional equity is netted with the book value of the parent company's investment in the subsidiary. Please refer to the separate section entitled "Equity interests" for details on the determination of the book value of the parent company's investment.

The difference between the share of equity attributable to the subsidiary and the book value of the parent company's investment is allocated to the hidden reserves and liabilities in the assets and liabilities of the subsidiary in accordance with the share of equity held in the subsidiary. The remaining difference represents goodwill or badwill. The goodwill so recognized was netted with retained earnings in accordance with Section 309 (1) sentence 3 HGB (old).

**Revaluation method**

The net assets of the subsidiary are revalued at fair value as of the acquisition date. In addition to determining the fair values of already recognized assets and liabilities, assets and liabilities that were not previously recognized are recognized. The revaluation of assets and liabilities leads to a revaluation of equity. The share of equity attributable to Group companies is netted with the acquisition cost and the difference represents goodwill or badwill.

As a general rule, goodwill is amortized over a useful life of 10 years because historical analysis has shown that a useful life of 5 years is much too short. Badwill is recognized immediately in profit or loss.

If the Group attains control as a result of successive share purchases, the goodwill or badwill is measured anew at every purchase date.

If the date of initial consolidation of a subsidiary is coincident with the reporting date, the items of the subsidiary's income statement are completely taken over in the Group's income statement. If the date of initial consolidation falls during the year, the income statement items are taken over pro rata temporis.

Baader Bank AG measures equity interests in subsidiaries that are not included in the consolidated financial statements due to immateriality or restrictions on the Group's ability to exercise shareholding rights at amortized cost (Section 296 (1) and (2) HGB), as a general rule. Please refer to the section entitled "Equity interests" for more information on this subject.

All subsidiaries were included in the consolidated financial statements at the reporting date. For materiality reasons, Baader Bank AG opted not to consolidate a special-purpose entity as of December 31, 2015. Please refer to the section entitled "Consolidation group" for more information on this subject.

**Associated companies**

An associated company is a company in which the Group exerts significant influence, but not control over its financial and business policy decisions. The Group is usually presumed to exert significant influence when it holds between 20% and 50% of voting rights. In making the determination of whether the Group exerts significant influence over another company, due consideration is given to the existence and effect of potential voting rights that are currently exercisable or convertible.

There were no potential voting rights at the reporting date.

Other factors considered in determining the Group's ability to exert significant influence include the Group's representation in the managing and supervisory boards of the investee and significant transactions with the investee. If such criteria are met, the investee may be classified as an associated company even if the Group holds less than 20% of the voting rights.

In accordance with the "equity method" according to Section 311 (1) HGB, interests in associated companies are measured at cost upon initial recognition. In subsequent periods, profits and losses and other changes in the net worth of the associated company are added to or deducted from the acquisition cost ("equity value").

The Group conducts an impairment test of the "equity value" at least as of every annual reporting date. If the "equity value" is higher than the fair value, an impairment is recognized. Impairments are reversed when the reason for the originally recognized impairment is no longer in effect.

As a general rule, goodwill is amortized over a useful life of 10 years because historical analysis has shown that a useful life of 5 years is much too short. Badwill is recognized immediately in profit or loss.

Where applicable, the intermediate results of transactions between Group companies and associated companies are eliminated in accordance with the share of equity held.

If the Group sells some or all of its equity interests in an associated company, the gain or loss on the sale is determined by comparing the sale proceeds with the "equity value" attributable to the equity interests sold. If the Group no longer exerts significant influence over an associated company even though the share of equity held has not changed, the "equity value" is carried forward in accordance with the cost method.

The Group's interests in associated companies changed in fiscal year 2015. Please refer to the section entitled "Consolidation group" for more information on this subject. Otherwise, the Group continued to exert significant influence over its associated companies as of December 31, 2015

.

**Table 9** Foreign currency volumes in EUR'000

| Currency | Receivables (from customers and banks) | Securities, equity interests, and associated companies | Other assets | Liabilities (to customers and banks) | Other liabilities |
|---|---|---|---|---|---|
| AUD | 4 | 0 | 0 | 0 | 0 |
| BRL | 454 | 0 | 0 | 459 | 0 |
| CAD | 37 | 248 | 0 | 284 | 0 |
| CHF | 4,587 | 613 | 366 | 290 | 1,023 |
| DKK | 1 | 2 | 0 | 2 | 0 |
| GBP | 1,667 | 0 | 444 | 6,728 | 419 |
| HKD | 1,611 | 0 | 0 | 1,605 | 4 |
| INR | 19 | 0 | 0 | 0 | 0 |
| JPY | 1,680 | 177 | 0 | 1,838 | 11 |
| MYR | 2 | 0 | 0 | 0 | 0 |
| NOK | 1 | 0 | 0 | 0 | 0 |
| NZD | 0 | 0 | 12 | 0 | 0 |
| OMR | 197 | 4,413 | 0 | 187 | 0 |
| PLN | 0 | 0 | 0 | 1 | 0 |
| SEK | 19 | 2 | 0 | 22 | 0 |
| SGD | 3 | 0 | 0 | 0 | 0 |
| THB | 0 | 0 | 0 | 0 | 0 |
| TRY | 0 | 0 | 0 | 0 | 0 |
| USD | 43,357 | 23,454 | 132 | 45,387 | 522 |
| ZAR | 0 | 199 | 0 | 199 | 0 |
| | **53,639** | **29,108** | **954** | **57,002** | **1,979** |

## VI. Notes to the statement of financial position

### Foreign currency volumes

Assets denominated in foreign currencies amounted to the equivalent of EUR 83,701 thousand at the reporting date (PY: EUR 97,138 thousand). Liabilities denominated in foreign currencies amounted to the equivalent of EUR 58,981 thousand (PY: EUR 62,338 thousand). The corresponding items of the statement of financial position are broken down by currency in the table below: → **Table 9**

Expenses resulting from currency translation in the amount of EUR 519 thousand are presented within other operating expenses, and income resulting from currency translation in the amount of EUR 102 thousand is presented within other operating income. Expenses resulting from currency translation of the trading book in the amount of EUR 794 thousand are presented within the net profit of the trading book.

### Receivables due from banks

Receivables due from banks consist of bank balances due at call in the amount of EUR 70,208 thousand (PY: EUR 40,835 thousand) and other receivables due at call in the amount of EUR 46,859 thousand (PY: EUR 158,487 thousand). They do not contain any receivables due from companies in which an equity interest is held.

### Receivables due from customers

Receivables due from customers total EUR 30,253 thousand (PY: EUR 37,148 thousand). They do not contain any receivables due from companies in which an equity interest is held.

### Debentures and other fixed-income securities

Debentures and other fixed-income securities total EUR 225,003 thousand. They do not contain any receivables due from affiliated companies. → **Table 10**

**Table 10** Debentures and other fixed-income securities in EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Bonds and debentures | 220,161 | 202,239 |
| Accrued interest | 4,842 | 3,244 |
| **Debentures and other fixed-income securities** | **225,003** | **205,483** |

Bonds and debentures totaling EUR 28,278 thousand will mature in the following year.

### Equities and other variable-yield securities

As of December 31, 2015, the Baader Bank Group presented a class of securities called "assets classified as noncurrent assets" within the item of "equities and other variable-yield securities." A market price quoted in an active market was not available as of December 31, 2015. In accordance with Section 255 (4) HGB, the Baader Bank Group determined the fair value by application of a DCF model and recognized an impairment loss of EUR 2,774 thousand in the carrying amount as of December 31, 2014 (EUR 13,595 thousand) to account for an impairment that is expected to be permanent.

**Table 11** Breakdown by term to maturity of the receivables and liabilities in EUR'000

| | Up to 3 months | Longer than 3 months up to 1 year | Longer than 1 year up to 5 years | Longer than 5 years |
|---|---|---|---|---|
| Other receivables due from banks | 10,190 | 673 | 0 | 8,000 |
| Receivables due from customers | 20,508 | 2,867 | 378 | 6,500 |
| Liabilities due to banks with agreed term or notice period | 10,823 | 0 | 0 | 21,186 |
| Liabilities due to customers with agreed term or notice period | 36,690 | 25,305 | 73,500 | 96,000 |

**Table 12** Breakdown of negotiable securities in EUR'000

| | Non-negotiable | Negotiable | | Negotiable securities not carried at the lower of cost or market |
|---|---|---|---|---|
| | | Exchange-listed | Non-exchange-listed | |
| Bonds and debentures | 0 | 225,003 | 0 | 0 |
| Equities and other variable-yield securities | 0 | 27,124 | 0 | 0 |
| Interests in associated companies | 5,734 | 0 | 0 | 0 |
| Equity interests | 3 | 0 | 231 | 0 |

**Breakdown by term to maturity**

The terms to maturity of the receivables and liabilities presented in the statement of financial position are presented in the table below: → **Table 11**

Breakdown of negotiable securities by exchange-listed and non-exchange-listed securities: → **Table 12**

**Noncurrent assets**

All land and buildings presented in the statement of noncurrent assets are used by the Baader Bank Group in the normal course of business.

No internally generated intangible assets were capitalized.

The development and composition of noncurrent assets are presented in the following statement of changes in noncurrent assets: → **Table 13**

**Shareholdings**

The shareholdings are presented in Section X.

**Other assets**

The item of other assets is broken down in the table below: → **Table 14**

Other assets mainly consisted of equity interests held for sale, which Baader Bank Group collected in connection with the restructuring of a loan exposure in return for waiving a loan claim. There were no receivables due from members of the Executive Board and Supervisory Board.

**Table 14** Other assets in EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Equity interests | 8,829 | 0 |
| Other tax receivables | 3,491 | 2,175 |
| Corporate income tax credits | 2,952 | 4,415 |
| Other receivables | 375 | 1,889 |
| Receivables for brokerage commissions, exchange rate differences, and transaction fees | 168 | 1,186 |
| Value-added tax receivables | 151 | 16 |
| Reinsurance claims under life insurance policies | 20 | 19 |
| Receivables due from the Federal Financial Supervisory Authority (BaFin) | 0 | 1,346 |
| **Other assets** | **15,986** | **11,046** |

**Table 13** Noncurrent assets in EUR'000

| | Acquisition or Production Cost | | | | | |
|---|---|---|---|---|---|---|
| | Balance at 01/01/2015 | Acquisitions | Acquisitions/ disposals due to mergers | Proportional share of net income/loss | Transfers | Disposals |
| **A. Noncurrent intangible assets** | | | | | | |
| 1. Purchased franchises, industrial property rights and similar rights or values, and licenses to such rights or values | 62,869 | 3,109 | 0 | 0 | 1,539 | −1,319 |
| 2. Goodwill | 25,810 | 632 | 0 | 0 | 0 | 0 |
| 3. Advance payments made on account of intangible assets | 1,263 | 641 | 0 | 0 | −1,539 | −11 |
| | **89,942** | **4,382** | **0** | **0** | **0** | **−1,330** |
| **B. Property, plant and equipment** | | | | | | |
| 1. Land and buildings | 55,827 | 21 | 0 | 0 | 0 | 0 |
| 2. Operational and office equipment | 8,128 | 146 | 21 | 0 | 2 | −379 |
| 3. Advance payments made on account of property, plant and equipment, and assets under construction | 3 | −1 | 0 | 0 | −2 | 0 |
| | **63,958** | **166** | **21** | **0** | **0** | **−379** |
| **C. Noncurrent financial assets** | | | | | | |
| 1. Equity interests | 5,373 | 0 | 0 | 0 | 0 | −2,924 |
| 2. Associated companies | 9,437 | 0 | −733 | −371 | 0 | 0 |
| 3. Securities classified as noncurrent assets | 14,608 | 0 | 0 | 0 | 0 | 0 |
| | **29,418** | **0** | **−733** | **−371** | **0** | **−2,924** |

**Prepaid expenses**
Of the total prepaid expenses, an amount of EUR 74 thousand (PY: EUR 85 thousand) consisted of differences from the issuance of promissory note loans, which are presented on the assets side in accordance with Section 250 (3) HGB. These differences are amortized pro rata temporis on a straight-line basis over the remaining term to maturity.

**Liabilities due to banks**
Liabilities due to banks primarily serve the purpose of financing the office building in Unterschleißheim and funding the securities trading business.

**Liabilities due to customers**
At the reporting date, customer deposits due at call amounted to EUR 154,536 thousand (PY: EUR 139,410 thousand) and liabilities due to customers with agreed term or notice period amounted to EUR 231,495 thousand (PY: EUR 277,344 thousand), most of which related to promissory note loans borrowed.

**Other liabilities**
Other liabilities break down as follows: → **Table 15**

**Pension provisions**
As of December 31, 2015, pension liabilities amounted to EUR 15,592 thousand (PY: EUR 12,119 thousand). They are measured in accordance with the method described in the section entitled "Liabilities and provisions." Pension obligations are reinsured by bank accounts, custody accounts, and reinsurance policies.
The actuarial calculations were conducted on the basis of the following parameters: → **Table 16**

In addition, the Klaus Heubeck "Mortality Tables" 2005G were applied as the calculation basis for both the statement of financial position prepared in accordance with commercial law and the tax balance sheet as of December 31, 2015.

**Pension plan assets**
→ **Tabelle 17**
The bank balances, employer's pension liability reinsurance policies, and custody accounts qualifying as plan assets are netted with the pension obligation. Furthermore, an excess of plan assets over pension liability is recognized as an asset in the amount of EUR 6,749 thousand (PY: EUR 6,451 thousand). On balance, therefore, pension provisions amounted to EUR 1,589 thousand (PY: EUR 1,368 thousand). Expenses and income from the netted plan assets in the amount of EUR 1,182 thousand are presented within the items "Impairments and value adjustments of certain securities" and "Appropriations to credit risk provisions".

**Other provisions**
Other provisions break down as follows: → **Table 18**

**Table 18** Other provisions in EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Personnel provisions | 3,889 | 5,984 |
| Auditing, legal and consulting expenses | 473 | 421 |
| Administrative expenses | 1,545 | 1,700 |
| Miscellaneous provisions | 1,010 | 855 |
| **Other provisions** | **6,917** | **8,960** |

**Table 15** Other liabilities in EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Trade payables | 2,261 | 2,925 |
| Tax liabilities | 1,222 | 1,902 |
| Miscellaneous liabilities | 1,446 | 2,182 |
| **Other liabilities** | **4,929** | **7,009** |

**Table 16** Actuarial calculations in %

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Actuarial interest rate | 3.88 bzw. 3.89 | 4.53 |
| Salary trend | 2.00 bis 3.00 | 2.00 bis 3.00 |
| Pension adjustment | 1.80 bis 2.00 | 1.80 bis 2.00 |

**Table 17** Pension plan assets in EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Acquisition cost | 14,456 | 13,534 |
| Fair value | 20,752 | 17,201 |
| Netted liabilities | 14,003 | 10,750 |

| Depreciation, Amortization and Impairments | | | | Carrying Amounts | |
|---|---|---|---|---|---|
| Accumulated | thereof 2015 | Acquisitions / disposals due to mergers | thereof disposals | Balance at 12/31/2015 | Balance at 12/31/2014 |
| | | | | | |
| –47,466 | –5,622 | 0 | 1,319 | 18,732 | 19,706 |
| –18,522 | –2,634 | 0 | 0 | 7,920 | 9,922 |
| 0 | 0 | 0 | 0 | 354 | 1,263 |
| **–65,988** | **–8,256** | **0** | **1,319** | **27,006** | **30,891** |
| | | | | | |
| –14,374 | –1,886 | 0 | 0 | 41,474 | 43,339 |
| –5,412 | –849 | –10 | 309 | 2,506 | 3,266 |
| 0 | 0 | 0 | 0 | 0 | 3 |
| **–19,786** | **–2,735** | **–10** | **309** | **43,980** | **46,608** |
| | | | | | |
| –2,215 | 0 | 0 | 1,718 | 234 | 1,440 |
| –2,599 | –2,189 | –419 | 0 | 5,734 | 8,608 |
| –2,774 | –2,774 | 0 | 0 | 11,834 | 14,608 |
| **–7,588** | **–4,963** | **–419** | **1,718** | **17,802** | **24,656** |

**Fund for general banking risks**
In accordance with Section 340e (4) HGB, banks are required to form a special reserve known as the "Fund for general banking risks" as per Section 340g HGB. At least 10% of the net profit generated on the trading book must be appropriated to this special reserve annually in order to account for the special risks of measurement at fair value. At least 10% of the net profit generated on the trading book must be appropriated to this special reserve until at least 50% of the average net profit generated on the trading book in the last five years prior to the calculation date is reached (minimum reserve amount).

In accordance with Section 340e (4) HGB, an amount of EUR 1,714 thousand was released from the special reserve as of December 31, 2015.

**Trading book**
As of December 31, 2015, trading assets and liabilities break down as follows:
→ TABLE 19

TABLE 19 TRADING ASSETS AND LIABILITIES IN EUR'000

| Trading assets | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Derivative financial instruments | 33 | 28 |
| Debentures and other fixed-income securities | 1,003 | 3,974 |
| Equities and other variable-yield securities | 59,829 | 72,837 |
| Risk discount | – 870 | – 850 |
| **Trading assets presented in the statement of financial position** | **59,995** | **75,989** |
| **Trading liabilities** | **12/31/2015** | **12/31/2014** |
| Derivative financial instruments | 3 | 356 |
| Liabilities | 1,683 | 8,328 |
| **Trading liabilities presented in the statement of financial position** | **1,686** | **8,684** |

**Valuation units**
No valuation units according to Section 254 HGB were formed in fiscal year 2015.

**Derivative financial instruments**
As of the reporting date of December 31, 2015, the Baader Bank Group held index-linked derivative financial instruments in its trading book. These financial instruments consisted of options and futures.

Trading assets and liabilities are recognized and measured in accordance with the method described in the section entitled "Trading book." As of the reporting date, all derivative financial instruments were measured at fair value, which is equal to the market value.

**Forward transactions**
At the reporting date, as yet unsettled forward transactions consisted only of forward exchange transactions within the meaning of Section 36 (1) RechKredV.
→ TABLE 20

TABLE 20 FORWARD TRANSACTIONS IN EUR'000

| Term | Currency | Nominal |
|---|---|---|
| December 30, 2015 to January 4, 2016 | CHF | – 922 |
| December 30, 2015 to January 4, 2016 | GBP | 6,097 |
| December 4, 2015 to January 8, 2016 | NZD | – 13 |
| December 30, 2015 to January 4, 2016 | USD | – 15,642 |

These transactions consisted entirely of customer-induced forward transactions and spot transactions that were not yet settled as of the reporting date.

The scope and type of every category of derivative financial instruments measured at fair value (market value) are presented below, along with the principal conditions that can influence the amount, timing, and certainty of future cash flows:

**Trading assets**
→ TABLE 21

**Trading liabilities**
→ TABLE 22

TABLE 21 TRADING ASSETS IN EUR

| Portfolio | Description | Category | Maturity | Market price | Contracts | Market value | Carrying amount | Risk factors |
|---|---|---|---|---|---|---|---|---|
| Eurex FH HVB | DAX® Options (ODAX) | Eurex equity index option | January 16, 2016 | 23.80 | 30 Number | 3,570.00 | 7,681.50 | Cash flow fluctuations result primarily from changes in value of the DAX index (5 euros per index point). |
| Eurex FH HVB | DAX® Options (ODAX) | Eurex equity index option | January 16, 2016 | 81.50 | 60 Number | 24,450.00 | 15,783.00 | Cash flow fluctuations result primarily from changes in value of the DAX index (5 euros per index point). |
| Eurex FH HVB / Eurex FB | DAX® Future (FDAX) | Eurex equity index future | March 16, 2016 | 10,772.00 | 13 Number | 3,500,900.00 | 3,505,980.35 | Cash flow fluctuations result primarily from changes in value of the DAX index (25 euros per index point). |

TABLE 22 TRADING LIABILITIES IN EUR

| Portfolio | Description | Category | Maturity | Market price | Contracts | Market value | Carrying amount | Risk factors |
|---|---|---|---|---|---|---|---|---|
| Eurex FH HVB | DAX® Options (ODAX) | Eurex equity index option | January 16, 2016 | 7.60 | 30 Number | 1,140.00 | 3,733.50 | Cash flow fluctuations result primarily from changes in value of the DAX index (5 euros per index point). |
| Eurex FH HVB / Eurex FB | EURO STOXX 50® Index Future (FESX) | Eurex equity index future | March 16, 2016 | 3,282.00 | 75 Number | 2,461,500.00 | 2,459,723.75 | Cash flow fluctuations result primarily from changes in value of the Euro Stoxx 50 index (10 euros per index point). |

**Table 23** Shares in investment funds in EUR'000

| Instrument | Investment objective | Volume | Market value | Carrying amount | Distribution 2015 |
|---|---|---|---|---|---|
| SKALIS Evolution Flex AK S (ISIN: DE000A1W9A02) [1] | Balanced fund defensive | 128,300 Number | 13,518 | 12,986 | 89 |
| SKALIS Evolution Flex AK R (ISIN: DE000A1W9AA8) [1] | Balanced fund defensive | 10,000 Number | 1,042 | 1,000 | 4 |
| SKALIS Evolution Flex AK I (ISIN: DE000A1W9AZ5) [1] | Balanced fund defensive | 10,000 Number | 1,046 | 1,000 | 4 |
| SKALIS Evolution Defensive AK R (ISIN: DE000A12BPG3) [1] | Balanced fund defensive | 20,000 Number | 2,000 | 2,000 | 6 |
| SKALIS Evolution Defensive AK I (ISIN: DE000A12BPH1) [1] | Balanced fund defensive | 80,000 Number | 8,018 | 8,000 | 27 |
| TRISTONE UI AK I (ISIN: DE000A1XDWV2) [1] | Balanced fund | 36,000 Number | 3,291 | 3,600 | 0 |
| ATHENA UI AK I (ISIN: DE000A0Q2SF3) [1] | Derivative | 10,000 Number | 1,085 | 1,092 | 0 |
| SWISS HEDGE TWINTRADE AK D-EUR (ISIN: LU0700553844) [1] | Balanced fund defensive | 10.775 Number | 979 | 997 | 0 |

1 Investment funds according to the definition of the UCITS Directive governing undertakings for the collective investment in transferable securities as per Sections 192 ff. Capital Investment Code (KAGB); mutual funds.

**Shares in investment funds**

As of December 31, 2015, the Baader Bank Group held more than 10% of the following German investment funds within the meaning of Section 1 Investment Act, or comparable foreign investment funds within the meaning of Section 2 (9) Investment Act: → **Table 23**

Of the total shares in investment funds, an amount of EUR 30,979 thousand is attributed to the liquidity reserve.

Investment fund shares can be redeemed on a daily basis.

**Assets pledged as security**

As of December 31, 2015, the assets and loan values presented below were pledged to secure the liabilities presented below: → **Table 24**

**Table 24** Assets pledged as security in EUR'000

| | Mortgages | Securities (liquidity reserve) | Bank balances |
|---|---|---|---|
| Liabilities due to banks | 26.200 | 0 | 8.027 |

| Cash flows |
|---|
| – Daily: The settlement price is fixed every day by Eurex. The Black-Scholes 76 model is employed to determine the daily settlement price of equity index options (including weekly options). Where necessary, due consideration is given to dividend expectations, current interest rates, and other distributions.<br>– Cash settlement on the first stock exchange day after the final settlement day. |
| – Daily: The settlement price is fixed every day by Eurex. The Black-Scholes 76 model is employed to determine the daily settlement price of equity index options (including weekly options). Where necessary, due consideration is given to dividend expectations, current interest rates, and other distributions.<br>– Cash settlement on the first stock exchange day after the final settlement day. |
| – Daily: Payment of difference.<br>– Cash settlement on the first stock exchange day after the final settlement day. |

| Cash flows |
|---|
| – Daily: The settlement price is fixed every day by Eurex. The Black-Scholes 76 model is employed to determine the daily settlement price of equity index options (including weekly options). Where necessary, due consideration is given to dividend expectations, current interest rates, and other distributions.<br>– Cash settlement on the first stock exchange day after the final settlement day. |
| – Daily: Payment of difference.<br>– Cash settlement on the first stock exchange day after the final settlement day. |

**Deferred taxes**

Deferred taxes are calculated in respect of differences between commercial law and tax law in the recognition of loss carry-forwards, taxable goodwill, pension plan assets, capitalized order books, pension provisions, provisions for onerous contracts, and the discounting to present value of provisions. The applied tax rate is 29.08%. Exercising the option allowed in Section 274 (1) sentence 2 HGB, Baader Bank does not recognize the excess of deferred assets over deferred liabilities in the statement of financial position.

**Equity of the Baader Bank Group**

**1. Share capital**

On December 31, 2015, the company's share capital amounted to EUR 45,909 thousand, divided into 45,908,682 bearer shares (common shares).

**2. Authorized Capital**

**a) Authorized Capital 2011**

By resolution of June 30, 2011, the company's annual general meeting created an Authorized Capital 2011, with the details indicated below.

The Executive Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital by a total amount of up to EUR 22,954 thousand by issuing new bearer shares in one or more occasions in exchange for cash and/or in-kind capital contributions in the time until June 29, 2016. A subscription right must be granted to shareholders, as a general rule. With the consent of the Supervisory Board, however, the Executive Board may

a) Exclude fractional amounts from the subscription right;
b) Exclude the subscription right of shareholders for the purpose of issuing new shares in exchange for cash capital contributions for an issue price that is not significantly less than the stock exchange price of the already exchange-listed shares at the time of the final determination of the issue price (Section 186 (3) sentence 4 AktG), in which case the exclusion from subscription rights may only apply to the shares that do not represent more than 10% of share capital in terms of their imputed value;
c) Exclude the subscription right of shareholders for the purpose of issuing the new shares in exchange for in-kind capital contributions to acquire companies or equity interests in companies or parts of companies or assets, also in the form of a share swap, and in connection with business combinations.

The Authorized Capital resolution was not exercised in fiscal year 2015.

**b) Other authorized capital**

There was no other authorized capital in fiscal year 2015.

**3. Conditional Capital**

**a) Conditional Capital 2007**

By resolution of June 26, 2007, the company's annual general meeting created a Conditional Capital 2007, with the details described below.

Share capital is increased conditionally by up to nominally EUR 1,600 thousand. The conditional capital increase will be conducted only through the issuance of up to 1,600,000 new bearer shares qualifying for dividends from the beginning of the fiscal year in which they are issued, and only if the holders of warrants issued in connection with the Stock Option Plan 2006 of Baader Wertpapierhandelsbank AG on the basis of the authorization granted on July 19, 2006 exercise these warrants.

**b) Conditional Capital 2012**

By resolution of June 29, 2012, the company's annual general meeting created a Conditional Capital 2012, with the details described below.

The company's share capital is increased conditionally by an amount of up to EUR 20,754 thousand through the issuance of up to 20,754,341 new bearer shares (Conditional Capital 2012). The Conditional Capital serves the purpose of granting rights to the holders or creditors of convertible bonds and/or warrants granted with partial debentures issued by Baader Bank AG or by a company in which Baader Bank AG directly or indirectly holds a majority interest in the time until June 28, 2017 by virtue of the resolution of the annual general meeting of June 29, 2012. The Conditional Capital also serves the purpose of granting shares to the holders of convertible bonds bearing conversion obligations in accordance with the terms and conditions of the convertible bond issue. The new shares will be issued at the conversion or warrant price specified in the respective authorization resolution.

The conditional capital increase will be conducted only to the extent that the holders of convertible bonds and/or bonds cum warrants issued by the company in the time until June 28, 2017 on the basis of the authorization resolution of June 29, 2012 exercise their conversion or warrant rights, or the holders of convertible bonds bearing conversion obligations fulfill their obligation to convert the convertible bonds, and to the extent that treasury shares are not made available for the purpose of servicing these rights. The new shares qualify for dividends from the beginning of the fiscal year in which they are issued through the exercise of conversion or warrant rights or the fulfillment of conversion obligations.

The Executive Board is authorized, with the consent of the Supervisory Board, to establish the further details of the conditional capital increase.

The conditional capital resolutions were not exercised in fiscal year 2015.

**c) Other conditional capital**

There was no other conditional capital in fiscal year 2015.

**4. Treasury shares**

**a) Authorizations to purchase treasury shares**

The company's annual general meeting adopted the following resolution on July 1, 2014:

a) In accordance with Section 71 (1) No. 7 AktG, the company is authorized in the time until June 30, 2019 to buy and sell the company's own shares for securities trading purposes at prices that are not higher or lower by more than 10% than the average closing price of the share on the floor of the Frankfurt Stock Exchange on the three days preceding the respective purchase or sale. Moreover, the shares held for this purpose may not exceed five percent of the company's share capital.

b) In accordance with Section 71 (1) No. 8 AktG, the company is authorized to purchase the company's own shares, particularly in order to

  – To offer them to third parties in connection with the acquisition of companies, parts of companies, or equity interests in companies or assets, also in the form of a share swap, and in connection with business combinations

  – To offer the shares for subscription to the beneficiaries of the Stock Option Plan 2006 of Baader Bank AG by virtue of the authorization of the annual general meeting of July 19, 2006, or

  – To retire them.

The authorization is limited to purchases of treasury shares representing up to no more than ten percent of the company's share capital. The authorization may be exercised in the full amount or in partial amounts, on one or more occasions, in pursuit of one or more of the aforementioned purposes. The authorization remains valid until June 30, 2019.

The share purchases are to be conducted on the stock exchange. The consideration per share paid by Baader Bank AG may not exceed by more than 5% the average closing prices of the shares of Baader Bank AG on the floor of the Frankfurt Stock Exchange in the last five days prior to the respective share purchase (excluding incidental purchase costs).

The Executive Board is authorized, with the consent of the Supervisory Board, to offer the Baader Bank AG shares purchased under this authorization to third parties in connection with the acquisition of companies, parts of companies or equity interests in companies or assets, also in the form of a share swap, and in connection with business combinations.

The Executive Board is authorized, with the consent of the Supervisory Board, to offer the treasury shares purchased under this authorization for sale to the holders of warrants granted in connection with the Stock Option Plan 2006 resolved by the annual general meeting.

The shareholders' subscription right to these treasury shares is excluded to the extent that these shares are used in accordance with the aforementioned authorizations.

The Executive Board is also authorized, with the consent of the Supervisory Board, to retire the treasury shares of Baader Bank AG purchased under this authorization without need of a further general meeting resolution approving the retirement or the execution of the retirement. The retirement authorization may be exercised in the full amount or in partial amounts.

**b) Number of treasury shares**

As of December 31, 2015, the company held 276,996 treasury shares.

**Retained earnings**

The changes in retained earnings are presented in the statement of changes in equity of the Baader Bank Groups, which is a separate component of the consolidated financial statements.

**Accumulated loss / distributable profit**

→ TABLE 25

**TABLE 25** DISTRIBUTABLE PROFIT IN EUR'000

| | 12/31/2015 | 12/31/2014 |
|---|---|---|
| Consolidated net income / loss before non-controlling interests | −8.396 | −1.165 |
| Share of net income / loss attributable to non-controlling interests | 19 | −355 |
| **Consolidated net income / loss** | **−8.377** | **−1.520** |
| Profit carried forward of the parent company | 918 | 660 |
| Withdrawal from retained earnings | 4.847 | 6.178 |
| Appropriation to retained earnings | −3.934 | −3.944 |
| **Consolidated accumulated loss / distributable profit** | **−6.546** | **1.374** |

**Treasury shares**

No treasury shares were subscribed by beneficiaries of the stock option plans of Baader Bank AG in fiscal year 2015. The balance of treasury shares did not change in fiscal year 2015 and represented 0.60% of share capital as of December 31, 2015. The share capital attributable to treasury shares amounted to EUR 277 thousand. → TABLE 26

**TABLE 26** TREASURY SHARES

| Balance at 12/31/2014 | Acquisitions (Number) | Ø-price in EUR | Disposals (Number) | Ø-price in EUR | Balance at 12/31/2015 |
|---|---|---|---|---|---|
| 276,996 | 0 | 0 | 0 | 0 | 276,996 |

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

**Contingent liabilities**
Contingent liabilities result from guarantees issued in favor of Executive Board members and amounted to EUR 5 thousand at the reporting date (PY: EUR 3 thousand).

**Other commitments**
Outstanding irrevocable credit commitments to customers amounted to EUR 10,097 thousand at the reporting date (PY: EUR 1,332 thousand).

This item contains outstanding credit commitments to Executive Board members in the total amount of EUR 300 thousand, from which EUR 5 thousand was drawn down at the reporting date. There are no outstanding credit commitments to affiliated companies.

## VII. Transactions not presented in the statement of financial position

**Disclosures pursuant to Section 285 (3a) HGB**
The financial commitments assumed by the Baader Bank Group in the course of normal business activities, which are not presented within the liabilities presented in the statement of financial position as of December 31, 2015, are presented in the table below. → **Table 27**

**Table 27** Financial commitments in EUR'000

| | Term to maturity in months | Financial commitment |
|---|---|---|
| Future payments under leases for office space, usable areas, and parking places | 3 to 102 | 6,483 |
| Future payments under automobile leases and leases for operational and office equipment | 1 to 48 | 3,284 |
| Future payments under other service agreements | 3 to 24 | 1,205 |

No significant risks are discernible in the transactions not presented on the statement of financial position that would negatively affect the liquidity or ability of the Baader Bank Group to fulfill its obligations in the foreseeable future.

**Disclosures pursuant to Section 285 (3) HGB**
There are no other significant financial commitments not presented on the statement of financial position that would need to be disclosed in accordance with Sections 251 or 285 (3) HGB.

## VIII. Notes to the income statement

**Interest income and expenses**
Expenses of EUR 483 thousand (PY: EUR 409 thousand) from the compounding of pension provisions (EUR 467 thousand) and other provisions (EUR 16 thousand) are presented with the item of interest expenses.

**Other operating income**
The other operating income of EUR 5,088 thousand (PY: EUR 3,131 thousand) resulted mainly from gains on the merger (EUR 1,626 thousand), income from the reversal of provisions (EUR 603 thousand), income from in-kind compensation (company cars) (EUR 397 thousand), non-period income (EUR 126 thousand), and income from Internet advertising (EUR 98 thousand).

This item also includes income of EUR 2,234 thousand that resulted mainly from project costs charged to others, which were incurred primarily in connection with the provision of capital market services.

The income from mergers consists of the gain earned on the merger of Clueda AG as of January 1, 2015.

The non-period income consists mainly of BaFin contribution refunds.

**Other operating expenses**
The other operating expenses of EUR 2,299 thousand (PY: EUR963 thousand) mainly consisted of other expenses in the amount of EUR 1,338 thousand, most of which resulting from expenses for project cost outlays, non-period expenses of EUR 491 thousand, and the currency translation result in the investment book (EUR 446 thousand).

Non-period expenses mainly consisted of expenses incurred in connection with service provided in the prior year.

**Income taxes**
The tax expenses of EUR 637 thousand presented in the income statement for fiscal year 2015 consisted mainly of fiscal year income taxes in the amount of EUR 717 thousand and tax refunds from prior years in the amount of EUR 83 thousand.

Of the total income taxes presented in the income statement, an amount of EUR 717 thousand was owed on the result from normal business activities.

## IX. Supplementary disclosures

**Majority interest**
Baader Beteiligungs GmbH, Unterschleißheim, holds a majority interest in Baader Bank AG in accordance with Section 16 (1) AktG. A notification pursuant to Section 20 (4) AktG has been received.

**Employees**
The Baader Bank Group had an average of 459 salaried employees in fiscal year 2015 (PY: 484). Of this number, 38 were executive employees.

**Total compensation of the Executive Board and Supervisory Board**
Total compensation of EUR 1,555 thousand was granted to the members of the Executive Board for their activity in fiscal year 2015.

Total compensation of EUR 159 thousand was granted to the members of the Supervisory Board for their activity in fiscal year 2015.

**Fees of the independent auditor**
The following disclosures refer to the total fees paid to PricewaterhouseCoopers AG WPG for the services provided to Baader Bank AG and its fully consolidated German subsidiaries.

These fees break down as follows: → **Table 28**

**Table 28** Fees of the independent auditor in EUR'000

| Baader Bank Group | 2015 | 2014 |
|---|---|---|
| Services related to the audit of financial statements | 513 | 370 |
| Other certification services | 118 | 46 |
| Tax advisory services | 12 | 98 |
| Other services | 111 | 101 |
| **Total fees** | **754** | **615** |

**Table 29** Mandates according to Section 340a (4) No. 1 HGB

| Mandate holder | Company / institution | Mandate |
|---|---|---|
| Mr. Uto Baader | Bayerische Börse AG, Munich | Member of the Supervisory Board |
| | Corona Equity Partner AG, Grünwald (until September 8, 2015) | Vice Chairman of the Supervisory Board |
| | Clueda AG, Munich (until August 28, 2015) | Member of the Supervisory Board |
| | Gulf Baader Capital Markets S.A.O.C., Muscat (Oman) | Vice Chairman of the Board of Directors |
| | STEICO SE, Feldkirchen | Vice Chairman of the Board of Directors |
| Mr. Nico Baader | Baader & Heins Capital Management AG, Unterschleißheim | Member of the Supervisory Board |
| | Conservative Concept Portfolio Management AG, Bad Homburg | Member of the Supervisory Board |
| | Gulf Baader Capital Markets S.A.O.C., Muscat (Oman) (until July 30, 2015) | Member of the Board of Directors |
| | Helvea SA, Geneva (Switzerland) (until July 1, 2015) | Chairman of the Board of Directors |
| | U.C.A. AG, Munich | Member of the Supervisory Board |
| Mr. Dieter Brichmann | Baader & Heins Capital Management AG, Unterschleißheim | Chairman of the Supervisory Board |
| | Conservative Concept Portfolio Management AG, Bad Homburg | Chairman of the Supervisory Board |
| | Skalis Asset Management AG, Unterschleißheim | Vice Chairman of the Supervisory Board |
| Mr. Christian Bacherl | Helvea SA, Geneva (Switzerland) | Member of the Board of Directors |
| Mr. Oliver Riedel | Helvea SA, Geneva (Switzerland) (since July 1, 2015) | Chairman of the Board of Directors |
| | Helvea Limited, London (UK) | Member of the Supervisory Board of Directors |
| | Helvea Inc., New York (USA) | Member of the Supervisory Board of Directors |
| | Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman) (since July 30, 2015) | Member of the Board of Directors |
| Mr. Lukas Burkart | Helvea Limited, London (UK) (since May 26, 2015) | Member of the Supervisory Board of Directors |
| Mr. Sebastian Niedermayer | Helvea Inc., New York (USA) | Member of the Supervisory Board of Directors |
| Mr. Florian Schopf | Clueda AG, Munich (from June 24, 2015 to August 28, 2015) | Member of the Supervisory Board |
| Mr. Robert Feckl | Clueda AG, Munich (from June 24, 2015 to August 28, 2015) | Member of the Supervisory Board |

**Table 30** More than 5% of the shares in the following companies in EUR'000

| Name / Head Office | Share of equity held in % | Last interim / annual financial statements | Equity (total) | Fiscal year net income / loss |
|---|---|---|---|---|
| Parsoli Corporation Ltd., Mumbai (India) | 21.93 | No current data available as of December 31, 2015. | | |
| Trading Systems Portfolio Management AG, Bad Homburg | 9.64 | December 31, 2014 | 1,132 | 5 |

**Governing bodies of the Baader Bank Group**

**Executive Board**

Mr. Uto Baader, Munich (Chairman of the Executive Board until June 30, 2015)
Profession: Dipl. Volkswirt (graduate economist)
Responsibilities: Corporate Office, Compliance/ Money Laundering Officer, Capital Markets Analysis, Operations

Mr. Nico Baader, Gräfelfing (Chairman of the Executive Board since July 1, 2015)
Profession: Graduate Banker
Responsibility: Corporate Office & Investor Relations, Legal & Corporate Finance Execution, Capital Markets Analysis, Market Making, Treasury, Executive Board division of Trading, Coordination of Market Making

Mr. Dieter Brichmann, Penzberg (Vice Chairman of the Executive Board since July 1, 2015)
Profession: Dipl. Kaufmann (graduate of business administration)
Responsibility: Risk Management & Regulatory Reporting, Accounting / Controlling, Organization / Personnel, Credit, Compliance / Money Laundering Officer, Internal Audit, Data Protection Officer, Operations

Mr. Christian Bacherl, Baldham (member of the Executive Board since July 1, 2015)
Profession: Dipl. Betriebswirt (graduate of business administration); B.Sc. (Computer Sciences) (JMU)
Responsibility: Corporate Finance, Capital Markets, Equities Strategy, Equities Research, Publications Office Research

Mr. Oliver Riedel, Lauf (member of the Executive Board since July 1, 2015)
Profession: Graduate banker
Responsibility: Sales, Sales Trading / Execution / Middle Office, Designated Sponsoring / Trading, Product Management / Asset Management & Services, Corporate Events / Roadshow Management, Client Intelligence Group, Business Management

**Supervisory Board**

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

Dr. Christoph Niemann, Meerbusch (Vice Chairman)
Former general partner, HSBC Trinkhaus & Burkhardt KGaA

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

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

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

Mr. Jan Vrbsky, Darmstadt (employee representative)
Deputy Profit Center Manager Order Book Management for Equities on the Frankfurt, Berlin, and Munich Stock Exchanges of Baader Bank AG

**Mandates according to Section 340a (4) No. 1 HGB**

As of December 31, 2015, mandates were held in the statutory supervisory bodies of large corporations. These and other noteworthy mandates are listed in the following: → **Table 29**

## X. List of Shareholdings of the Baader Bank Group

The Baader Bank Group directly holds more than 5% of the equity in the following companies that were not subsidiaries or associated companies as of December 31, 2015: → **Table 30**

Baader Bank AG sold all of its equity interests in U.C.A. AG, Munich in November 2015. Until the sale, Baader Bank AG held a total of 13.81% of the share capital of this company.

Unterschleißheim, March 16, 2016

Baader Bank AG
The Executive Board

Nico Baader    Dieter Brichmann

Christian Bacherl    Oliver Riedel

# Auditor's Report

"We have audited the consolidated financial statements prepared by the Baader Bank Aktiengesellschaft, Unterschleißheim, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § (Article) 317 HGB („Handelsgesetzbuch": „German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

München, March 16, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

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