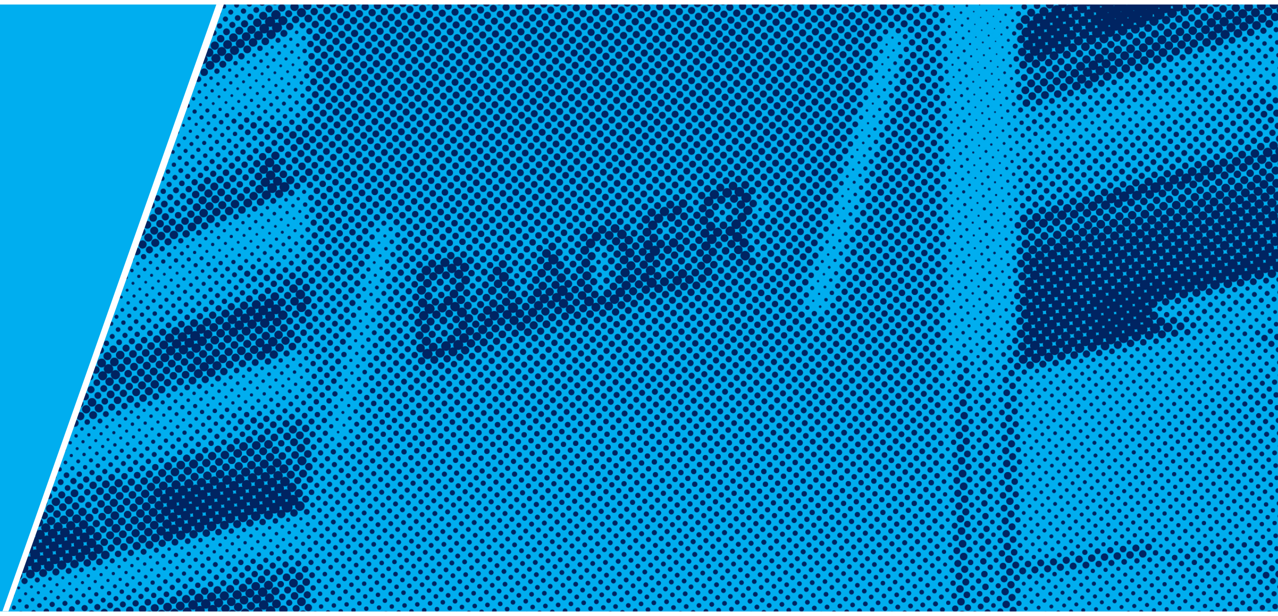
BAADER



Baader Bank AG

Ready for the Future.

Annual Report 2019

www.baaderbank.de

Key figures Baader Bank Group

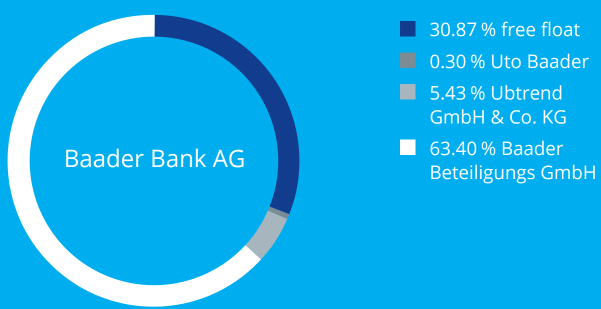
	2019 EUR'000	2018 EUR'000	Change to the previous year absolute EUR'000	 *relative* *%*
Income	**104,336**	**98,121**	**6,215**	*6.3*
of which net interest income and current income	–799	527	–	*–*
of which net comission income	32,111	40,518	–8,407	*–21.1*
of which net trading income	46,149	40,976	5,173	*12.6*
of which revenue	12,808	13,095	–287	*–2.2*
of which other income	14,014	3,005	11,009	*>100.0*
of which net income from interests in associates	53	0	53	*100.0*
Expenses	**–104,268**	**–117,496**	**–13,228**	*–11.3*
of which personnel expenses	–46,522	–54,686	–8,164	*–14.9*
of which administrative expenses and other operating expenses	–44,604	–45,385	–781	*–1.7*
of which amortisation and depreciation	–13,142	–17,391	–4,249	*–24.4*
of which net income from interests in associates	0	34	–34	*–100.0*
Earning before taxes (EBT)	**68**	**–19,375**	**–**	*–*
Operating result	**–8,017**	**–14,221**	**6,204**	*43.6*
Total assets	**617,375**	**713,190**	**–95,815**	*–13.4*
Balance Sheet Equity Ratio	**12 %**	**11 %**	**–**	*–*
Supervisory Capital Ratio	**14 %**	**14 %**	**–**	*–*

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

Key data and other information

WKN	508810
ISIN	DE0005088108
Reuters	BLMG.MU
Bloomberg	BWB@GR
Ticker	BWB
Sector	Banks
Stock market listing	1/8/1994
Admission segment	Outside market
Home stock exchange	Munich / m:access
Other stock exchanges	Berlin
	Dusseldorf
	Frankfurt
	Hamburg
	Hanover
	Stuttgart
	XETRA

Board of Directors (as at 31/12/2019)	Supervisory Board (as at 31/12/2019)
Nico Baader (Chairman)	Dr. Horst Schiessl (Chairman)
Dieter Brichmann (Deputy Chairman)	Helmut Schreyer (Deputy Chairman)
Oliver Riedel	Prof. Dr. Georg Heni
	Christoph Mast
	Ali Cavli
	Thomas Leidel



Ready for the
FUTURE!

ENABLE
Change in Banking

Dear Shareholders, Business Partners and Employees,

The revolutionary upheaval in the European securities and banking industry continued to gather momentum in 2019. The traditional business models of classic banks and securities trading houses, which enable fee and interest margins to be skimmed off and ensure reasonable profitability, are now virtually non-existent. In addition, there is excessive regulation in the European Union which, although it has the right intention of creating more market and cost transparency, system stability and investor protection, is actually having the opposite effect.

Overall, this means that banks, stock exchanges and trading firms must rethink and then revise and adapt their business models, strategies and market focus. Those which fail to do so will not survive the change. Automation and digitisation hold the key to future success.

Yet every change also offers opportunities. We are seizing these opportunities. They will make Baader Bank one of the winners in the industry's development. With the strategic realignment completed in the 2019 financial year, we have now created all of the prerequisites required for the successful positioning of Baader Bank.

- *We have completed the consolidation of the Group structure with the sale of strategically irrelevant units and the acquisition of shares in a major business partner.*
- *We have re-developed the market and distribution strategies for our business lines from scratch while focusing on their potential, and have updated our product and service universe.*
- *We have significantly reduced our cost levels by cutting back on employees, closing locations, ceasing non-profitable business activities and reviewing our cost drivers.*
- *In doing so, we have increased our productivity. We have continued to drive forward the effectiveness and efficiency of our key processes with a process optimisation project by focusing on automation and digitisation.*

This means Baader Bank is equipped for the future and is more competitive in your market segments today than ever before. It is now important to translate this competitiveness into profitability. The market segments offer sufficient income and growth potential for this.

Our effective and efficient processes reflect the technologically demanding requirements of our clients, particularly in market-making, brokerage, and account and deposit transactions, ensuring our technological leadership not just in Fintechs. This also facilitates cost-effective production for us and for our clients. It also ensures the scalability of our infrastructure for the growth of the Baader Bank business already announced.

The outstanding market positions in our core markets and excellent starting position in our growth markets provide the unit volume needed to achieve the required profitability. With the gradual expansion of our existing client business, we are always conscious that we must continue to reduce our income and earnings dependence on securities trading. And we will achieve this too.

The aim of the operational excellence and market and technology leadership we strive for is to regain excellent profitability for our bank. Our goal must be to distribute an adequate return to our investors. Besides our ability to pay a dividend, strong earnings power is also important to properly comply not only with the additional and disproportionately increasing capital requirements of the banking supervisory authorities, but with requirements concerning banks' investment abilities too.

Operating earnings in the 2019 financial year were better than in 2018 although not satisfactory, of course. We succeeded in significantly reducing the cost level and increasing the earnings level overall compared to the previous year. It is pleasing to note that no material extraordinary charges were recorded as a result of gradually reducing risk positions.

With the dissolving of the Fund for general banking risks, we are reporting balanced and slightly positive consolidated earnings for the 2019 financial year. This fund was endowed in high-income years with the aim of being able to balance earnings dips in weaker periods. In this respect, we made use of dissolution for the 2019 financial year. As Baader Bank operating earnings were still negative in 2019 and due to an increasing capital requirement, we are unable to offer our shareholders a dividend for the 2019 financial year.

Our expectation for 2020 is a positive operating profit for the Baader Bank Group. Still, we are on the right path to lead our bank into a financially successful future and consistent profitability. We are convinced of this.

Nico Baader | Chairman of the Board of Directors

Responsibility: Market Making, Equity Capital Markets, Strategy, Legal, Treasury, Communication

Dieter Brichmann | Deputy Chairman of the Board of Directors

Responsibility: Finance, Human Resources, Credit, Operations

The challenging environment of our industry and Baader Bank's earnings position in past periods was reflected in our share price trend. European banking shares are facing a significant valuation discount, with some shares being listed up to 60 % below their carrying amount. Our share was not able to withstand these circumstances.

That is why I would also like to thank our shareholders, in particular, for their loyalty to our bank and for their discussions which are always constructive. It has always been and will continue to be a strength of Baader Bank to enjoy sustained consistency within our group of shareholders – and this applies to all of our private shareholders, institutional investors, management and employee shareholders as well as the Baader family. We are working to achieve a business valuation which meets our requirements and reflects the true value of our company.

I would like to thank all Baader Bank Group employees for their unwavering commitment, all of our clients for trusting in our quality and in our high-end services, and the Supervisory Board for their critical yet constructive support of the Board of Directors during the 2019 financial year.

I look forward to welcoming you as a shareholder to the shareholders' meeting of Baader Bank in this year.

Best regards,

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

Oliver Riedel | Member of the Board of Directors

Responsibility: Brokerage, Banking Services,
Asset Management Services, Research, Corporate Brokerage

#WeEnable BUSINESS

We serve companies in both primary and secondary markets. We handle structuring and execution of equity capital transactions. We provide companies with broad access to international investors.

#WeEnable TRADING

We are one of the largest market makers on Europe's key stock exchanges as well as off-exchange. We are also one of the leading brokers for international investors in secondary business. We trade equities, bonds, funds, exchange-traded products and derivatives. We offer electronic market access, sales, trading and execution, as well as designated sponsoring and clearing services.

#WeEnable INSIGHTS

We cover all major companies from key sectors focusing on European markets and stocks, especially Germany, Austria and Switzerland. We also offer specialized ETF research to assist our investment clients in deciding on asset allocation and investment strategies. Our research has won numerous awards and provides investors with high-quality access to companies.

#WeEnable FINTECHS

We are the pioneer behind the pioneers. Numerous leading fintechs utilize our modern infrastructure that makes a fundamental contribution to their business model. Our banking platform complies with supervisory regulations and is highly efficient. This allows us to guarantee meeting the demands that will be made of banking in the future, from seamless custody account set-up through to break down.

#WeEnable ASSET MANAGEMENT

We provide a supervisory-compliant and highly-efficient banking platform for asset managers, liability umbrella, family offices, foundations and fintechs. We are an outsourcing partner to capital management companies offering implementation of fund mandates. We free up resources and processes in asset management and portfolio management by handling all mandate-related supervisory and administrative tasks.

Contents


2.5

Combined Management Report

1. General information about the Baader Bank Group

1.1 Organisational and legal structure

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

As at the balance sheet date, the Baader Bank Group comprised the parent company and six fully consolidated companies – of these, three are subsidiaries and three sub-subsidiaries. The Group is headquartered in Unterschleissheim near Munich. There are further German offices of Baader Bank located in Frankfurt am Main, Stuttgart and Dusseldorf.

Baader Helvea AG, the wholly-owned Swiss subsidiary of Baader Bank, has its headquarters in Zurich. Baader Helvea AG holds a 100 % interest in Baader Helvea Ltd. which has its headquarters in London and Baader Helvea Inc. which has its headquarters in New York. Together with Baader Bank, these companies form the Baader Helvea Group.

Baader Bank holds a 100 % interest in Selan Holding GmbH, with its headquarters in Unterschleissheim. This company in turn holds a 100 % interest in the Croatian wind farm operator Selan d.o.o. and in Vjetropark Vrataruša d.o.o., which together with Selan Holding GmbH form the Selan Group. Due to the low volume of business of Vjetropark Vrataruša d.o.o. and a lack of business activities, it remains the case that this company is not included in the consolidated financial statements.

The subsidiary Baader & Heins Capital Management AG (Baader & Heins AG), in which Baader Bank has a 75 % interest, has its headquarters in the same building as the Group's headquarters in Unterschleissheim.

Conservative Concept Portfolio Management AG (CCPM AG), in which Baader Bank had a 66.07 % interest until the first quarter of the reporting period before reducing its stake to 19.9 % with the conclusion and implementation of a share purchase agreement on 31 March 2019, will be included in the consolidated financial statements as an associated company from 1 April 2020. It has its headquarters in Frankfurt am Main, Germany.

Baader Bank sold its 30 % stake in the Omani company Broker Gulf Baader Capital Markets S.A.O.C. in March 2019. In June 2019, Baader Bank also sold its 50 % stake in Ophirum ETP GmbH, Frankfurt, whose operational business activities had been discontinued back in 2018.

At the end of 2019, a total of 403 staff members were employed at the Baader Bank Group and 370 employees at Baader Bank AG.

In the reporting period, there was a significant change in personnel on the Board of Directors of Baader Bank. At the beginning of February 2019, the Board of Directors was downsized from four to three members. Christian Bacherl, who had been responsible for the Capital Markets and Research business lines, left the Board of Directors of Baader Bank by mutual agreement on 1 February 2019. Board members Nico Baader and Oliver Riedel took over the business lines for which he was responsible.

In the first half of 2019, there was a personnel change on the Supervisory Board of Baader Bank. At the shareholders' meeting on 1 July 2019, Christoph Mast was appointed to the Supervisory Board by the shareholders. He succeeds Nils Niermann, who resigned from his position on 30 June 2019 for work-related reasons.

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

Baader Beteiligungs GmbH, Munich, holds a 63.4 % stake in Baader Bank, Ubtrend GmbH & Co. KG holds 5.43 %, 0.30 % is directly owned by the company's founder and the former Chairman of the Board of Directors, Uto Baader, and the remaining 30.87 % of the shares are held by free float shareholders.

1.2 Business model of the Baader Bank Group

Baader Bank's core business consists of providing services in the business lines of Market Making, Capital Markets and Multi Asset Brokerage. These core business lines are supplemented by the business lines Banking Services, Asset Management Services and Research, which cover complementary business lines needs of customer groups from the respective core business lines. This basic structure of six client and product-focused business lines continued throughout fiscal year 2019 in a structurally unchanged manner.

1.2.1 Core business lines

1.2.1.1 Market Making business line

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

Market Making comprises all the business activities that are known as order book broker, specialist, and specialist or quality liquidity provider activities, depending on the organisation and terminology of the respective stock exchange. In its market making capacity, the Bank acts on regulated stock exchanges in Germany (Berlin Stock Exchange, Frankfurt Stock Exchange, Stuttgart Stock Exchange, Munich Stock Exchange and gettex, and Frankfurt Certificates Stock Exchange) and Austria (Vienna Stock Exchange). Depending on the respective market model, Baader Bank quotes prices and executes orders for exchange-traded domestic and foreign shares, bonds, funds, participation certificates, Exchange Traded Products (ETPs), and securitised derivatives. This service is provided on the basis of uniform internal standards, stock exchange regulations, and regulatory requirements. Baader Bank's objective is to ensure fundamentally homogenous task execution at consistently high quality on all stock exchanges and in all classes of securities.

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

1.2.1.2 Capital Markets business line

The services portfolio of Capital Markets comprises the provision of independent advice for capital market transactions and the execution of equity transactions and hybrid financing alternatives. The independently offered Corporate Brokerage service package comprises the ongoing monitoring of the capital market presence of listed companies and their support within the framework of designated sponsoring.

The special execution services offered include the performance of capital measures, capital increases and decreases, the support for takeover or acquisition offers in respect of listed companies as well as squeeze-out procedures, and the assumption of paying agent services.

1.2.1.3 Multi Asset Brokerage business line

One of Baader Bank's core services in this area is sales and trading for institutional investors. Specifically, this involves brokerage, i.e. order execution in shares, bonds, ETPs and derivatives for clients on the national and international stock exchanges and trading platforms to which Baader Bank is directly connected or connected via partner institutions. In its sales activity, Baader Bank actively addresses institutional end customers and sells research products and trading ideas. The aim is to generate customer orders in financial instruments and to place primary market transactions. Sales trading comprises the acceptance and execution of client orders, support and advice, e.g. in portfolio trading and the provision of trading-related services such as clearing services.

1.2.2 Complementary business lines

1.2.2.1 Banking Services business line

Baader Bank includes the deposit and custody business under Banking Services, with all original banking functions and services provided exclusively within the framework of B2B2C cooperation agreements with traditional asset management clients or fintechs.

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

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

1.2.2.2 Asset Management Services business line

In the Asset Management Services business line, Baader Bank provides financial portfolio management services as defined under the applicable regulatory requirements, and other services for institutional buyers. As a bank partner for portfolio management companies, it supports the portfolio management of fund products such as UCITS funds, special funds, offshore funds and derivatives overlay mandates. Baader Bank also assumes the buy-side trading desk function, numerous order management services and administrative pre- and post-trade processes.

1.2.2.3 Research business line

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

At the individual value level, sector specialists from the Baader Bank Group or its cooperation partners regularly prepare detailed studies for investors and provide opinions and recommendations on sectors and individual stocks. The focus is on analysing companies in Germany, Austria and Switzerland. Since the acquisition of the Swiss broker Helvea in 2013, the coverage has been developed under the Baader Helvea brand, and since the expansion in 2018 has successively grown to include a pan-European product range as part of the cooperation with French research provider AlphaValue.

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

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

1.2.3 Subsidiaries' business lines

The Baader Bank Group's offering is rounded off by the range of products and services offered by its subsidiaries. This essentially includes the research and brokerage activities in products from the German-language capital market for German-speaking and Anglo-Saxon investors by the Baader Helvea Group and the brokerage of promissory note loans, name titles and money market investments by Baader & Heins AG. The Selan Group generates income from the supply of wind energy produced by the wind turbines belonging to Selan d.o.o., located in Croatia, and develops concepts f or the expansion and further development of the Vrataruša/Senj site for the purposes of wind and solar energy production.

1.3 Further development of the business lines

The core and complementary business lines are the Bank's main sources of income, with due regard to the respective markets and general conditions for the products and services offered. Superordinate sub-strategies, such as the risk, IT, personnel, remuneration and shareholding strategy, make it possible to carry out a continuous analysis and adjustment of business processes.

Restructuring measures that were initiated in 2018 were continued in 2019. The decision to downsize the Board of Directors from four to three members in February 2019 resulted in a redistribution of business units in the divisions of Capital Markets and Research. The basic alignment of the six core and complementary business lines remained unchanged. Structural and sub-strategic measures within the relevant business lines are examined in detail in section 2.2 and in the relevant forecasts at 3.2.

2. Report on the economic position

2.1 Macroeconomic and sector-specific environment

2.1.1 Macroeconomic environment in fiscal year 2019

As in the previous year, the macroeconomic environment was affected by numerous political uncertainties in 2019. Although the USA and China had already agreed at the end of 2018 to prevent the trade conflict from escalating by entering into discussions on an agreement, there was a long period of uncertainty as to how that agreement would come about. The fact that the USA imposed additional customs duties on China in May 2019 and, in some cases, threatened to boycott technologies and individual companies also contributed to this uncertainty. China responded to this approach by announcing additional customs duties of its own. In light of this, many companies faced additional challenges, as the extent of the potential impact on global supply chains was not immediately foreseeable. In addition, for a long time it remained unclear whether the EU and the United Kingdom would be able to reach an agreement in their negotiations on Brexit. Once it became clear that a compromise would not receive the backing of the majority of MPs in the British parliament, Boris Johnson succeeded Theresa May as the new Prime Minister in July, before an early general election was ultimately called in December 2019.

Against this backdrop, the decline in many economic sentiment indicators, which began at the outset of 2018, continued. This was particularly true for the manufacturing industry. The persistent uncertainty led to a significant reduction in inventories within the industry and a waning willingness to invest. As a result, there was a significant decline in new orders and industrial production in many regions and growth in global trade practically ground to a halt. Due to its high dependence on trends in the global industrial sector, the German economy was adversely affected to an above-average extent. As a result of a fully-fledged recession in the manufacturing industry, real economic growth fell from 2.5 % in 2017 and 1.5 % in 2018 to 0.6 %.

In light of the economic downturn, the IMF had to adjust its outlook for the global economy down-wards on several occasions. This process continued in the second half of the year even though the first signs of stabilisation were recorded in some early indicators from late summer onwards. The purchasing manager index for the global manufacturing industry increased slightly from August onwards and reached the expansion threshold of 50 points by the end of 2019. The fact that it became clear in the autumn that there would be new negotiations between the USA and China with the aim of reaching a partial agreement, and that fear in the financial markets of a hard Brexit had waned significantly, also contributed to this.

Moreover, by the middle of the year the central banks were giving clear indications that they would tackle the growing economic risks with new stimulus measures. Consequently, the US Federal Reserve lowered its base rate in three stages and, in response to developments on the US financial market, increased its total assets again, while in September the ECB decided, among other things, to lower the deposit rate of interest and to resume its bond purchase programme. China implemented numerous stimulus measures throughout the year. As of April, VAT was reduced by 3 percentage points and the various channels were used to improve the monetary supply of the banking system (liquidity injections, interest rate reductions and multiple reductions in minimum reserve ratios).

On the financial markets, there was a positive overall sentiment based on the hope that political burdens might be alleviated and that this might herald in a medium-term improvement in growth prospects. Based on the very low level of expectation that prevailed at the end of 2018, investors were confident that they would see an improvement as early as the beginning of the year even though the key data initially remained poor.

However, the renewed escalation of the trade conflict led to a considerable increase in volatility from May to August, with significant ups and downs on the equity markets. Instruments that were perceived as "safe havens", such as long-term government bonds and gold, were subject to significant premiums during this phase. The yield of 10-year German federal bonds temporarily reached a record low of –0.74 %. In contrast, there were significant drops in the prices of cyclically sensitive raw materials such as copper and crude oil.

As of August, these developments were gradually reversed and there was a continuation of the positive basic trend, particularly in the case of equities. On balance, most equity indices in 2019 thus achieved a performance of 25 % to 30 %. Similarly, the credit markets were characterised by a decline in risk premiums, which increased significantly in the previous year. On the foreign exchange market, the euro dropped further in value initially before recovering slightly in the fourth quarter as early indicators suggested signs of improvement. As a result, the value of the euro only fell slightly against the US dollar for the year as a whole.

2.1.2 Baader Bank's handling of the possible impacts of Brexit

In the 2019 fiscal year, Baader Bank responded through a cross-sectoral project to the unpredictable situation associated with the United Kingdom's largely uncertain withdrawal from the European Union (EU). All business activities in and originating from the United Kingdom were analysed in order to ensure that Baader Bank would be able to act appropriately in the event of a hard Brexit.

At present, Baader Bank and its London-based subsidiary Baader Helvea Ltd., which caters primarily to British clients, are in possession of a European passport, which gives them free rein to do business in the European Economic Area (EEA). In preparation for a possible withdrawal of the European passport on account of Brexit, the impact on existing business relationships, both with Baader Bank and with Baader Helvea Ltd., were reviewed and adjustments were made in order to ensure that business could continue in the respective areas.

The securities trading activities of Baader Bank could also be affected by the ramifications of Brexit if the European Securities and Markets Authority (ESMA) no longer acknowledges British stock exchanges as regulatory-compliant market places after the end of the transitional period, or the United Kingdom only allows the securities of British issuers to be traded on their domestic stock exchanges. In terms of the potential scenarios relating to British stock exchange equivalence, which are still up in the air at the time of reporting, it is our belief that Baader Bank is strategically well-positioned on account of its London-based subsidiary Baader Helvea Ltd.

With this in mind, the Board of Directors does not believe that the circumstances of the EU Parliament's approval of the actual withdrawal of the United Kingdom from the European Union and the start of a Brexit transitional phase that will run until 31 December 2020 will pose any significant risks to Baader Bank.

2.1.3 Business, market position, and changes in competitive position

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

Within the landscape of the German stock exchange, so-called best execution platforms are playing an increasingly significant role and, with their flexible price strategies, are the main reason for market share losses on traditional regional stock exchanges (see 2.2.2.1).

In the area of capital market services, the same competitive situation as in previous years continues to endure. Competition for capital market mandates that influence profits, driven by competition in prices and services, characterises the market landscape. In combination with the anticipated general economic conditions, Baader Bank expects that the competitive situation will remain difficult.

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

Investment management companies are tending to opt for the outsourcing of asset management functions and trading desk services due to the increasing regulatory requirements and the higher cost pressure. From the Board of Directors' point of view, this market development provides the company with a competitive advantage due to the wide range of services offered by Baader Bank.

2.2 Business developments

2.2.1 Development of the key performance and profit drivers

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

Numerous geopolitical uncertainty factors, such as the aforementioned trade conflict between the USA and China and the ever-present uncertainty about the outcome of the Brexit negotiations between the United Kingdom and the EU, resulted in the volatile fluctuations that occurred predominantly in the first half of 2019 and had an inhibiting effect on the securities trading activities of Baader Bank in all asset classes. As a result, income from trading in equities, ETFs and funds stagnated at a comparatively low level in the first three quarters of 2019, until the situation improved noticeably in the fourth quarter. At the end of the fiscal year, this upward trend led to a pleasing growth in revenue in the form of higher order flow volumes across all classes, especially in securitised derivative and bond trading.

Overall, this development led to an increase in trading income of 13 % compared to the previous year.

The various income components of the net commission income across the Group made a significantly lower operating profit contribution in the 2019 fiscal year. Positive effects manifested themselves in the form of revenue growth in client commission income and in trade-related services and banking services where existing market growth potential could be maximised. However, the lower than expected income in the Capital Markets division, which went through a period of transformation until the middle of 2019, and falling brokerage and commercial agent's commissions ultimately resulted in a reduction in the net commission income at Group level of 21 % (Baader Bank AG: –17 %) compared with the previous year.

2.2.2 Business development in the core business lines

2.2.2.1 Market Making business line

A persistently strong trend towards deflection of sales volumes – away from the traditional stock exchanges with remuneration models and towards free market places – is representative of a clear shift in the national brokerage business. Traditional market-making using closed order books on German floor exchanges, which still makes up the predominant share of Baader Bank's securities trading activities, was characterised once again by declining sales figures. In contrast, the so-called "best execution platforms", with their investor-friendly fee models, proved to be increasingly profitable in the past fiscal year. Within the regulatory framework of MiFID II, cost-sensitive and market-compatible fulfilment of regulatory obligations developed into a competitive factor, which Baader Bank embraced by enhancing its level of expertise further still.

In addition, Baader Bank accelerated its sales activities and entered into trade cooperations with best execution providers in order to benefit from their revenue growth. In the fourth quarter of 2019 in particular, this sales strategy began to bear fruit.

At the market place gettex at the Munich Stock Exchange, where Baader Bank operates exclusively and assists with the development of trade connections, Baader Bank was successful in securing additional order flow providers in the first six months of 2019. Other strategic market initiatives are the introduction of longer trading hours until 8:00 p.m. for the purposes of bond trading on gettex as well as two additional electronic trading systems, which enable a rapid response to market movements even after 5:30 p.m. The significant increase in trading volumes seen at this trading venue is evidence of the impact this has had on bond trading.

Although the company forged ahead in its attempts to enhance its levels of expertise in ATF trading (Algorithmic Trading Facility) over the course of the past fiscal year, this has not yet had a demonstrable positive effect on trading activity.

The migration from trading in open order books via the Xetra trading platform of the Frankfurt Stock Exchange to the T7 system environment was followed in 2019 by a similar systemic migration for trading in closed order books, which, as anticipated, necessitated several technical and process-related adjustments at Baader Bank. That being said, regular business activities in Market Making remained largely unaffected by this.

In OTC trading, revenues were consistent with the previous year's level, showing a moderate increase by the end of the 2019 fiscal year. The order flow potential from existing and newly-acquired cooperations with online and direct banks that participate in Baader Bank's quote, trading and settlement systems, has, from the Board of Directors' point of view, by no means been exhausted and Baader Bank is sticking to its long-term goal of further expanding its OTC activities with non-German trading participants.

As expected, there was no market recovery in 2019 in the bond market, the development of which depends largely on European interest rate policy. Irrespective of the multiple hikes in interest rates in the USA, the ECB reduced the interest rate once again to –0.5 % and also dampened the sentiment on the European bond market with the revival of net bond purchases in the eurozone. In addition, Brexit and the repeated postponement of the United Kingdom's date of withdrawal from the EU and the politically unstable situation in Italy have had a negative impact on securities trading across all classes. Despite all this, the bond trading sector was able to achieve revenue growth in 2019.

In the reporting period, Baader Bank was mandated to act as a specialist for three IPOs in the Prime Standard segment of the Frankfurt Stock Exchange. It took over the order books of the Global Fashion Group SA, Traton Group SE and TeamViewer AG.

2.2.2.2 Capital Markets business line

The increasingly intense competition for mandates in traditional equity transactions over the last few fiscal years has led Baader Bank to realign its strategic focus in the division of Equity Capital Markets (ECM). As such, a restructuring phase was initiated in the first half of 2019. Targeted use of core competency, preferably in junior positions, for large-scale transactions with efficient use of resources but without a guarantee component, is intended to ensure proportional participation in the total income of individual mandates. In addition, the establishment and expansion of business relationships in the German-speaking area, including the hitherto underutilised Swiss capital market, were actively pursued.

In the 2019 fiscal year, Baader Bank assisted IFA Hotel & Touristik AG with its capital increase with subscription rights in the amount of EUR 200 million as Sole Global Coordinator and Sole Bookrunner and also assisted Deutsche Industrie REIT-AG with its capital increase with subscription rights with a transaction volume of EUR 93 million in the role of Joint Bookrunner.

The ranking of the Equity League Tables, which in previous years served as a gauge for the market position of the company in the transaction business, was not consulted in the course of the realignment of the business unit, and on account of the circumstances described in the reporting period. From the Board of Directors' point of view, such consideration would be disproportionate and would have no informative value in terms of the actual development of the business in the transition year 2019.

The Corporate Brokerage division, which sees Baader Bank offer capital market processing services such as designated sponsorship and research, acts as a strategic link to the long-term initiation of sell-side contacts, which the Capital Markets area ultimately also benefits from. By the end of fiscal year 2019, 59 corporate customers had used the corporate brokerage services of Baader Bank (previous year: 45 clients), which, in terms of the number of mandates, equates to an increase of over 30 % compared to the previous year.

Due to the uninterrupted demand for Special Execution services, which are affected by market fluctuations to a far smaller extent than the Equity Capital Markets business, in 2019, the Special Execution division was able to improve somewhat on the record sales level achieved in the previous reporting period.

In 2019, the Special Execution division provided assistance with a total of 66 transactions, including the tender proceedings of Pierer Industries AG vis-à-vis the shareholders of SHW AG, the capital increase with subscription rights of Merkur Bank KGaA, the IPO of the football club Spielvereinigung Unterhaching and various bond issues, such as those for Pareto Securities LLP and PV Invest GmbH. In the past fiscal year, a total of 23 bonds were successfully issued on the back of a cooperation between Baader Bank's Special Execution and Vermögensverwaltung Dr. Bauer alone.

In its function as co-applicant in the securities-related approval of ETF, the Special Execution division was also able to add Goldman Sachs to its list of existing mandates with renowned institutions such as BlackRock, Vanguard and J.P. Morgan. Overall, the number of paying agents looked after by Baader Bank in Germany and Austria grew to over 200.

2.2.2.3 Multi Asset Brokerage business line

Awards relating to internationally recognised rankings for brokerage and research services are a key indicator of the international profile of Baader Bank and allow conclusions to be drawn about how external parties rate the quality of the service provided. From a strategic point of view, these strengthen the company's position within the target group of institutional investors, who base their views on the recognised quality benchmarks of awards and rankings.

In the 2019 annual Extel survey, an internationally recognised ranking for brokerage and research services, the Baader Bank was voted number one in the category "Trading/Execution Germany" for the fifth consecutive year. In the "Small & Mid Cap Trading Germany" category, Baader Bank came second. In addition, Baader Bank came third in the "Trading/Execution Switzerland" category. For its Research and Corporate Access services, Baader Bank came second in the "Country Research Austria" category and third in the "Company & Expert Meetings Switzerland" category. The "Swiss Equities Conference", which takes place annually in Bad Ragaz, Switzerland, was voted the best "Pan European Broker Conference". Second place was awarded for the "Baader Investment Conference", which takes place annually in Munich.

The income generated in this business line as a result of growing trading volumes in the international client commission business once again contributed positively to the net commission income of Baader Bank.

2.2.3 Business development in the complementary business lines

2.2.3.1 Banking Services business line

The expansion of partnerships with conventional and digital asset managers in German-speaking Europe continued to move forward in fiscal year 2019. With the special offer of banking and trading services for online asset managers and their end clients, Baader Bank operated as a market interface in a B2B2C context (bank – asset manager – end client) with a broad spectrum of complementary banking services for account and custody clients.

At the reporting date, the number of accounts and custody accounts amounted to approx. 46,300, an increase of approx. 88 % compared to the previous year. This was accompanied by an increase in the custody account volume of approx. 36 % in the same period to a total of just under EUR 4.8 billion, which was largely attributable to the disproportionate increase in the number of accounts and custody accounts opened in the Banking Services division.

The asset managers and fintechs acquired as new customers in 2019 mainly originate from German-speaking Europe. However, certain cooperations, such as those with the Liechtenstein asset manager Estably and the globally active asset manager ThomasLLoyd, which intends to expand the European end client business in cooperation with Baader Bank, are representative of the desire to develop international business relationships in this division.

At the end of fiscal year 2019, Baader Bank was looking after a total of 66 financial services providers (previous year: 64), about half of which are digital asset managers. Baader Bank assisted renowned partners with a wide range of client projects. One example of this was a client project for Oskar, a brand of Scalable Capital which is enjoying increasing demand from its end clients for its new product ideas such as simple forms of investment as a replacement for savings plans. In addition to primary account and custody account services, the sources of income at Baader Bank include secondary performance components, such as securities trading and custody services, which are often offered in combination.

2.2.3.2 Asset Management Services business line

In the course of business in 2019, the assets in Asset Management Services for which Baader Bank acted as financial portfolio manager on behalf of capital management companies recorded a slight decrease of approximately 7.2 % to EUR 7.1 billion (total volume at 31 December 2018: EUR 7.6 billion). Compared to the previous year, the number of fund mandates decreased from 60 to 58 mandates, which is attributable, among other things, to consolidation of individual funds. From the Board of Directors' point of view, fluctuations of this scale are negligible. Over the course of several years, the aforementioned comparison figures remain at a consistently high level.

2.2.3.3 Research business line

As a provider of equity research, Baader Bank finds itself in a consistently price-driven competitive environment, particularly amongst the market participants regulated by MiFID II. In 2019, the creation and expansion of new distribution channels became a strategic focal point. In particular, the cooperation with the French analysis provider AlphaValue set the course for the expansion of Baader Helvea's in-house product range, which is geared towards German, Austrian and Swiss companies in order to establish a broader and more European-oriented component under the common product title of "Baader Europe". Consolidating the value range on the services platform of the same name results in a total coverage of approx. 600 equities.

In spite of this renewal in sales structure, the Research business line adheres to a fundamental, sector-oriented approach, which has a high degree of specialisation thanks to targeted selection and qualitative analysis of business models.

In the annually published rankings of the world's leading sell-side analysts, the "StarMine Analyst Awards from Refinitiv", the analysts of the Baader Helvea Equity Research team ranked first on two occasions and second and sixth once in 2019 in terms of stock and sector selection for Germany. In the European classification, the analysts from Baader Helvea ranked first on two occasions and third once.

2.2.4 Development of the subsidiaries' business

With the acquisition of the Baader Helvea companies, which together form the ***Baader Helvea Group,*** Baader Bank became a multi-award-winning local broker in German, Austrian and Swiss shares in terms of international rankings. The Baader Helvea Group has had business connections with institutional investors worldwide for more than ten years, focusing on the United Kingdom, Switzerland, the USA and Canada. As the international arm of Baader Bank, the Baader Helvea Group is able to benefit from the pan-European product expansion taking place in the Research business line as part of a strategic cooperation (see 2.2.3.3).

In 2019, the Baader Helvea Group was able to consolidate its market reach in Switzerland and, as an exclusive partner of the Swiss Stock Exchange in the context of the SIX Stage Programme, expand its coverage of the Swiss companies listed there. From the Board of Directors' point of view, the partnership represents a strategic instrument for supporting corporate clients who ought to be able to profit from greater awareness and an appropriate valuation on the market.

The Baader Helvea Group was not able to make a positive contribution to the consolidated overall result in the 2019 reporting period.

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

At 8.38 m/s (approx. 30 km/h), wind levels were at the lower end of the multi-year average of the past nine years as a result of difficult weather conditions throughout the entire calendar year 2019. At 123.07 million kwh, Selan d.o.o., however, recorded the third highest net wind yield in the 2019 fiscal year since commissioning the wind farm in 2010, and was therefore again able to surpass the evaluator assumptions from 2012 at around 14.5 %.

In addition, fiscal year 2019 was characterised by the preparations for the planned expansion of the existing wind farm to include seven new wind turbines with a total output of 24 MW. In the wake of this, the service and maintenance contract was renegotiated as the main cost carrier and extended for a further ten years to 2029. The existing financing structure was optimised by way of a rescheduling and special repayment process and, once again, cash flow was sustainably improved by way of tax-effective depreciation rate adjustments.

All in all, the consolidated overall result in fiscal year 2019 was below the level of the previous year.

Baader & Heins AG is a financial services institution that specialises in acting as an intermediary between issuers and institutional investors for mainly illiquid, interest-bearing financial products. Its customers include major institutional investors in the insurance industry, the public sector as well as the banking industry in Germany and abroad. The business model of this subsidiary is primarily determined by commission income that depends on the number of transactions concluded and the volume brokered.

In the reporting period, the company suffered losses of approximately 45 % in the number of transactions concluded and approximately 60 % in the brokered volume compared to the previous year. Unfavourable interest and market conditions led to a reduction in margins, which resulted in a significant decline in commission income of 27 % compared to the previous year. The significant decline in commission income of 20 % to 25 % that was predicted for 2019 therefore came to pass.

All in all, the net commission income and net income for the year were consistent with expectations. However, administrative expenses also declined as a result of the reduction in commission income, which indicates that the level of operational efficiency at the company is relatively high.

In accordance with its fundamental strategic orientation, Baader Bank AG reduced its interest in ***CCPM AG*** to 19.9 % with the conclusion and implementation of a sale of shares. Upon fulfilment of all conditions precedent thereto, including the positive termination of the owner control procedure by the German Federal Financial Supervisory Authority (BaFin) on 31 March 2019, the transaction was concluded by way of share transfer to a buyer.

2.2.5 Comparison of actual business performance in 2019 with the forecasts published in the previous year

In line with forecasts, certain external influencing factors came to pass in fiscal year 2019, which, particularly in the first three quarters, caused inconsistent market sentiment and rising volatility in international financial markets. This had a radiating effect on the operational business activities of the Baader Bank Group. The upward trend in Market Making, which was expected to occur earlier in the year, only set in during the fourth quarter of 2019 in the form of higher trading volumes. Resultantly, an increase in trading income of 13 % to EUR 46,149 thousand was recorded both for the Baader Bank Group and Baader Bank AG for the whole year.

In contrast, commission income fell short of expectations at Group level after a decline of 21 % to EUR 32,111 thousand (Baader Bank AG: 17 % decline to EUR 20,511 thousand).

At the beginning of the year, the Board of Directors anticipated the decline in numbers for mandate gains and transaction volumes in the Capital Markets division, yet the structural reformation that had been introduced weakened the earnings potential further still.

In contrast, there was considerable growth in brokerage and cash equity activities and in complementary banking services.

Nevertheless, the desired significant increase in gross profit for 2019 could not be achieved. Instead, a decline of –5 % to EUR 90,269 thousand was recorded at Group level (Baader Bank AG: decline of –1 % to EUR 68,507 thousand), although this decline was significantly smaller in the operating profit than it was in the previous year.

It was possible to lower expenses both for the Baader Bank Group and Baader Bank AG. This contributed, among other things, to a significant improvement in the result of ordinary business activities. Taking into account the dissolution of the fund for general banking risks in accordance with Section 340g HGB, the result at Group level is almost the same (EBT: EUR 68 thousand) and the result for Baader Bank AG is relatively close to the profit threshold (EBT: EUR –2,490 thousand).

2.3 Economic position of the Baader Bank Group

2.3.1 Net assets, financial position and results of operations

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

The annual financial statements and consolidated financial statements of Baader Bank AG were prepared in accordance with the provisions of the HGB and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV) as well as in compliance with the supplementary regulations of the German Stock Corporation Act (Aktiengesetz – AktG) and audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, Germany. The annual financial statements for fiscal year 2019 will be published in the electronic Federal Gazette.

2.3.2 Results of operations

The results of operations of the Baader Bank Group in the past fiscal year have improved significantly compared to the previous year with a balanced result before tax in the amount of EUR 68 thousand (previous year: EUR –19,375 thousand). The results of operations of the Baader Bank Group as well as Baader Bank AG in fiscal year 2019 compared to the previous years 2017 and 2018 were as follows (see next page):

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

	2017 EUR'000	2018 EUR'000	2019 EUR'000	Change to the previous year Absolute EUR'000	Change to the previous year *Relative %*
Income	**121,317**	**98,121**	**104,336**	**6,215**	*6*
of which net interest income[1] and current income	1,502	527	–799	–	*–*
including net interest income	–338	–445	–1,537	–1,092	*>–100*
including current income	1,840	972	738	–234	*–24*
Share of income	*1%*	*1%*	*–1%*		
of which net commission income[1]	46,539	40,518	32,111	–8,407	*–21*
Share of income	*38%*	*41%*	*31%*		
of which net trading income[1, 2]	57,683	40,976	46,149	5,173	*13*
Share of income	*48%*	*42%*	*44%*		
of which revenue	12,135	13,095	12,808	–287	*–2*
Share of income	*10%*	*13%*	*12%*		
of which other income	3,458	3,005	14,014	11,009	*>100*
including other operating income	3,458	3,005	3,514	509	*17*
including income from write-ups[3] and income from the reversal of provisions for credit transactions	0	0	0	0	*0*
including income from the liquidation of the fund for general banking risks	0	0	10,500	10,500	*100*
Share of income	*3%*	*3%*	*13%*		
of which net income from interests in associates	0	0	53	53	*100*
Share of income	*0%*	*0%*	*0%*		
Expenses	**117,058**	**117,496**	**104,268**	**–13,228**	*–11*
of which personnel expenses	54,702	54,686	46,522	–8,164	*–15*
Share of expenses	*47%*	*47%*	*45%*		
of which administrative expenses and other operating expenses	42,586	45,385	44,604	–781	*–2*
including other administrative expenses	41,386	43,735	42,763	–972	*–2*
including other operating expenses	1,200	1,650	1,841	191	*12*
Share of expenses	*36%*	*39%*	*43%*		
of which depreciation, amortisation and impairment	18,344	17,391	13,142	–4,249	*–24*
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	14,121	10,916	9,001	–1,915	*–18*
including other depreciation, amortisation and write-downs[4] as well as additions to provisions for credit transactions	4,223	6,475	4,141	–2,334	*–36*
Share of expenses	*16%*	*15%*	*13%*		
of which profit/loss from shares in associated companies	1,426	34	0	–34	*–100*
Share of expenses	*1%*	*0%*	*0%*		
Earnings before tax (EBT)	**4,259**	**–19,375**	**68**	**–**	*–*
Taxes	1,977	1,649	483	–1,166	*–71*
Tax ratio	*46%*	*–9%*	*>100%*		
Consolidated net profit before minority interests	**2,282**	**–21,024**	**–415**	**20,609**	*98*
Minority interest in net income	**120**	**–286**	**–176**	**110**	*38*
Consolidated net profit for the year	**2,402**	**–21,310**	**–591**	**20,719**	*97*
Net profit/loss of the parent company brought forward	**–6,642**	**–11,036**	**–33,644**	**–22,608**	*>–100*
Transfers to/withdrawals from retained earnings	**–6,796**	**–1,298**	**27,443**	**–**	*–*
Consolidated net retained profit/loss	**–11,036**	**–33,644**	**–6,792**	**26,852**	*80*
Key figures					
Gross profit (revenue)[5]	117,859	95,116	90,269	–4,847	*–5*
Operating result[6]	7,650	–14,221	–8,017	6,204	*44*
Expense-income ratio	96%	120%	100%		
Personnel expenses ratio[7]	46%	57%	52%		
Administrative expenses ratio[8]	35%	46%	47%		
Return on equity before taxes[9]	4%	–25%	0%		

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

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

	2017 EUR'000	2018 EUR'000	2019 EUR'000	Change to the previous year Absolute EUR'000	Change to the previous year *Relative %*
Income	**92,199**	**74,344**	**83,990**	**9,646**	*13*
of which net interest income[1] and current income	3,488	3,679	1,847	–1,832	*–50*
including net interest income	1,585	1,227	360	–867	*–71*
including current income	1,903	2,452	1,487	–965	*–39*
Share of income	*4 %*	*5 %*	*2 %*		
of which net commission income[1]	24,831	24,727	20,511	–4,216	*–17*
Share of income	*27 %*	*33 %*	*24 %*		
of which net trading income[1, 2]	57,683	40,976	46,149	5,173	*13*
Share of income	*63 %*	*55 %*	*55 %*		
of which other income	6,197	4,962	15,483	10,521	*>100*
including other operating income	6,197	4,962	4,983	21	*0*
including income from write-ups[3] and income from the reversal of provisions for credit transactions	0	0	0	0	*0*
including income from the liquidation of the fund for general banking risks	0	0	10,500	10,500	*100*
Share of income	*7 %*	*7 %*	*18 %*		
Expenses	**96,476**	**96,805**	**86,480**	**–10,325**	*–11*
of which personnel expenses	43,188	45,042	40,043	–4,999	*–11*
Share of expenses	*45 %*	*47 %*	*46 %*		
of which administrative expenses and other operating expenses	36,146	39,424	38,299	–1,125	*–3*
including other administrative expenses	35,039	38,474	37,520	–954	*–2*
including other operating expenses	1,107	950	779	–171	*–18*
Share of expenses	*37 %*	*41 %*	*44 %*		
of which amortisation, depreciation and impairment	17,142	12,339	8,138	–4,201	*–34*
including depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	8,793	5,673	4,284	–1,389	*–24*
including other depreciation, amortisation and write-downs[4] as well as additions to provisions for credit transactions	8,349	6,666	3,854	–2,812	*–42*
Share of expenses	*18 %*	*13 %*	*9 %*		
of which other expenses	0	0	0	0	*0*
of which income from the addition of the fund for general banking risks	0	0	0	0	*0*
Share of expenses	*0 %*	*0 %*	*0 %*		
Earning before tax (EBT)	**–4,277**	**–22,461**	**–2,490**	**19,971**	*89*
Taxes	117	147	28	–119	*–81*
Tax ratio	*3 %*	*1 %*	*1 %*		
Net profit (NP)/loss for the year	**–4,394**	**–22,608**	**–2,518**	**20,090**	*89*
Retained earnings/losses from the previous year	–6,642	–11,036	–33,644	–22,608	*>–100*
Transfers to/withdrawals from retained earnings	0	0	29,370	29,370	*100*
Balance sheet profit/loss	**–11,036**	**–33,644**	**–6,792**	**26,852**	*80*

Key figures					
Gross profit[5]	86,002	69,382	68,507	–875	*–1*
Operating result[6]	–1,018	–19,807	–13,340	–6,467	*33*
Expense-income ratio	105 %	130 %	103 %		
Personnel expenses ratio[7]	50 %	65 %	58 %		
Administrative expenses ratio[8]	41 %	55 %	55 %		
Return on equity before taxes[9]	–4 %	–31 %	–4 %		

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

Due to lower dividend payments, current income was EUR 234 thousand lower than in the previous year, at EUR 738 thousand (Baader Bank AG: increase of EUR 965 thousand to EUR 1,487 thousand). This includes dividend payments to Baader Bank AG from the subsidiary Baader & Heins amounting to EUR 750 thousand. Interest income in the past fiscal year was once again negative at EUR 1,537 thousand. In Baader Bank AG's individual financial statements, net interest income also declined by EUR 867 thousand, but was positive overall at EUR 360 thousand. As was the case in the previous year, net interest income was characterised by interest income from fixed-interest securities (EUR 5,051 thousand), correspondingly offset by interest expenses from the issue of own promissory note loans (EUR 4,799 thousand) and the refinancing of the Group headquarters in Unterschleissheim (Baader Bank AG: EUR 486 thousand). The main reasons for the negative overall contribution to income in the Group are interest expenses of EUR 1,650 thousand from the external financing of the wind farm at the wind farm operator Selan d.o.o. With a negative interest in total earnings amounting to –1 % (Baader Bank AG: 2 %), net interest income and current income – unchanged compared to the previous year – is of minor importance for the Group and Baader Bank AG's results of operations.

At EUR 32,111 thousand (Baader Bank AG: EUR 20,511 thousand), net commission income made a significant contribution, as in the previous year, and represents 31 % of the Group's earnings (Baader Bank AG: 24 %). Overall, the Group's net commission income was 21 % or EUR 8,407 thousand lower than in the previous year (Baader Bank AG: 17 % or EUR 4,216 thousand). In addition to a EUR 606 thousand (Baader Bank AG: EUR –606 thousand) decrease in the brokerage and transaction result of EUR 10,148 thousand, there was also a EUR 1,818 thousand decline in commission income from capital market services to EUR 3,069 thousand (Baader Bank AG: decline of EUR 1,657 thousand to EUR 2,948 thousand). This was caused primarily by a decline in placement volumes, a difficult market environment and the general realignment of the business line.

Income from commercial agents' commissions was significantly lower (EUR –7,440 thousand) (Baader Bank AG: EUR –5,812 thousand). Income from management and performance fees, on the other hand, was higher (EUR +129 thousand) (Baader Bank AG: EUR +1,742 thousand). Settlement and exchange fees rose slightly by EUR 282 thousand (Baader Bank AG: EUR +264 thousand). On the other hand, revenue growth was achieved in the cash equity business, including the sale of Baader Bank AG research products. Overall, commission income from order routing and client commission business and other commission income saw an increase of EUR 1,611 thousand to EUR 31,683 thousand (Baader Bank AG: increase of EUR 2,381 thousand to EUR 24,830 thousand).

Trading income at Group level in the past fiscal year increased by EUR 5,173 thousand to EUR 46,149 thousand and resulted entirely from Baader Bank AG as a trading book institution. They contributed 44 % to the Group's total income (Baader Bank AG: 55 %). The significant increase in trading income, brought about by revenues on the stock exchanges on which Baader Bank AG is active as a market maker, or in OTC trading, is attributable primarily to the Market Making Bonds and Market Making Funds/ETFs business lines.

The revenue item reported by the Selan Group is fully attributable to the feed-in remuneration for electricity generated by the wind park. In the past fiscal year, this fell slightly by 2 % or EUR 287 thousand to EUR 12,808 thousand, compared to the previous year. The level of revenue in total income amounts to 12 %. This is offset by operating costs for the wind farm (EUR 2,505 thousand), refinancing costs (EUR 1,650 thousand) and depreciation of these amounting to EUR 3,498 thousand.

Other income increased significantly by EUR 11,009 thousand to EUR 14,014 thousand (Baader Bank AG: by EUR 10,521 thousand to EUR 15,483 thousand). The Board of Directors has exercised its option of compensating for negative earnings developments in accordance with Section 340g HGB in the amount of EUR 10,500 thousand.

Total expenses declined significantly in the past fiscal year and fell by EUR 13,228 thousand to EUR 104,268 thousand (Baader Bank AG: EUR 10,325 thousand to EUR 86,480 thousand).

Personnel expenses decreased significantly at Group level by 15 % or EUR 8,164 thousand to EUR 46,522 thousand (Baader Bank AG by 11 % or EUR 4,999 thousand to EUR 40,043 thousand).

Other administrative expenses and other operating expenses also fell, this time by EUR 781 thousand to EUR 44,604 thousand (Baader Bank AG: by EUR 1,125 thousand to EUR 38,299 thousand).

It is clear that the cost reduction measures agreed in the previous year have been successfully implemented.

As a result of the above factors, gross profit fell by 5 % or EUR 4,847 thousand to EUR 90,269 thousand (Baader Bank AG: 1 % or EUR 875 thousand to EUR 68,507 thousand). Although the operating profit before depreciation, amortisation and tax is negative at both consolidated and individual financial statement levels at EUR 8,017 thousand and EUR 13,340 thousand respectively, these figures have increased significantly compared to the previous year by 44 % and 33 % respectively.

Depreciation and amortisation in the Baader Bank Group decreased by EUR 4,249 thousand to EUR 13,142 thousand. Of this, EUR 9,001 thousand relates to depreciation and value adjustments on intangible assets and property, plant and equipment and EUR 4,141 thousand to amortisation and value adjustments on receivables and certain securities treated as assets. Of the amortisation and value adjustments on intangible assets and property, plant and equipment, EUR 4,630 thousand is attributable to property, plant and equipment (land and buildings EUR 762 thousand, operating and office equipment EUR 3,812 thousand and low-value assets EUR 56 thousand) and EUR 4,371 thousand to intangible assets (goodwill EUR 1,132 thousand, order books EUR 752 thousand, software EUR 2,390 thousand, licences and industrial property rights EUR 97 thousand). In addition, valuation and disposal losses of EUR 4,141 thousand arose in the non-trading book, which are attributable primarily to equity investments and securities treated as investments.

Depreciation and amortisation at Baader Bank AG fell by a total of EUR 4,201 thousand to EUR 8,138 thousand. The decline is due mainly to the total depreciation of individual order books and goodwill, as well as reduced depreciation of the office building in the amount of EUR 4,284 thousand. Depreciation, amortisation and write-downs on receivables and certain securities, as well as the depreciation of equity investments, shares in affiliated companies and securities treated as investments also fell by EUR 2,812 thousand to EUR 3,854 thousand.

The tax expense in the consolidated financial statements is mainly a result of the positive contributions to earnings made by subsidiaries that could not be netted against negative results for tax purposes. In addition, the Group exercised the option of not accounting for asset surpluses from deferred taxes.

As a result of the factors described, the consolidated net income after tax of EUR –591 thousand was only slightly negative (previous year: EUR –21,310 thousand), or, taking the consolidated net income before tax of EUR 68 thousand into consideration, it was balanced (previous year EUR –19,375 thousand). Baader Bank AG reported a net loss for the year of EUR –2,518 thousand. This is around EUR 20,090 thousand higher than the previous year's result.

2.3.3 Financial position and net assets

As at the reporting date, total assets amounted to EUR 617,375 thousand and, with a decrease of EUR 95,815 thousand, are lower than the previous year's level (Baader Bank AG: increase of EUR 89,080 thousand to EUR 590,620 thousand). The balance sheet structure of the Baader Bank Group has undergone changes on both the assets and liabilities side. The changes in the assets are primarily due to a decrease of EUR 97,329 thousand in debt securities and other fixed-interest securities to EUR 94,947 thousand, of EUR 20,604 thousand in loans and advances to banks to EUR 78,591 thousand, and of EUR 11,538 thousand in the trading portfolio to EUR 37,869 thousand. Accordingly, on the liabilities side, liabilities to customers and banks due to lower sight deposits, loan repayments associated with the refinancing of the wind farm and the office building of Baader Bank AG and time deposit investments fell by EUR 80,059 thousand.

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

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

	2017 EUR'000	2018 EUR'000	2019 EUR'000	Change to the previous year Absolute EUR'000	Change to the previous year *Relative %*
Current assets	**645,750**	**598,398**	**509,896**	**–88,502**	*–15*
Share of current assets in total assets	*84 %*	*84 %*	*83 %*		
of which cash reserves	217,508	209,096	237,796	28,673	*14*
of which loans and advances to banks	90,251	99,195	78,591	–20,604	*–21*
including due on demand	79,763	89,748	69,098	–20,650	*–23*
including other loans and advances	10,488	9,447	9,493	46	*0*
of which loans and advances to clients	31,555	26,780	38,525	11,745	*44*
of which debt securities and other fixed-income securities	225,730	192,276	94,947	–97,329	*–51*
of which equities and other variable-income securities	19,017	15,442	14,414	–1,028	*–7*
of which trading portfolio	55,761	49,407	37,869	–11,538	*–23*
of which other assets and prepaid expenses and deferred charges	5,928	6,202	7,781	1,579	*25*
Non-current assets	**119,094**	**114,792**	**107,479**	**–7,313**	*–6*
Share of non-current assets in total assets	*16 %*	*16 %*	*17 %*		
of which equity investments and interests in associates	4,092	7,986	7,288	–698	*–9*
of which intangible assets	21,292	17,596	14,199	–3,397	*–19*
of which property, plant and equipment	86,307	81,708	77,412	–4,296	*–5*
of which excess of plan assets over pension liabilities	7,403	7,502	8,580	1,078	*14*
including pension obligations	–10,542	–11,127	–11,704	–577	*–5*
including fair value of plan assets[1]	17,945	18,629	20,284	1,655	*9*
Total assets	**764,844**	**713,190**	**617,375**	**–95,815**	*–13*
External financing	**633,404**	**599,560**	**514,963**	**–84,597**	*–14*
External financing ratio	*83 %*	*84 %*	*83 %*		
of which bank loans and advances	115,660	98,814	61,816	–36,998	*–37*
including due on demand	30,490	28,890	19,987	–8,903	*–31*
including with agreed term or notice period	85,170	69,924	41,829	–28,095	*–40*
of which payables to clients	510,802	487,155	444,094	–43,061	*–9*
including due on demand	349,369	333,847	313,249	–20,598	*–6*
including with agreed term or notice period	161,433	153,308	130,845	–22,463	*–15*
of which other liabilities	6,942	13,591	9,053	–4,538	*–33*
Other refinancing funds	**33,984**	**37,601**	**27,649**	**–9,952**	*–26*
Other refinancing ratio	*4 %*	*5 %*	*4 %*		
of which trading portfolio	2,898	1,803	3,325	1,522	*84*
of which prepaid expenses and deferred charges	0	426	366	–60	*–14*
of which provisions	8,966	13,252	12,338	–914	*–7*
of which fund for general banking risks	22,120	22,120	11,620	–10,500	*–47*
Balance sheet equity	**97,456**	**76,029**	**74,763**	**–1,266**	*–2*
Balance sheet equity ratio	*13 %*	*11 %*	*12 %*		
of which subscribed capital	45,632	45,632	45,632	0	*0*
of which capital reserve	31,431	31,431	31,431	0	*0*
of which retained earnings	30,568	30,920	3,666	–27,254	*–88*
of which minority interests	861	1,690	826	–864	*–51*
of which balance sheet profit/loss	–11,036	–33,644	–6,792	26,852	*80*
Off-balance-sheet commitments	**10,716**	**7,792**	**2,273**	**–5,519**	*–71*
of which contingent liabilities from guarantees and indemnity agreements	208	208	208	0	*0*
of which obligations from loan commitments	10,508	7,584	2,065	–5,519	*–73*
Key figures					
Liquid funds[2]	297,271	298,844	306,867	8,023	*3*
Balance sheet liquidity surplus[3]	224,610	191,763	139,649	–52,144	*–27*
Modified equity ratio[4]	16 %	14 %	14 %		

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

Table 4: Indicators for the financial position and net assets of Baader Bank AG

	2017 EUR'000	2018 EUR'000	2019 EUR'000	Change to the previous year Absolute EUR'000	Change to the previous year *Relative %*
Current assets	**633,726**	**588,316**	**502,995**	**–85,321**	*–15*
Share of current assets in total assets	*87 %*	*87 %*	*85 %*		
of which cash reserves	217,507	209,094	237,769	28,675	*14*
of which loans and advances to banks	75,393	84,259	66,332	–17,927	*–21*
including due on demand	67,122	75,988	58,062	–17,926	*–24*
including other loans and advances	8,271	8,271	8,270	–1	*0*
of which loans and advances to clients	37,722	33,695	46,748	13,053	*39*
of which debt securities and other fixed-income securities	225,730	192,276	94,947	–97,329	*–51*
of which equities and other variable-income securities	16,485	14,422	14,414	–8	*0*
of which trading portfolio	55,761	49,407	37,869	–11,538	*–23*
of which other assets and prepaid expenses and deferred charges	5,128	5,163	4,916	–247	*–5*
Non-current assets	**90,878**	**91,384**	**87,625**	**–3,759**	*–4*
Share of non-current assets in total assets	*13 %*	*13 %*	*15 %*		
of which equity investments and interests in affiliated companies	31,588	35,290	33,728	–1,562	*–4*
of which intangible assets	12,358	10,307	8,044	–2,263	*–22*
of which property, plant and equipment	39,529	38,285	37,273	–1,012	*–3*
of which excess of plan assets over pension liabilities	7,403	7,502	8,580	1,078	*14*
including pension obligations	–10,542	–11,127	–11,704	–577	*–5*
including fair value of plan assets[1]	17,945	18,629	20,284	1,655	*9*
Total assets	**724,604**	**679,700**	**590,620**	**–89,080**	*–13*
External financing	**597,887**	**571,641**	**494,321**	**–77,320**	*–14*
External financing ratio	*83 %*	*84 %*	*84 %*		
of which bank loans and advances	80,230	70,017	40,641	–29,376	*–42*
including due on demand	30,490	28,888	19,987	–8,901	*–31*
including with agreed term or notice period	49,740	41,129	20,654	–20,475	*–50*
of which payables to customers	512,872	489,528	446,286	–43,242	*–9*
including due on demand	353,186	338,072	317,423	–20,649	*–6*
including with agreed term or notice period	159,686	151,456	128,863	–22,593	*–15*
of which other liabilities	4,785	12,096	7,394	–4,702	*–39*
Other refinancing funds	**30,595**	**34,545**	**25,303**	**–9,242**	*–27*
Other refinancing ratio	*4 %*	*5 %*	*4 %*		
of which trading portfolio	2,898	1,803	3,325	1,522	*84*
of which deferred income	0	426	365	–61	*–14*
of which provisions	5,562	10,181	9,978	–203	*–2*
of which fund for general banking risks	22,135	22,135	11,635	–10,500	*–47*
Balance sheet equity	**96,122**	**73,514**	**70,996**	**–2,518**	*–3*
Balance sheet equity ratio	*13 %*	*11 %*	*12 %*		
of which subscribed capital	45,632	45,632	45,632	0	*0*
of which capital reserve	31,431	31,431	31,431	0	*0*
of which retained earnings	30,095	30,095	725	–29,370	*–98*
of which balance sheet profit/loss	–11,036	–33,644	–6,792	26,852	*80*
Off-balance-sheet commitments	**10,716**	**7,792**	**2,273**	**–5,519**	*–71*
of which contingent liabilities from guarantees and indemnity agreements	208	208	208	0	*0*
of which obligations from loan commitments	10,508	7,584	2,065	–5,519	*–73*
Key figures					
Liquid funds[2]	284,629	285,082	295,831	10,749	*4*
Balance sheet liquidity surplus[3]	214,068	181,218	134,320	–46,898	*–26*
Modified equity ratio[4]	16 %	14 %	14 %		

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

2.3.3.1 Current assets

Loans and advances to banks fell by EUR 20,604 thousand to EUR 78,591 thousand (Baader Bank AG: by EUR 17,927 thousand to EUR 66,332 thousand), while cash reserves increased by EUR 28,673 thousand to EUR 237,769 thousand (Baader Bank AG: by EUR 28,675 thousand to EUR 237,769 thousand). Against the backdrop of continued reduction of risk positions and the protection and maintenance of the liquidity coverage ratio (LCR), the portfolio of bonds and other fixed-income securities issued by both public issuers and other issuers in the amount of EUR 45,479 thousand or 63 % and EUR 51,850 thousand or 43 % respectively has been significantly reduced. During the reporting year, the newly acquired shares and other variable-income securities were allocated exclusively to the liquidity reserve with the exception of reclassifications of an existing class from the trading portfolio to the asset portfolio. The trading portfolio decreased by EUR 11,538 thousand or 23 % to EUR 37,869 thousand on the reporting date.

After the considerable reduction, the securities portfolio contained a low level of bonds and debt securities (at market values) from issuers in the "GIIPS" countries (Greece, Italy, Ireland, Portugal and Spain) in the following amounts as at 31 December 2019. Of this, EUR 716 thousand is mainly attributable to Italy (public issuers).

Other assets and prepaid expenses and deferred charges increased by EUR 1,579 thousand to EUR 7,781 thousand on the reporting date (Baader Bank AG: decrease of EUR 247 thousand to EUR 4,916 thousand).

2.3.3.2 Equity investments and interests in associates/affiliates

During the reporting year, the carrying value of equity investments and interests in associates decreased slightly by EUR 698 thousand in the Group to EUR 7,288 thousand. In addition to further deposits to the Earlybird DWES Fund VI GmbH & Co. KG of the venture capital investor Earlybird, changes to the equity investments resulted, in particular, from the sale of shares in Gulf Baader Capital Markets S.A.O.C. and Ophirum ETP GmbH.

Hence, Baader Bank AG has continued its consolidation strategy in the Group and, in the process of reductions across the Group, has separated from a foreign investment and product provider. In addition, the shares in the company CCPM AG were reduced to 19.9 %, which have since been recognised as an associated company and contributed positively to the consolidated overall result.

Moreover, in the course of the fiscal year, Baader Bank AG has entered into a strategic cooperation with Alpha-Value SA, which is reported amongst the equity investments for the first time.

2.3.3.3 Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment decreased for the Group in the reporting year by a total of EUR 7,693 thousand to EUR 91,611 thousand.

The additions to intangible assets including reclassifications are primarily related to investments in computer software (EUR 1,209 thousand), almost completely attributable to Baader Bank AG's investment in the amount of EUR 1,180 thousand. In addition, intangible assets and property, plant and equipment were reduced by scheduled depreciation.

At Baader Bank AG, property, plant and equipment and intangible assets also declined by EUR 3,275 thousand to EUR 45,317 thousand. This is due to the scheduled depreciation of EUR 3,263 thousand in the fiscal year, which was offset by investments including reclassifications from prepayments made in the amount of EUR 1,021 thousand.

No further significant investments beyond the scope of normal business activities were planned either on the reporting date or at the time of reporting. With this in mind, intangible assets and property, plant and equipment will decrease by further scheduled depreciation in the future.

2.3.3.4 Excess of plan assets over pension liabilities

The excess of plan assets over pension liabilities increased by EUR 1,078 thousand to a total of EUR 8,580 thousand. The reason for this was the plan assets measured at fair value which increased to EUR 20,284 thousand. Plan assets consisted of EUR 11,951 thousand in loans and advances to banks and EUR 8,333 thousand in shares and other variable-income securities.

2.3.3.5 External financing

External financing comprised solely bank loans and advances and loans and advances to clients as well as other liabilities. On the whole, external financing was lower than the previous year (decrease of EUR 84,597 thousand) and amounted to EUR 514,963 thousand as at the reporting date (Baader Bank AG: decrease of EUR 77,320 thousand to EUR 494,321 thousand). The decline was largely due to a decline in the liabilities to customers of EUR 43,061 thousand (Baader Bank AG: EUR 43,242 thousand) and liabilities to banks of EUR 36,998 thousand (Baader Bank AG: EUR 29,376 thousand).

As at the balance sheet date, other liabilities decreased by EUR 4,538 thousand to EUR 9,053 thousand (Baader Bank AG: by EUR 4,702 thousand to EUR 7,394 thousand).

2.3.3.6 Other refinancing funds

Other refinancing funds also decreased in the reporting year by EUR 9,952 thousand to EUR 27,649 thousand (Baader Bank AG: EUR 9,242 thousand to EUR 25,303 thousand). The change is attributable primarily to the dissolution of the special item in accordance with Section 340g HGB in the amount of EUR 10,500 thousand to EUR 11,620 thousand (Baader Bank AG: EUR 11,635 thousand), the decrease in provisions of EUR 914 thousand to EUR 12,338 thousand (Baader Bank AG: EUR 203 thousand to EUR 9,978 thousand) and higher trading portfolio liabilities of Baader Bank AG on the reporting date (by EUR 1,522 thousand to EUR 3,325 thousand).

2.3.3.7 Balance sheet equity

In the current fiscal year 2019, there were no changes to the subscribed capital and capital reserves. The slight decrease in equity of EUR 1,266 thousand to EUR 74,763 thousand is primarily due to the consolidated net profit before minority interests (EUR –415 thousand), dividend payments (EUR –250 thousand), effects from currency conversion (EUR + 188 thousand) and changes to the group of consolidated companies due to the final consolidation of CCPM AG (EUR –789 thousand). Baader Bank AG's equity decreased by EUR 2,518 thousand to EUR 70,996 thousand due to the net loss for the year. In addition, freely available retained earnings of EUR 29,370 thousand were released for the purpose of partially compensating for the balance sheet loss of Baader Bank AG. The balance sheet equity ratio amounted to 12 % (Baader Bank AG: 12 %), and, taking into account the fund for general banking risks, the modified equity ratio amounted to 14 % (Baader Bank AG: 14 %). Baader Bank AG's Supervisory capital ratio is 14 % (previous year: 14 %).

For disclosures in accordance with Section 315 (2) HGB in conjunction with Section 160 (1) No. 2 AktG, please refer to the notes to the consolidated financial statements of Baader Bank AG as the parent company for fiscal year 2019.

2.3.3.8 Off-balance-sheet commitments

Off-balance-sheet commitments as at the balance sheet date were a result of contingent liabilities (guarantees) in the amount of EUR 208 thousand as well as irrevocable loan commitments to clients in the amount of EUR 2,065 thousand.

2.3.3.9 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 solid in previous years, was also kept at a consistently high level in the past fiscal year. The balance sheet liquidity surplus decreased slightly by 27 % or EUR 52,114 thousand to EUR 139,649 thousand (Baader Bank AG: decrease of 26 % or EUR 46,898 thousand to EUR 134,320 thousand).

Baader Bank AG's liquidity coverage ratio (LCR) as at 31 December 2019 was 175.20 % (previous year: 146.65 %). The LCR requirement is met if the institution always has access to liquid assets (liquidity buffer) whose total value is at least equal to the liquid outflows less liquid inflows within the next 30 days under stress conditions. This implies a minimum LCR ratio of 100 %.

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

2.4 Non-financial performance indicators

2.4.1 Employees

During the reporting year, the number of staff employed by the Baader Bank Group decreased from 442 in the previous year to 403 as at the balance sheet date. There are 110 female employees and 293 male employees in the Group, from a total of 28 countries.

The number of employees at Baader Bank AG as at 31 December 2019 had fallen from 397 to 370 compared with the previous year. The 370 employees, 99 of whom are female and 271 male, come from 21 nations.

The Baader Bank Group places particular emphasis on high qualifications and on providing its staff with further training. In view of this, human resources (HR) activities in 2019 once again focused on supporting specialists and junior managers, as well as on measures to improve the work-life balance of the Bank's employees.

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

2.4.2 Environmental report

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

2.5 General assessment of the report on the economic position

Baader Bank Group's business development for the 2019 fiscal year was characterised by significantly lower net commission income, which, for the most part, was offset by the increase in trading income. This, together with a significantly lower cost base, led to a significant increase in consolidated net income before tax. The Baader Group concludes the fiscal year with a near-breakeven result.

Overall, it has been demonstrated that the consolidation route that has been taken, that is, to scrutinise all business lines, reduce costs and to disengage from investment commitments, is starting to bear fruit. Considering the fact that the previous year's results were very disappointing, the development of the business this year will leave the Board of Directors feeling positive about the coming reporting period.

The summary presentation of results of the subsidiaries of Baader Bank AG for fiscal year 2019 can be found in Section 2.2.4.

The net assets and financial position of the Baader Bank Group has for many years been such that the Bank's solvency was guaranteed at all times during the reporting period.

3. Forecast, opportunities and risk report

3.1 Risk report

The section below describes the risk situation of the Baader Bank Group and Baader Bank AG as at 31 December 2019. On account of the stated comparability of existing risks, the following explanations relate first and foremost to risk management within the Baader Bank Group. Baader Bank AG's key performance indicators are always provided in addition to those of the Group. Should there be any deviations in terms of content in the procedures and processes, a separate note is made.

3.1.1 The risk management system of the Baader Bank Group

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

3.1.2 Objectives of risk management

The overriding objective of risk management at the Baader Bank Group is to guarantee its capital adequacy at all times, thereby ensuring that the Group can continue to operate. Consequently, timely identification, active management and continuous monitoring of risks constitute the core elements of business and risk management at the Baader Bank Group. This means that calculable risks can be addressed in a well-considered manner, taking into account the risk-bearing capacity, and risks that could jeopardise the company's existence can be categorically ruled out.

In order to satisfy this fundamental principle, the Board of Directors reviews a daily comprehensive summary of the nature of all significant risks and their limit utilisation rates by the Baader Bank Group.

3.1.3 Risk-bearing capacity

The Group's capital adequacy is regularly reviewed by the Risk Management department of the parent company Baader Bank AG, which is responsible for risk management at Group level. Capital adequacy is calculated according to the supervisory guideline on the realignment of internal banking capital adequacy concepts issued by BaFin (the German Federal Financial Supervisory Authority) with reference to "normative" and "economic" perspectives. Both perspectives are considered to be equally relevant for risk management.

The normative perspective is viewed as the totality of regulatory and supervisory requirements. In order to monitor capital adequacy, the equity capital available is compared to the regulatory requirements. The following compares the situation as at 31 December 2019 to the previous year:

Table 5: Overview of equity capital and equity required

	Baader Bank Group		Baader Bank AG	
In EUR'000	**2019**	**2018**	**2019**	**2018**
Equity	67,573	78,490	72,265	83,091
Equity requirements	57,393[1]	58,213[1]	55,038[1]	59,695[1]

[1] These figures take into account the equity required set by the CRR (including any SREP total capital requirements) and the combined capital buffer requirement.

The decline in equity capital compared to the previous year is attributable to the losses incurred in 2019. At the same time, it was possible to lower equity requirements, in particular through the sale of bonds in the non-trading book (counterparty default risk) and the reduction of positions in the trading book (market price risk).

The economic perspective, however, serves to protect creditors against losses from an economic point of view. At the same time, the long-term protection of the economic substance of the institution is being pursued. The risk coverage potential is determined using a calculation method similar to that of a present value. This refers to balance sheet items but in doing so also factors into the calculation, for example, the negative effects of hidden liabilities. In order to assess capital adequacy, the risk coverage potential available is compared to the unexpected losses (risk potential) calculated with a 99.9 % quantile. The following table shows the capital adequacy of the Baader Bank Group and Baader Bank AG following the economic approach as of 31 December 2019:

Table 6: Overview of capital adequacy in the economic perspective

	Baader Bank Group		Baader Bank AG	
In EUR'000	**2019**	**2018**	**2019**	**2018**
Risk coverage potential	62,410	90,172	66,395	88,958
Risk potential	23,698	31,292	25,730	32,442

The changes in relation to the previous year can be justified in the same way as the development of equity capital and equity required.

Both the normative and economic approaches are relevant to risk management and limitation. For the normative approach, the Baader Bank Group uses a traffic-light system which helps to monitor compliance with the capital adequacy as per the normative perspective.

For the economic approach, a limit system is used. The Baader Bank Group's total risk is limited by the available risk coverage potential. As a general rule, the Group's management uses only part of the risk coverage potential available (risk capital) to permanently secure the Group's risk-bearing capacity. This is then allocated to individual risk types and respective business areas using a top-down approach, and acts in a restrictive capacity as a risk limit. The risk coverage potential, the risk potential and the risk capital is tested at least quarterly.

In order to ensure that the risk coverage potential is sufficient to cover the losses being incurred, even in hypothetical crisis times (stress scenarios), the Risk Management department checks the greatest losses arising from the stress scenarios against the available risk coverage potential for all relevant risk types.

In summary, the Baader Bank Group's and Baader Bank AG's risk-bearing capacity was not endangered at any time in fiscal year 2019 and their survival as going concerns would have been assured even if the worst-case stress scenario had occurred.

3.1.4 Risk inventory and risk strategy

The business strategy and goals for the Baader Bank Group's key business lines are defined at the Board of Directors' annual strategy meeting. Strategic considerations include external factors, the assumptions underlying these factors, and internal factors such as capital adequacy, results of operations, liquidity, etc.

Based on the business strategy, the Board of Directors adopts a risk strategy for the coming fiscal year that is consistent with the business strategy, with due consideration given to key factors. For this purpose, a risk inventory that takes the relevant aspects arising from the business strategy into account will be carried out. At the Baader Bank Group it is performed by Baader Bank AG's Risk Management department at least once a year. In addition to the annual risk inventory, an extraordinary review may be conducted to account for changes in the significance of risks or the commencement of business activities in new products or new markets, for example. In order to ensure that the Risk Management department is immediately informed of such changes, this department is to be involved in all "new products and markets" processes and projects, and is to be informed immediately of any changes in the strategic orientation, equity interest structure, market expectations, etc. Changes identified in the risk profile are promptly taken into consideration and reported to the Board of Directors. The risk strategy established as a result of this process is divided into sub-strategies according to the material risk types. The basic element of the risk policy strategy is that the Bank's risk-bearing capacity is guaranteed at all times. Accordingly, a specific amount of the risk capital is made available by Group management for all material risk types; this amount represents the limit for losses in connection with a given type of risk.

3.1.5 Risk management structures and processes

The risk management system of the Baader Bank Group comprises the identification, assessment, management, monitoring, and communication of material risks. These processes are as follows:

When **identifying** new risks, all risky transactions or resultant positions are entered into the portfolio management systems immediately. As part of the "Activities in new products or on new markets" process, the Risk Management department is also informed promptly of any potential changes to the existing risk profile. In this process, the planned activities are reviewed and the corresponding risk content is identified. Existing activities are reviewed on a regular basis. Furthermore, Baader Bank AG's Risk Management department carries out a risk inventory for the Baader Bank Group and its individual institutions at least once a year.

The risk **assessment** is based on detailed analyses prepared by the Risk Management department, which has developed a concept for managing and monitoring these risks. Identified risks are (where possible) quantified using a value-at-risk approach and are compared with the risk capital. This is always performed on the basis of a rolling 12-month horizon. This procedure is explained in detail in the section on Baader Bank Group risks.

Risks in the Baader Bank Group are **managed** using a system of limits to limit the respective material risks. The limits are set at least annually by means of a resolution passed by Group management based on the company's risk-bearing capacity. Independently of the annual process, these limits can be adjusted whenever necessitated by the business activity or financial performance of the Baader Bank Group.

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

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

In addition, the Risk Management department conducts stress tests for all significant risk types at least every quarter. As part of the stress tests, the Risk Management department defines various possible scenarios, which are highly unlikely but plausible, and examines their impact on the existing portfolio. The scenario leading to the greatest loss is designated as the worst-case scenario. The results of the stress tests are presented to Group management in the **stress test** report and discussed with them, if necessary. Furthermore, due consideration is given to the results of the stress tests in the review of the Group's risk-bearing capacity. As of 31 December 2019, the losses in the worst-case scenario amounted to:

Table 7: Stress test results

	Baader Bank Group		Baader Bank AG	
In EUR'000	2019	2018	2019	2018
Stress test (worst-case scenario)	45,801	59,321	48,470	65,880

The purpose of the processes described is to ensure that material risks are identified at an early stage, fully captured, and managed and monitored in an appropriate manner. Furthermore, the processes are regularly reviewed and promptly adjusted to reflect changing conditions. The methods and procedures employed are also subject to a regular validation process which examines whether the procedures and the underlying assumptions are appropriate, and identifies whether any changes are necessary. The results of the validations are brought to the attention of Group management in the form of separate reports.

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

3.1.6 Significant changes compared with the previous year

The following major changes were made to the models employed by the Risk Management department in 2019:

Market price risk
Various model validations were carried out for the market price risk in the past fiscal year. Based on the results, the Risk Management department adjusted individual correction factors for the market price risk calculation, the holding periods of profit centres as well as the underlying allocation of the risk factors to the individual positions.

Counterparty default risk
In 2019, a migration risk model was implemented in the bank's systems and went live. This means that risks arising from credit rating-related changes in the value of bonds in the treasury portfolio are now integrated into risk control.

In addition, the risk-free exposure at the Bundesbank was excluded from the CVaR calculation due to the model validation in the counterparty default risk. From the Board of Directors' perspective, this prevents unwanted control impulses via the Herfindahl-Hirschman index, which incorporates risk concentrations in the CVaR.

Operational risk
In operational risk, new loss categories were introduced for the loss database. The new categories are based on the loss landscape of Baader Bank in order to improve the validity of the evaluations. Furthermore, the calculation logic of the OpVaR calculation was homogenised on the basis of the validation results. This is to avoid undesirable redundancies and incongruities. The Black Litterman procedure is now being applied to the parameter assessment process for the Monte Carlo simulation. This approach sees the historical losses from the loss database augmented with expert estimates for other potential risks.

Liquidity risk
To calculate the structural liquidity risk (LVaR), the aggregation of the loss from other risk types was waived in 2019. The aggregation that covers all risk types is carried out as part of the daily review of the limit utilisation.

3.1.7 Risks of the Baader Bank Group

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

These risk types are discussed and assessed in detail below and quantified on a net basis, taking into account any risk-reducing effects. The steps taken to mitigate risk are also explained.

3.1.7.1 Market price risk

In general, market price risks are regarded as all risks that result from the change in the market price of a financial instrument over a specified period of time. Depending on the parameter that changes, this may be equity price risk, interest rate risk or currency exchange risk. Equity price risk refers to the risk of changes in the price of an equity instrument. Interest rate risk refers to the risk of a reduction in the present value of an interest rate-sensitive financial instrument due to changes in market interest rates 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. In addition, the market liquidity risk is taken into account in the market price risk through the model's relevant holding periods. The market liquidity risk can become more specific, particularly in the case of low-liquid securities. A low level of market liquidity in individual trading products means that transactions in these products are impaired.

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

Table 8: Summary of Baader Bank Group/Baader Bank AG portfolios

	Baader Bank Group		Baader Bank AG	
In EUR'000	2019	2018	2019	2018
Shares	15,799	15,524	15,799	15,524
Bonds	93,853	198,169	93,853	198,169
Securitised derivatives	88	13	88	13
Funds, index certificates and fund-like certificates	17,499	17,460	17,499	16,421
Options	151	23	151	23
Futures	312	–2.288	312	–2.288

Overall, a significant decline in the portfolios compared to the previous year should be noted, which is mainly attributable to the reduction of bonds in the non-trading book.

Equity price risks are measured in the Baader Bank Group central trading and monitoring system using a value-at-risk (VaR) model based on Monte Carlo simulations. The VaR is calculated with a chosen confidence level of 99.9 % for the expected holding period. On 31 December 2019, the risk situation was as follows:

Table 9: Market price risk

	Baader Bank Group		Baader Bank AG	
In EUR'000	2019	2018	2019	2018
Value at Risk	7,468	4,478	6,987	4,351
Limit utilisation	72.75 %	56.93 %	68.40 %	57.90 %

The increase in the market price risk compared to the previous year despite a decrease in exposure on the assets side can be explained by the associated increase in the debit carryover of promissory note loans and an increase in market interest rate volatility. The difference in the VaR between Baader Bank AG and the Baader Bank Group is attributable to the interest rate risk arising from intra-group loans.

The quality of the VaR model is regularly verified by means of backtesting (clean backtesting) with reference to the relation between the VaR values and the market value changes of a position on the basis of actual price changes. If the number of outliers from backtesting exceeds the limit defined as critical, the Risk Management department makes corresponding adjustments to the VaR model. This produces a representation of the actual losses by way of the value-at-risk analysis, and thus over time further reduces the number of outliers.

To limit market price risks, the Baader Bank Group installed a comprehensive limit system in the central trading and monitoring system. In this system, all positions entered into by the profit centres are allocated to the relevant limits on an ongoing basis. Within each business area, it is up to the board member responsible for trading to allocate the limit across the individual profit centres.

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

In the last fiscal year there was an increase in the market price risk. However, taking into account the available risk coverage equity and its utilisation by the risk potential, the market price risk can still be considered to be appropriate.

3.1.7.2 Counterparty default risk

Counterparty default risk refers in general to the risk that a borrower or counterparty cannot repay, or repay in full, the amount owed because of insolvency-related default. In the broader sense, this also includes the risk of migration and credit spread, which means that changing the probability of a failure in the future will already have an impact on the current value of the exposure.

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

Every internal credit rating category is allocated to an external rating category, and hence to a corresponding probability of default (PD) for expected losses. Based on the internal rating-based approach (IRBA) as set out in Regulation (EU) No. 575/2013 (Article 142 et seq.), IRBA risk weightings are determined in accordance with the Bank's internal procedures for each of these credit rating categories. The Herfindahl-Hirschman index, which measures portfolio granularity and thus risk concentrations, is taken into account. This risk weighting can be used as the basis for calculating the expected and unexpected loss for each borrower unit, which is comparable to the value-at-risk. The loss rate for the default of the respective borrower unit (LGD = loss given default) as well as the actual remaining term of the position are taken into account. The total risk across all borrower units is derived from the sum of all individual risks.

Moreover, there are additional migration and credit spread risks that are associated with the securities of the liquidity reserve in the treasury portfolio. As such, additional migration and credit spread models are used to quantify the risk of these in addition to the default risk model described above. In this context, the migration risk constitutes the risk of deviations from the expected rating migration of a debtor. Since the rating migration has an influence on the value of the cash flow and therefore also on the present value of the instrument, a negative rating migration can lead to corresponding valuation losses. The credit spread risks, on the other hand, take into account the risk that the yield spread between a risk-free bond and a bond that is subject to credit risk may change even if the rating is consistent. As a result, the theoretical market value loss due to credit spread changes is quantified using a model.

Accordingly, the individually determined risk values are aggregated to form a total risk, which must not exceed the risk capital provided by the Board of Directors for counterparty default risks. The limit for the counterparty default risk is set at least annually as part of the resolution to determine the risk elements and risk-bearing capacity.

When considering the counterparty default risk, the Baader Bank Group makes a distinction between credit risk, counterparty risk, issuer risk and equity investment risk, as will be explained in more detail below.

Credit risk
As part of the customer credit business as defined in Section 1 (1) No. 2 of the German Banking Act (Kreditwesengesetz – KWG), private and corporate clients are granted Lombard loans against collateral. This collateral generally consists of listed securities whose collateral value is determined using a conservative measurement procedure, or of bank guarantees. A risk arises here from unsecured overdrafts or unsecured loans as of the reporting date. Furthermore, as part of the lending business the Treasury department only makes money market investments with banks.

Counterparty risk
For the Baader Bank Group, a counterparty risk in the form of a replacement risk is incurred in over-the-counter derivatives trading. Replacement risk is the risk of default by the counterparty concerned, leading to non-performance of the transactions concluded. Baader Bank only trades in derivatives on derivatives exchanges. However, as the Bank is not a clearing member of these exchanges, transactions between Baader Bank and the clearing member concerned must be settled and are therefore classified as OTC transactions. Accordingly, a counterparty default risk arises from the settlement claim vis-à-vis the clearing member in the form of a replacement risk for our own or client transactions undertaken.

Issuer risk
Issuer risk means the risk of a downgrade in the creditworthiness of an issuer, or default of an issuer. A loss from an issuer risk results in a depreciation of the respective securities of this issuer. Treasury portfolio bond holdings for which there is a longer-term intended holding period are taken into consideration as part of the issuer risk.

Equity investment risk
The term “equity investments” refers both to equity investments and interests in affiliated companies pursuant to Section 271 HGB. In the case of equity investments, a counterparty default risk arises from a long-term downgrade in the creditworthiness of the company in which an interest is held, or a default by that company, and results in a corresponding impairment.

The table below shows the risk situation in the counterparty default risk as at 31 December 2019 compared to the previous year:

Table 10: Counterparty default risk of the Baader Bank Group/ Baader Bank AG

	Baader Bank Group		Baader Bank AG	
In EUR'000	2019	2018	2019	2018
Credit risk KU	93	105	924	1,433
Credit risk KI	2,625	9,029	2,348	8,351
Counterparty risk	686	2,039	686	2,039
Issuer risk	6,487	8,876	6,487	8,876
Equity investment risk	1,109	1,748	3,563	2,810
Total	11,000	21,797	14,008	23,509
Limit utilisation	84.61 %	90.82 %	87.55 %	94.03 %
Risk provisions for client loans	80	97	80	97

As part of managing counterparty default risk, there are also limits in place on individual counterparties, credit ratings, industries and countries to avoid concentration risks. These are monitored daily and reported to the Board of Directors as part of the daily risk report.

In 2019, the counterparty default risk of the Baader Bank Group and of Baader Bank AG decreased significantly due to the sale of a significant percentage of bonds and an adjustment to the CVaR model with regard to Federal Bank exposure. Taking into account the available risk coverage equity and its capacity utilisation by the risk potential, the counterparty default risk can still be considered to be appropriate.

3.1.7.3 Operational risk

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

The evaluation of risk potential, i.e. the identification and assessment of operational risks across the Group, is carried out each year by Baader Bank AG's Risk Management department. This is done using questionnaires to be completed by operational risk managers, or in the form of special self-assessments. The results of these questionnaires are presented to the Baader Bank Group Security Committee for discussion. The Committee acts as the organisational and thematic body responsible for all security-related issues and discusses relevant issues in regular meetings. It has a right to make suggestions and recommendations to the Board of Directors regarding Treasury issues which are relevant to decisions.

In addition, operational risk managers can also report at any time any new risk potentials identified. The Security Committee examines the steps proposed by the Risk Management department and considers whether any other measures are necessary and makes its recommendation to the Board of Directors. Group management makes the ultimate decision as to whether or not any such steps will be carried out and, where necessary, instructs the Security Committee to implement them. The results from the questionnaires are presented to the Board of Directors and the Supervisory Board of Baader Bank AG in a quarterly MaRisk report.

In addition to participating in the surveys on risk potential, the operational risk managers are responsible for reporting any losses sustained as a result of operational risks. To this end, they enter all losses of EUR 1 thousand or more into an application. A loss is defined here as a financial loss that is directly connected with the operational risk. The causes of significant losses are analysed immediately.

Unexpected losses from operational risks are quantified each quarter on the basis of losses recorded historically, supplemented by potential losses in the Baader Bank Group. The procedure is based on the loss distribution approach, whereby the parameters of severity distribution and frequency distribution are estimated in accordance with the maximum likelihood method to determine a total loss per year. This approach assumes that loss amounts have a log-normal distribution, that the number of losses follows a Poisson process and that losses are independently and identically distributed. The aggregate loss distribution is estimated using statistical software based on the Monte Carlo simulation. For unexpected losses, the 99.9 % quantile is used to determine the amount that must be covered by risk capital. On 31 December 2019, the risk situation was as follows:

Table 11: Operational risk

	Baader Bank Group		Baader Bank AG	
In EUR'000	2019	2018	2019	2018
Value at Risk	5,230	5,018	4,736	4,582
Limit utilisation	87.17 %	71.68 %	78.93 %	65.45 %
Total loss per year	1,675	1,067	1,675	1,067

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

In fiscal year 2019, there was a slight increase in losses from operational risks relating particularly to one loss event in the category "Business interruption and system failures". The loss event was discussed in detail by the Security Committee and measures to prevent such loss events from occurring in future were initiated. In this regard, the Board of Directors continues to view the operational risk as non-critical. In addition, the risk capital provided was sufficient at all times. The technical equipment used for risk systems was deemed to be appropriate throughout the past fiscal year.

3.1.7.4 Liquidity risk

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

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

The Treasury department is responsible for ensuring that the Bank's payment obligations can be met. The market business lines work closely with the Treasury and Payments departments to ensure the coordination of daily cash flows between these areas. Unusual liquidity streams from other areas of the bank are promptly reported to Treasury and Payments. Various credit lines and participation in the GC pooling market are used to ensure that short-term liquidity requirements are met at the Baader Bank Group.

Risk Management is responsible for monitoring dispositive liquidity risk in the Baader Bank Group. Various monitoring mechanisms have been installed to properly exercise this function and promptly initiate countermeasures when necessary. For the purpose of managing and monitoring the Liquidity Coverage Ratio key performance indicator (KPI) or LCR, a limit system was installed for the marked areas. This system sets limits on all netted inflows and outflows on the one hand, and limits on the total committed capital per value date and profit centre on the other hand. These liquidity limits enable the Treasury department to manage liquidity and thus also the LCR on an intraday basis. In addition, observance of the LCR is monitored daily in connection with the Group Risk Report to the Board of Directors. Furthermore, the Treasury department submits a daily liquidity report detailing the current liquidity situation to the Risk Management department, which subjects it to a plausibility check and reviews it. If an imminent liquidity shortage is identified, the relevant decision-makers are informed immediately. Due to the nature of the dispositive liquidity risk, it is not possible to limit this risk by means of the risk coverage potential and therefore quantification is ineffective (MaRisk AT 4.1 para. 4). In this area, heightened attention is given to the quality of the risk management process.

Structural liquidity risk (refinancing risk) refers to the risk that refinancing costs could rise on account of a possible increase in spreads for the individual institution. A credit rating deterioration could mean that the bank would be able to conduct borrowing transactions only on less favourable terms. In addition, market-induced changes could also have a major effect. If the market interest rate rises, refinancing tends to become more expensive. These liabilities are managed at an operational level by issuing promissory note loans on the capital markets. The liquidity obtained in this way is mainly invested in bonds eligible as collateral at the ECB, which in turn may be deposited at the Deutsche Bundesbank as refinancing facilities under the open market policy, or on the GC pooling market.

Possible refinancing losses are quantified through the preparation of liquidity progress reports and the calculation of potential liquidity shortfalls. A comparison is made each quarter between refinancing under current market conditions and the refinancing position if the unexpected were to occur. A scenario involving considerably more costly funding as well as unexpected cash outflows is applied to this. The resulting difference represents the refinancing loss; this difference is taken into account in determining capital adequacy for the Baader Bank Group and, if necessary, covered with risk capital. The Risk Management department carries out daily reviews to ensure that the risk capital provided is sufficient to cover unexpected losses arising from liquidity risks. The risk situation as of 31 December 2019 was as follows:

Table 12: Liquidity risk

	Baader Bank Group		Baader Bank AG	
In EUR'000	**2019**	**2018**	**2019**	**2018**
Value at Risk	0	0	0	0
Limit utilisation	0%	0%	0%	0%

In fiscal year 2019 – as in the previous year – there was no risk potential as there were no liquidity gaps. For this reason, the Risk Management department regards the liquidity risk as not critical.

3.1.7.5 Business risk

Business risk describes the risk of unexpected losses resulting from management decisions on the business policy and positioning of the Baader Bank Group. Furthermore, risks result from unexpected changes in market and general economic conditions with adverse effects on the results of operations. Consequently, unexpected decreases in earnings and negative budget variances, where the causes do not fall into other defined risk categories, are also taken into consideration here. Since the business activities of the Baader Bank Group are dependent in particular on the development of the general market environment on the exchanges, this type of risk is classified as material. Factors that are deemed to be significant and which affect the environment on the exchanges include, for example, trading volumes, the performance of the equity indices and their volatilities, and interest rate levels.

However, it is not considered useful to quantify business risk on the basis of complex mathematical models. Within the framework of the RTF concept, Baader Bank Group's business risk, which is expressed for example in some stress tests in the economic perspective, is incorporated into the normative perspective as part of capital planning in an adverse scenario. Here, a scenario is selected which takes into consideration institution-specific economic aspects and is sufficiently cautious and conservative. The adverse scenario is worked through once per year in the course of the planning process and was adopted by the Board of Directors at the beginning of December.

The results of the past fiscal year indicate that the Baader Bank Group's success continues to be heavily dependent on the market environment. At the same time, it is apparent from the significant decline in administrative expenses that the restructuring measures taken have already started to bear fruit. However, since the implementation and the effects of these measures – in particular the income measures – will only take full effect from fiscal year 2020, developments should continue to be monitored closely and business risk should be considered critical to the success of the bank.

3.1.8 Summary of the Baader Bank Group's risk position

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

As part of our risk strategy, the Board of Directors of the Baader Bank Group allocated only part of the available risk capital to cover unexpected losses in fiscal year 2019, as in previous years. The breakdown and intra-year allocation of risk capital to individual types of risk takes particular account of the current risk potential within each risk category, the business strategy for the coming years and market expectations. The capital adequacy of Baader Bank was always assured in the past fiscal year, even when taking into account the worst-case scenarios from the stress tests in the economic perspective. In the normative perspective, the regulatory objectives for equity required (OCR – overall capital requirements) were adhered to at all times during the past fiscal year. In the course of capital planning, the Bank introduced measures to ensure long-term compliance with the regulatory equity required, even under adverse conditions.

Due to the Baader Bank Group's dependency on the market environment, which is expected to represent a major challenge for the Bank in the coming fiscal year, the implementation of the planned income and optimisation measures is an important factor for the long-term success of the bank. It is important to note that the key objective of the overall banking strategy is to reduce the dependency described above by expanding our existing customer business.

3.2 Forecast and opportunities report

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

Considering the fact that the consensus expectations for global economic growth and an increase in corporate profits have consistently proven to be overly optimistic over the last two years, the estimates for 2020 are representative of a relatively conservative forecast. As such, it is anticipated that the global economy will only grow to a modest extent from what is a very low starting point. In light of this, it is now increasingly likely that the pattern of predominantly negative surprises in published economic data will come to an end.

Certainly, the ongoing political uncertainty and the added risk of disruption to global supply chains and consumer behaviour due to the possible continued spread of the coronavirus suggest that there is still a long way to go before we see a sustainable world economic recovery. The discussions over the next few months on a possible trade agreement between the United Kingdom and the EU are not likely to be straightforward either. Furthermore, the upcoming election campaign for the US presidency could bring about a cautious market sentiment.

Nevertheless, the enormous and comprehensive stimulus measures taken by the central banks, which may still need to be extended, certainly improve the chances of a synchronous global economic recovery. The healthy state of the corporate sector, which appears to be well prepared for what is currently a conservative growth environment on the basis of the measures taken in 2019 to increase efficiency and the supply of liquidity (inventory reduction, cost savings, restructuring, capacity adjustments), should contribute to that recovery.

In the equity markets, the established upward trend is expected to continue. In light of the comparatively high valuations we are currently seeing, the price trend of equity indices is expected to be largely in line with profit growth in 2020. Against this backdrop, it will be crucial this year that the profit growth estimated for 2020 and 2021 (consensus: + 8 % in Europe compared to previous year) does not have to be revised downwards on a permanent basis.

If, as expected, the economic recovery accelerates in the second half of the year, then the prices of growth-sensitive raw materials such as crude oil and copper should also recover. As a result, rising inflation expectations are likely to have a significant impact on the bond market in view of the very low level of returns. The return on 10-year German federal bonds is therefore likely to rebound into positive territory again, and the increase could, in some cases, be significant. In this environment, one would expect to experience a more volatile phase on the equity markets on a temporary basis, as highly-weighted, top quality securities with defensive business models could then come under pressure due to their significant dependence on interest rates. In contrast, cyclical sectors are likely to develop more effectively over long stretches, with the focus on late-cycle securities in particular from summer onwards.

While risk surcharges on the credit markets should remain low in this scenario, it is likely that the foreign exchange markets will see the euro strengthen again. The review of the strategic framework of the ECB's monetary policy, which will not be completed until the end of the year, could also contribute to this. The price of gold is likely to remain well supported in 2020 in view of rising inflation expectations, but should decline somewhat after reaching a high in the spring, as it is likely that growth-sensitive raw materials will grow in prominence at that point.

With the outbreak of the coronavirus and the resultant pandemic, there is a huge amount of uncertainty surrounding further economic development in 2020, not only in Germany but also in Europe and around the world. The financial impact of the coronavirus pandemic on the real economy could not be quantified when the annual financial statements were prepared. However, the longer the coronavirus pandemic lasts, the more severe the negative consequences will be for the real economy and the financial markets.

As such, it is as yet unclear how the markets that are relevant to Baader Bank will develop and the above statements regarding macroeconomic development and the statements regarding the individual business lines are subject to the associated uncertainty.

3.2.2 Outlook for the core business lines

3.2.2.1 Market Making business line

In 2020, the financial performance of the Market Making business line will be influenced mainly by market developments, trading volumes in the various securities classes and market volatility. These profit drivers are always subject to the influence of external, geo-economic and monetary framework data that the institution has no control over, meaning that the forecasts provided are very limited in the sense that they are based on the expected development of the macroeconomic framework conditions and their impact on the trading income of Baader Bank.

Baader Bank is reacting with structural and sales-strategic measures to the shifts we are seeing of securities volumes to alternative trading platforms where market actors are asserting their increasingly dominant competitive position in the context of a decrease in sales on floor trading systems, and in which Baader Bank holds no, or only limited, market shares.

In the following years, Baader Bank will maintain its core competences and make use of its comparably large market shares as a Market Maker on the German floor trading systems. In addition, cooperations with operators of exchange and OTC Best Execution trading platforms shall be expanded and intensified. The initial success of this sales approach seen at the end of the past fiscal year leads us to believe that this will have a long-term impact on customer growth, bring about rising order flow volumes and therefore positive revenue contribution from these newly-created securities markets.

Compared to the previous fiscal year, a comparable or an even more significant degree of volatility in securities trading can be expected in 2020.

Some market-inhibiting, external factors could lead to high volatility in the investment market in 2020. These include the uncertainty relating to the rapidly advancing spread of the coronavirus, the ongoing uncertainty regarding the concrete manifestation of the Brexit agreement between the EU and the United Kingdom, and the upcoming presidential election in the United States of America. At the beginning of the year 2020, there is nothing to suggest that the low-interest phase in the European money market will come to an end any time soon. The lack of change in interest rates in the USA and the eurozone is impairing the chances of a short-term recovery in the bond trading sector.

Given the increasing technical and regulatory requirements, market makers on German stock exchanges continue to be in a consolidation phase which could result in a new competitive landscape and which puts at risk the continued existence of smaller, less well capitalised market players. Nevertheless, Baader Bank maintains its medium- and long-term strategic objective for the Market Making business line of ensuring its current market position on German-speaking stock exchanges and expanding its presence in over-the-counter trading platforms.

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

3.2.2.2 Capital Markets business line

The significant drivers for the order situation in the Capital Markets business line are the general developments on the share market in terms of trading volumes as well as the prevailing volatility on the secondary markets in connection with the general competition situation.

In the competition for mandates, particularly in terms of large-scale transactions with guarantee components, the lower total assets figure of Baader Bank continues to be a restrictive factor when competing with larger companies. Following the restructuring of the ECM division in the course of the 2019 fiscal year, the Board of Directors of Baader Bank is striving to expand its cooperations with globally active commercial banks in order to maintain its presence on the capital market as a member of consortia and to generate more and more revenue as a result.

In the long run, the ECM division is expected to expand the number of mandates again in the newly formed structure and re-establish its earnings power.

Its expertise as a broker in the GSA region (Germany, Switzerland and Austria) with excellent research coverage helps Baader Bank to make its name as a competent partner in special execution services for demanding capital market transactions, but also as an outsourcing partner for international market participants.

The Corporate Brokerage division will continue to be assigned the role of strategic hub in the product range for Baader Bank's corporate customers.

Another goal is to maintain its strong market positioning in the Special Execution service. In terms of Special Execution services, Baader Bank operates largely independently of the economic mood and wishes to continue doing so at a consistently high level of quality and income.

3.2.2.3 Multi Asset Brokerage business line

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

The price-sensitive mechanisms within the MiFID II regime, which are reflected, among other things, in falling transaction fees, as well as the continued decline in demand for research services in the current fiscal year, are factors that could potentially inhibit the company's efforts to also gain market share in multi-asset brokerage in 2020.

The effects of MiFID II are still being felt two years after the financial market regulation package entered into force. However, according to the Board of Directors, the resulting transformations in the contractual setup for institutional clients, slightly more than half of which are subject to the MiFID II regime, and their influence on operational market and market follow-up processes, are now fully implemented. As a result, concomitant risks are now more readily calculable.

Within their brokerage activities, the unpooling of research services to be priced separately from order execution could continue to have a negative impact in the form of a reduction in clients and orders. Baader Bank intends to counteract this by strengthening its international acquisition activities, increasing the total number of brokerage customers and making targeted use of newly created potential in the execution area, its order routing and trading services. A targeted expansion of trading infrastructure is also in the pipeline. The purpose of this is the establishment of additional market connections using new technologies. Automated order flow systems are expected to reduce settlement costs and, at the same time, open up the possibility of making clients attractive institutional trading offers.

In respect of its regional focus, Baader Bank continues to be considered a local broker for the German-speaking area (Germany, Austria and Switzerland) for investment clients worldwide.

3.2.3 Outlook for the complementary business lines

3.2.3.1 Banking Services business line

Baader Bank expects to significantly increase its market share again by continuing to expand partnerships with traditional and digital asset managers, especially by offering account, custodial and trading services for asset managers and their end clients. In addition to business connections in the German-speaking area, international partners who require comprehensive solutions for their target markets within Germany or Europe will become increasingly important. Baader Bank remains committed to its growth trajectory in Banking Services, which has established itself with yield-boosting effect in other trading units as part of its cross-divisional function. It intends to significantly increase the number of accounts and custody accounts, as well as the total custody account volume in the current fiscal year by way of careful selection of business partners and their innovative cooperation models.

3.2.3.2 Asset Management Services business line

Baader Bank has significant competitive advantages for its business activities in the Asset Management Services business line. These include the speed and quality of trading, the diversity of execution venues and tradeable securities. In the current fiscal year, Baader Bank expects to be able to build on its consistently high level of managed assets via fund mandates, irrespective of the typical market fluctuations. In addition, Baader Bank believes that there will be a good level of demand from clients due to the fact that the regulation of the financial sector is resulting in growing cost pressure and persistent outsourcing tendencies at portfolio management companies. Through its trading and regulatory expertise, Baader Bank is continuing its efforts to create added value for clients through complementary banking services and at the same time to ensure efficient usage of the existing infrastructure in its core business lines.

3.2.3.3 Research business line

Baader Bank's Equity Research remains an important link between German-speaking corporate customers and international investors. A strong presence is to be maintained at international investor conferences and complemented by additional conferences on a smaller scale.

The partnership with French provider AlphaValue and the resulting regenerated product "Baader Europe" provides Baader Bank with access to a wider ranging offer, as measured by the number of covered securities which now also includes a pan-European selection of securities and should provide new incentives to prospective new clients as a result of this combination. In the current fiscal year, Baader Helvea Equity Research should be available on the shared Baader Europe platform together with the research content generated by AlphaValue. Baader Bank intends to benefit from the synergistic potential of this sales partnership. In addition to a significant increase in profitability, Baader Bank hopes to benefit from the development of further research collaborations as a result of this partnership.

3.2.4 Outlook for the business development of subsidiaries

The ***Baader Helvea Group*** will also make a significant contribution to the successful support of international clientele in 2020. It is to be expected that the expanded research offer will represent an incentive for potential new clients seeking a combination of broad coverage and fundamental expertise in certain business lines.

Baader Helvea's locations in Zurich, London and North America will continue to strengthen Baader Bank's investment banking activities which are fully integrated into the Multi Asset Brokerage, Capital Markets and Research business lines through its broad investor access in core international markets. This connection is proving valuable in generating order volumes through international market access.

In 2019, the ***Selan Group*** again made a significant positive contribution to the consolidated net income through its Croatian wind farm operator Selan d.o.o. Thanks to its strong infrastructure and high technical standards, the management of the Selan Group expects the wind energy yields to remain at a stable high level at the Vrataruša/Senj I wind farm, thanks to wind conditions that remain consistent. In calendar year 2020, Selan d.o.o. intends to participate in the Croatian tender process to promote energy production from renewable energies. If the terms and conditions of the promotion programme make an investment seem economically viable, then the expansion will be pursued with an additional 24 MW up to a total output of 66 MW under the name "Vrataruša/Senj II wind farm". The required investment of approx. EUR 25 million is capitalised and then amortised over a term of at least 10 years. At present, the second expansion stage is only expected to be commissioned in the second half of 2021. This also means that no significant increase in earnings compared to the previous year can be expected in 2020.

As things stand, no final decisions have been made as to the use of Vjetropark Vrataruša d.o.o. Both the liquidation of the company and use of the premises of the existing wind farm for further development of previously identified further expansion potential are considered to be possible. The company is endowed with a minimum capital, meaning that this circumstance plays a subordinate role in the risk assessment of the Board of Directors.

The most important goal of ***Baader & Heins AG*** in 2020 will be to secure the company's strong market position in the brokerage of debt instruments and in money market trading in a persistently difficult market environment.

Negative regulatory factors affecting brokerage revenues and commission income from Baader & Heins AG, as well as the unfavourable interest rate environment (negative interest rates) will continue to make market conditions more difficult, but are expected to be steady in 2020 and diminish after the impact in the years 2018 and 2019. Accordingly, a decline in the commission business is expected for 2020, but not to the extent experienced in 2019.

The Board of Directors is acting on the assumption that, even in the context of an anticipated decline in commission income in the double-digit percentage range, the company will also return a solid level of profit in the new fiscal year.

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

A consolidation trend within the securities trading institutions will continue in the 2020 fiscal year. The complexity and high costs resulting from increasing requirements in a highly regulated market environment are the main reasons for the increasingly cutthroat competition, which is a particular risk to smaller providers. At the same time, ongoing investments in new technologies are necessary in order to ensure competitiveness.

The improvement in the earnings situation of Baader Bank that was achieved in 2019 leads us to believe that strategic measures will be successful on a sustainable basis. The path mapped out for long-term cost efficiency and profitability growth is to be followed resolutely in the current fiscal year. In particular, the process and cost optimisation measures that have been developed for the overall banking and business line levels should contribute to this.

By focussing on the existing core business, Baader Bank is continuing to improve its ability to invest and stabilise its profit and results situation.

Retail-related services from basic business lines are monitored just as continuously for profitability. They continue to serve to compensate for market fluctuations by providing diversified sources of income and supporting a targeted market cultivation strategy within challenging technological and regulatory conditions which the client side is also facing.

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

The significant upward trend in key operational earnings figures in 2019 will leave the Board of Directors feeling confident as they look ahead to the 2020 fiscal year. Development has continued since the beginning of the new fiscal year, driven by a sharp increase in trading activities and volatility on the international capital markets. The restructuring measures carried out, the initial positive effects of a streamlined business organisation and lower administrative expenses should have the full desired effect in the current fiscal year. These factors lead the Board of Directors to assume that, all in all, a positive operating result can be generated in the Baader Bank Group for the whole of fiscal year 2020 under normal market conditions.

Given the uncertain, external influencing factors, most notably the ongoing development of the coronavirus crisis, the Board of Directors is of the opinion that reliable forecasts for the business development can only be made subject to qualifications. The statements, expectations and forecasts on the future development of Baader Bank made in this Management Report are therefore based on the information and knowledge available to the company as at the balance sheet date.

4. Other disclosures

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

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

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

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

On 28 September 2015, the Supervisory Board adopted a resolution setting target quotas for the proportion of women on the Board of Directors and Supervisory Board in accordance with Section 111 (5) AktG, which includes the targets of 0 % for the proportion of women on the Board of Directors and 16.67 % on the Supervisory Board of Baader Bank. Both targets had been achieved by 30 June 2017. After the new formation of the Supervisory Board in light of the shareholders' meeting of Baader Bank AG on 25 June 2018, the ratio of women on the Supervisory Board is 0 %. The planned resolution of the Supervisory Board on 3 April 2019 will set a target for a proportion of women on the Board of Directors of 0 % and of 16.67 % on the Supervisory Board. The deadline to achieve both targets is 30 June 2022.

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

Baader Bank Aktiengesellschaft (Baader Bank AG) is controlled by Baader Beteiligungs GmbH, Unterschleissheim (Baader GmbH). Baader GmbH has a shareholding of 63.4 % in Baader Bank AG. As no domination agreement has been concluded between the companies, the Board of Directors of Baader Bank AG is obliged to provide a report regarding the relationships with affiliated companies pursuant to Section 312 AktG, which concludes with the following declaration:

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

Unterschleissheim, 18 March 2020

Baader Bank AG
The Board of Directors

Nico Baader

Dieter Brichmann

Oliver Riedel

Report by the Supervisory Board

Work culture, monitoring and consulting activities of the Supervisory Board

In financial year 2019, the Supervisory Board of Baader Bank carefully and diligently discharged the duties required of it by law and the Articles of Association. In doing so, it monitored and supported the work of the Board of Directors. The Supervisory Board was included in all decisions of great importance. If the Supervisory Board's consent was required for individual measures based on a law, the Articles of Association or the rules of procedure, a resolution was passed in this regard after thorough review and consultation. In principle, the Supervisory Board of Baader Bank passes resolutions in meetings. If required, resolutions can also be passed outside of meetings by way of a written circular if directed by the Chairman of the Supervisory Board.

The Board of Directors consistently and comprehensively informed the Supervisory Board, in writing and orally, about fundamental issues for the institution, the business policy and overall banking strategy, the current and future management, business development, and significant transactions and important one-off events. Accordingly, the Supervisory Board was regularly informed of the situation of the Group as a whole and of the Group companies. In particular, the overall economic and political situation and the effects on the industry, the development of the income and earnings situation of the Baader Bank Group and of individual companies, the strategic development, and the risk situation and risk management were discussed thoroughly. Solutions and measures were discussed.

The Chairman and the other members of the Supervisory Board were also informed at regular intervals through the provision of the minutes of the Board of Directors meetings and at numerous personal meetings by the chairmen of both boards and individual members of the Supervisory Board. The Supervisory Board also held discussions with the other members of the Board of Directors for more in-depth discussion of questions in their areas of responsibility. The members of the Supervisory Board also met repeatedly to exchange information internally without the involvement of third parties with the aim of discussing important company matters from the supervisory body's perspective.

In its monthly reports, the Board of Directors provided information on key financial performance indicators and the risk position of Baader Bank Aktiengesellschaft and the Group to the Supervisory Board on an ongoing basis and as required in specific situations. Any deviations from the company's financial plans regarding its earnings were promptly discussed in detail and reviewed by the Supervisory Board.

The regular meetings focused on company figures, the Group's earnings performance and employment trends, including those of its subsidiaries and equity investments, and the performance of all business lines. In addition, the Board of Directors and Supervisory Board met in order to discuss the overall banking and business line strategies, which underwent extensive development and were continuously reviewed in fiscal year 2019. The aim is to align the institute's income and cost situation with economic efficiency and profitability in the long term.

The Compliance Officer presented his detailed reports twice a year and the Head of Internal Audit presented his detailed annual review to the Chairman of the Supervisory Board. These reports are provided to the other members of the Supervisory Board. If necessary, the reports were discussed by the Supervisory Board.

Long-term strategic orientation, improvement of the earnings situation, and the sale and acquisition of Group companies: Thematic focal points of the Supervisory Board's monitoring and consulting activities

In financial year 2019, the Supervisory Board of Baader Bank held five ordinary meetings and one extraordinary meeting. Regular topics as specified in the Articles of Association such as the annual financial statements, audit of the annual financial statements and audit results, and the preparation and execution of the shareholders' meeting were the focus of the Supervisory Board's activities. In addition, the consolidation process of the Group as a whole through the sale of subsidiaries and equity investments was finalised. A strategic equity investment was made. The Supervisory Board closely supervised this process.

In its extraordinary meeting, the Supervisory Board comprehensively dealt with the results of a strategy project to consolidate the market positions and the improvement of the income and cost situation of Baader Bank, and the measures taken in this regard to implement and achieve the targets.

The focus here was on the continuation and finalisation of the strategy review of the structure of the Bank as a whole, the new development of the individual business line strategies, and the implementation of a process and cost project. The Supervisory Board was very closely involved in the strategic work of the Board of Directors. The Supervisory Board members that represented the Board on the steering committee of the strategy project were regularly informed and always involved in its ongoing development.

The Supervisory Board also discussed issues regarding capital requirements and financing of Baader Bank with the Board of Directors. In the case of issues relating to operational and personnel development, the Supervisory Board and Board of Directors also reviewed the schedule of responsibilities and the organisational structure of the Bank. The internal organisation was further developed in the course of this. Furthermore, significant projects and individual loan commitments were important points in the discussions between the Supervisory Board and the Board of Directors in 2019.

Audit of the annual financial statements and consolidated financial statements for 2019

The Board of Directors of Baader Bank Aktiengesellschaft prepared the annual financial statements, the consolidated financial statements and the combined Group management report for the 2019 Financial Year in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch), the German Stock Corporation Act (Aktiengesetz) and the German Regulation on Accounting by Banks (Verordnung über die Rechnungslegung der Kreditinstitute).

The auditors of the annual financial statements and consolidated financial statements chosen by the shareholders' meeting, PriceWaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements and the management report and issued an unqualified audit opinion. The auditor conducted its audit of the annual financial statements in compliance with the German generally accepted accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW).

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

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

The Supervisory Board approved the annual financial statements, consolidated financial statements and combined Group management report prepared by the Board of Directors and audited by the auditor in its meeting held on 2 April 2020. The annual financial statements have therefore been adopted.

The Supervisory Board, taking into account in particular the company's annual results from 2019, the cash flow and the financial planning, supports the proposal by the Board of Directors to offset the accumulated losses against the retained earnings and to carry forward the remaining amount on the balance sheet.

Subordinate status report

In accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG), the Board of Directors prepared a report on the company's relationships with affiliated companies. The auditor, Pricewaterhouse-Coopers Wirtschaftsprüfungsgesellschaft, Munich, reviewed the subordinate status report of the Board of Directors in compliance with the legal regulations and issued the following unqualified audit opinion: "In accordance with our mandatory audit and in our opinion, we confirm that 1. the factual disclosures in the report are correct and 2. the company's payments for the legal transactions set out in the report are not inappropriate in amount, and 3. the measures detailed in the report do not support a judgement materially different to that reached by the Board of Directors."

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

Changes to the Supervisory Board and Board of Directors of Baader Bank

In financial year 2019, Mr Nils Niermann left the Supervisory Board of Baader Bank Aktiengesellschaft on 30/06/2019, as he began his role as Chairman of the Board of Directors of a Sparkasse on 01/07/2019 and, for this reason, he was not able to continue his term of office on the Supervisory Board of Baader Bank. The company's shareholders' meeting elected Mr Christoph Mast to succeed him. As explained in the Supervisory Board's report for last year's annual financial statements, Mr Christian Bacherl left the Board of Directors of Baader Bank on 01/02/2019. The Supervisory Board would like to thank Mr Niermann and Mr Bacherl for their dedication and commitment to Baader Bank.

Thanks to all employees

In conclusion, the Supervisory Board wishes to thank the Board of Directors as well as all employees of the entire Baader Bank Group for their extraordinary commitment and consistently professional performance in financial year 2019, and in particular for their work on the operational and strategic development of Baader Bank.

Unterschleissheim, 2 April 2020

The Supervisory Board

Dr. Horst Schiessl
Chairman of the Supervisory Board

Consolidated Financial Statements

Consolidated balance sheet as at 31 December 2019

Assets in EUR		31/12/2019		31/12/2018
1. Cash reserves				
a) Cash on hand	50,000,110.12		1,463.27	
b) Credit balances with central banks	187,768,658.77	**237,768,768.89**	209,094,276.59	209,095,739.86
including: at Deutsche Bundesbank EUR 187,768,658.77 (previous year: EUR 209,094,276.59)				
2. Loans and advances to banks				
a) Due on demand	69,098,576.81		89,748,355.31	
b) Other loans and advances	9,493,055.17	**78,591,631.98**	9,447,332.33	99,195,687.64
3. Loans and advances to clients		**38,524,747.56**		26,780,117.88
4. Debt securities and other fixed-income securities				
a) Bonds and debt securities				
aa) From public issuers	26,509,645.13		71,988,910.64	
including: eligible as collateral at Deutsche Bundesbank EUR 23,819,732.73 (previous year: EUR 63,352,387.20)				
ab) from other issuers	68,437,329.50	**94,946,974.63**	120,286,702.23	192,275,612.87
including: eligible as collateral at Deutsche Bundesbank EUR 41,883,744.17 (previous year: EUR 88,400,909.47)				
5. Equities and other variable-income securities		**14,413,941.85**		15,442,433.23
5a. Trading portfolio		**37,868,959.40**		49,406,772.48
6. Equity investments		**6,770,693.29**		4,162,029.56
including: to financial services institutions EUR 0.00 (previous year: EUR 231,336.00)				
7. Investments in associates companies		**516,955.18**		3,823,558.62
8. Intangible assets				
a) Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	7,986,971.04		10,016,537.04	
b) Goodwill	6,125,866.72		7,258,497.10	
c) Advance payments made	85,873.98	**14,198,711.74**	320,904.11	17,595,938.25
9. Property, plant and equipment		**77,411,805.20**		81,708,037.89
10. Other assets		**3,654,662.77**		2,362,305.13
11. Prepaid expenses and deferred charges		**4,127,335.30**		3,839,487.10
12. Excess of plan assets over pension liabilities		**8,579,899.02**		7,502,119.04
Total assets		**617,375,086.81**		**713,189,839.55**

Equity and liabilities in EUR			31/12/2019		31/12/2018
1. Bank loans and advances					
a) Due on demand		19,986,950.01		28,890,281.52	
b) With agreed term or notice period		41,828,714.14	**61,815,664.15**	69,924,095.95	98,814,377.47
2. Liabilities to customers					
a) Other liabilities					
aa) Due on demand		313,249,364.70		333,846,816.87	
ab) With agreed term or notice period		130,844,518.55	**444,093,883.25**	153,308,324.06	487,155,140.93
3. Trading portfolio			**3,324,694.33**		1,802,682.75
4. Other liabilities			**9,053,475.10**		13,590,245.20
5. Prepaid expenses and deferred charges			**365,679.74**		426,000.07
6. Provisions					
a) Provisions for pensions and similar obligations		2,282,156.08		1,964,137.78	
b) Tax provisions		266,096.68		758,002.94	
c) Other provisions		9,789,723.44	**12,337,976.20**	10,530,105.06	13,252,245.78
7. Fund for general banking risks					
including: Special items pursuant to Section 340e (4) HGB		11,620,000.00	**11,620,000.00**	22,120,000.00	22,120,000.00
8. Equity					
a) Called up capital					
Subscribed capital	45,908,682.00			45,908,682.00	
less nominal amount of treasury shares	–276,996.00	45,631,686.00		–276,996.00	
b) Capital reserve		31,431,265.61		31,431,265.61	
c) Retained earnings					
ca) Other retained earnings	2,719,805.62			30,160,824.46	
cb) Difference in equity due to currency conversion	946,451.69	3,666,257.31		758,560.80	
d) Minority interests		825,819.65		1,690,369.17	
e) Consolidated net loss		–6,791,314.53	**74,763,714.04**	–33,643,558.69	76,029,147.35
Total equity and liabilities			**617,375,086.81**		**713,189,839.55**

1. Contingent liabilities		
a) Liabilities from guarantees and indemnity agreements	**208,070.00**	208,070.00
2. Other obligations		
a) Irrevocable loan commitments	**2.065,015.89**	7,584,133.00

Consolidated income statement

in EUR'000			2019		2018
1. Interest income from					
a) Lending and money market transactions	–195,731.65			–272,988.23	
b) Fixed-income securities and book-entry securities	5,051,284.38	4,855,552.73		6,293,681.79	
2. Interest expenses		–6,392,121.79	**–1,536,569.06**	–6,466,104.97	–445,411.41
3. Current income from					
a) Equities and other variable-income securities		679,195.19		952,340.10	
b) Equity investments		58,506.00	**737,701.19**	19,278.00	971,618.10
4. Commission income		68,923,042.62		72,549,306.00	
5. Commission expenses		–36,811,773.88	**32,111,268.74**	–32,031,189.44	40,518,116.56
6. Net income from the trading portfolio			**46,148,712.15**		40,976,352.58
7. Revenue			**12,807,736.97**		13,095,219.14
8. Other operating income			**3,514,408.91**		3,004,689.70
9. General administrative expenses					
a) Personnel expenses					
aa) Salaries and wages	–40,159,955.10			–47,454,231.46	
ab) Social security and expenses for retirement benefits and support	–6,361,824.49	–46,521,779.59		–7,232,103.24	
including: for pensions EUR –1,117,711.34 (previous year: EUR –1,496,782.27)					
b) Other administrative expenses		–42,762,909.82	**–89,284,689.41**	–43,734,744.59	–98,421,079.29
10. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment			**–9,001,131.25**		–10,916,367.57
11. Other operating expenses			**–1,840,989.31**		–1,650,079.90
12. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in the lending business			**–1,053,149.58**		–5,274,598.58
13. Depreciation, amortisation and write-downs on equity investments, shares in affiliated companies and securities treated as assets			**–3,088,177.74**		–1,199,636.89
14. Income from the liquidation of the fund for general banking risks			**10,500,000.00**		0.00
of which: Liquidations pursuant to Section § 340e Abs. 4 HGB EUR 10,500,000.00 (previous year: EUR 0.00)					
15. Net income from interests in associates			**52,902.30**		–33,996.32
16. Profit/loss on ordinary activities			**68,023.91**		–19,375,173.88

Continued on next page

for the period from 1 January 2019 to 31 December 2019

in EUR'000		2019		2018
17. Taxes on income		**–416,021.07**		–1,520,021.09
18. Other taxes, unless stipulated under item 11		**–66,524.20**		–129,295.17
19. Consolidated net income		**–414,521.36**		**–21,024,490.14**
20. Non-controlling interests		**–176,469.38**		–286,004.95
21. Loss of the parent company brought forward		**–33,643,558.69**		–11,035,926.81
22. Withdrawals from retained earnings				
a) from other retained earnings	37,307,092.83	**37,307,092.83**	3,800,894.90	3,800,894.90
23. Transfers to retained earnings				
a) to other retained earnings	–9,863,857.93	**–9,863,857.93**	–5,098,031.69	–5,098,031.69
24. Consolidated net loss		**–6,791,314.53**		**–33,643,558.69**

Statement of changes in equity as at 31 December 2019

in EUR'000	Parent company			
			Consolidated earnings	
	Subscribed capital Ordinary shares	Capital reserve	Retained earnings	Balance sheet profit / loss
As at 01 January 2019	45,909	31,431	30,161	–33,644
Purchase / withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	0
Change in group of consolidated companies	0	0	2	0
Other changes	0	0	0	0
Consolidated net profit for the year	0	0	0	–591
Other consolidated income	0	0	0	0
Total comprehensive income	0	0	2	–591
Transfer to / withdrawal from reserves	0	0	–27,443	27,443
As at 31 December 2019	45,909	31,431	2,720	–6,792

Statement of changes in equity as at 31 December 2018

in EUR'000	Parent company			
			Consolidated earnings	
	Subscribed capital Ordinary shares	Capital reserve	Retained earnings	Balance sheet profit / loss
As at 01 January 2018	45,909	31,431	30,109	–11,036
Purchase / withdrawal of treasury shares	0	0	0	0
Dividends paid	0	0	0	0
Change in group of consolidated companies	0	0	–1,245	0
Other changes	0	0	0	0
Consolidated net profit for the year	0	0	0	–21,311
Other consolidated income	0	0	0	0
Total comprehensive income	0	0	0	–21,311
Transfer to / withdrawal from reserves	0	0	1,297	–1,297
As at 31 December 2018	45,909	31,431	30,161	–33,644

Treasury shares	Equity	Difference in equity due to currency conversion	Minority interests / Minority equity	Consolidated equity
–277	73,580	759	1,690	76,029
0	0	0	0	0
0	0	0	–250	–250
0	2	0	–791	–789
0	0	0	0	0
0	–591	0	177	–414
0	0	188	0	188
0	–589	188	–864	–1,265
0	0	0	0	0
–277	72,991	947	826	74,764

Treasury shares	Equity	Difference in equity due to currency conversion	Minority interests / Minority equity	Consolidated equity
–277	96,136	459	861	97,456
0	0	0	0	0
0	0	0	–500	–500
0	–1,245	0	1,043	–202
0	0	0	0	0
0	–21,311	0	286	–21,025
0	0	300	0	300
0	–21,311	300	286	20,725
0	0	0	0	0
–277	73,580	759	1,690	76,029

Cash flow statement

in EUR'000	2019	2018
1. Net income/loss for the period (incl. shares of minority interests)	**–415**	**–21,024**
Non-cash items and reconciliation to the cash flow from ordinary activities included in net income/loss for the period:		
2. Amortisation and depreciation, write-downs and write-ups on receivables and fixed assets	17,840	17,923
3. Change in provisions	–807	4,518
4. Other non-cash expenses/income	–10,749	–45
5. Gains and losses from the disposal of fixed assets	–713	–501
6. Other adjustments (net)	1,942	1,631
7. Sub-total	**7,098**	**2,502**
Change in assets and liabilities from ordinary activities:		
8. Loans and advances		
8a. to banks	17,870	–8,061
8b. to clients	–12,104	4,607
9. Securities (unless fixed assets)	104,900	35,330
10. Other assets from operating activities	–1,817	–306
11. Liabilities		
11a. to banks	–36,986	–16,733
11b. to clients	–42,755	–23,508
12. Liabilities held for trading	1,522	–1,095
13. Prepaid expenses and deferred charges	0	426
14. Other liabilities from operating activities	–4,547	6,689
15. Interest and dividends received	6,541	7,256
16. Interest paid	–6,670	–6,697
17. Income tax payments	–1,813	–2,190
18. Cash flow from operating activities	**31,239**	**–1,780**
19. Proceeds from the disposal of		
19a. financial assets	1,941	1,503
20. Payments made for investments in		
20a. financial assets	–6,128	–3,928
20b. property, plant and equipment and intangible assets	–1,471	–2,510
21. Payments made for the acquisition of consolidated companies and other business units	1,274	0
22. Cash flow from investing activities	**–4,384**	**–4,935**
23. Payments to business owners and minority interests		
23a. dividend payments	0	0
23b. other payments	0	0
24. Changes in cash flow from other loan capital (net)	–250	–500
25. Cash flow from financing activities	**–250**	**–500**
26. Net change in cash and cash equivalents (the sum of 18, 22 and 25)	**26,605**	**–7,215**
27. Effects of changes in exchange rates, group of consolidated companies and measurement on cash and cash equivalents	–643	–97
28. Cash and cash equivalents at start of period	**222,888**[1]	**230,200**[1]
29. Cash and cash equivalents at end of period	**248,850**	**222,888**

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

Notes to the Consolidated Financial Statements

I. Basis of preparation

The consolidated financial statements of Baader Bank AG for financial year 2019 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Regulation on Accounting Principles for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). The provisions of the German Stock Corporation Act (Aktiengesetz – AktG) were observed.

The consolidated financial statements are also based on the standards issued by the Accounting Standards Committee of Germany (Deutsches Rechnungslegungs Standards Committee e.V. – DRSC) and published by the Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz – BMJV) pursuant to Section 342 (2) HGB.

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

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

The balance sheet date is 31 December 2019. The financial year is the same as the calendar year. Baader Bank Aktiengesellschaft, with its headquarters in Unterschleissheim, is registered at the Munich Local Court under commercial register number HRB 121537.

II. Accounting policies

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

In the interests of better clarity and ease of understanding, the notes optionally required on the balance sheet, income statement and notes to the annual financial statements are presented in the notes to the annual financial statements. Individual items that are summarised in the balance sheet and the income statement are broken down in the notes.

The following accounting policies were applied:

Cash reserves

Cash reserves were recognised at the nominal amount.

Loans and advances

Loans and advances to banks and customers are generally recognised at their nominal amount or acquisition cost and are reduced by adequate write-downs where necessary. Offsetting permitted pursuant to Section 340f (3) HGB is applied.

Securities (excluding trading portfolio)

Securities that are intended to be used in business operations on an ongoing basis are recognised as financial assets under the modified lower of cost or market principle at amortised cost pursuant to Section 253 (1) and (3) HGB. Any impairments which appear to be permanent are taken into account. If necessary, write-ups are made in accordance with the requirement to reverse impairments (Section 253 (5) HGB). Recognised valuation models are used to calculate the fair value of the securities to be measured as fixed assets. Offsetting permitted pursuant to Section 340c (2) HGB is applied. The measurement option pursuant to Section 340e (1) Sentence 3 HGB in conjunction with Section 253 (3) Sentence 6 HGB is not exercised.

Securities that are not intended for use in business operations on an ongoing basis and are not allocated to the trading portfolio (securities of the liquidity reserve) are recognised as current assets at their acquisition cost or at their stock market value or fair value if lower, under the strict lower of cost or market principle pursuant to Section 253 (1) and (4) HGB.

Fair value in accordance with Section 255 (4) HGB generally corresponds to the market price. If no market price can be established on the reporting date, the fair value is determined using generally accepted measurement models. If no fair value can be calculated, the acquisition cost is amortised as set out in Section 255 (4) Sentence 3 HGB.

Trading portfolio

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

The starting point for calculating the risk discount is the value at risk (VaR) measure. Value at risk refers to a risk measurement that indicates the level of loss on the portfolio in question that will not be exceeded with a given probability over a given time horizon. Baader Bank AG uses the Monte Carlo simulation to calculate the market price risk. For the subsidiaries included in the consolidated financial statements, the risk assessment is carried out based on sensitivity (delta-normal method). A confidence level of 99.9 % is assumed for the calculation and the required parameters (volatilities, correlations, etc.) are estimated on the basis of historical data. Holding periods relevant to the portfolio of between 0.25 and 10 days are used for the calculation as at 31 December 2019.

The risk discount was determined for all portfolios held for trading and liabilities. As it is not possible to correctly allocate this amount to the trading portfolio assets and liabilities for the individual classes, the risk discount is in general taken into account for the larger of the respective portfolios. The trading portfolio assets were allocated as at 31 December 2019.

Reclassification

The allocation of receivables and securities to the trading portfolio, liquidity reserve or assets measured as fixed assets is based on their purpose at the time of acquisition (Section 247 (1) and (2) HGB).

Reclassification to the trading portfolio is not permitted and reclassification from the trading portfolio is only possible if extraordinary circumstances, in particular significant impairments in the fungibility of the financial instruments, result in them not being held for trading.

Reclassification between the categories of liquidity reserves and assets treated as investments takes place if the established purpose has changed since initial recognition and this change is documented. The reclassification of receivables or securities takes place at the time of the change in purpose.

In the 2019 fiscal year, a reclassification from the trading portfolio to the fixed assets in the amount of EUR 2,620 thousand was carried out.

Derivative financial instruments in the trading portfolio

Derivative financial transactions are recognised and measured as follows:

- Option premiums paid as part of the purchase of options to buy or sell are recognised as trading portfolio assets and measured at fair value less a risk discount.
- Option premiums received from the sale of options to buy or sell are recognised as trading portfolio liabilities and measured at fair value plus a risk premium.
- Margin receivables from futures transactions are accounted for at their nominal amount as other assets.
- Margin obligations from futures transactions are accounted for at their nominal amount as other liabilities.

Loss-free measurement of interest-rate-based transactions in the banking book

IDW RS BFA Statement 3 provides guidance on specific issues related to the loss-free measurement of the banking book in accordance with HGB. Banks' business activities in the context of the banking book generally do not allow direct allocation of individual financial instruments to each other. The banking book is managed as a single unit. For interest-rate-based assets and liabilities in the banking book, the principle of prudence under commercial law is adhered to. In accordance with Section 249 HGB, a "provision for anticipated losses" is recognised for the necessary expenses expected in relation to management of the banking book (refinancing, risk and administrative costs) to cover any potential excess liability. In defining the scope of the banking book, Baader Bank has made use of the option not to include the directly allocable refinancing of non-interest-bearing assets or the corresponding assets. Baader Bank uses the periodic method to calculate the provision for anticipated losses. According to this approach, a provision for anticipated losses is recognised if the sum of discounted net profits or losses for future periods from the banking book is negative. Risk costs and administrative costs are taken into account by applying a deduction to the cash flows. There is no excess liability for the Baader Bank Group as at the balance sheet date. There is thus no requirement to recognise a provision for anticipated losses in relation to loss-free measurement.

Equity investments

Equity investments are accounted for in accordance with the regulations applicable to assets regarding amortised cost. If an impairment appears to be permanent, unscheduled depreciation is undertaken. If the reasons that led to a write-down no longer exist, the write-down is reversed up to a maximum of the acquisition cost. See also the "Securities (excluding trading portfolio)" section for more information on the determination of the fair value. Standardised Group accounting and valuation principles were not applied to the associated companies if the effects on assets and earnings resulting from not carrying out any modifications were not material.

Intangible assets and property, plant and equipment

The Baader Bank Group reports its standard computer software under intangible assets. Purchased intangible assets are measured at cost net of straight-line scheduled amortisation. If an impairment appears to be permanent, unscheduled depreciation is undertaken.

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

Property, plant and equipment are measured at their acquisition costs less scheduled straight-line depreciation. Depreciation is calculated on a pro rata basis. Low-value assets with a value of up to EUR 250.00 (net) are recognised immediately as expenses through the income statement. In addition, low-value assets with a value of up to EUR 1,000.00 are recognised in an annual collective line item and depreciated over five years on a straight-line basis. The actual useful lives of the low-value assets combined in the collective item, or their disposals, are not taken into account.

To determine the individual useful lives, the Federal Ministry of Finance's depreciation tables for fixed assets in general use (AfA tables) are consulted and technical wear and tear is used as a reference. In individual cases and where there are economic reasons to do so, a longer useful life will be estimated.

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

Other assets

Other assets are recognised at their nominal amount net of any necessary amortisation, depreciation or write-downs.

Liabilities and provisions

Liabilities are recognised at their settlement amounts.

Pension provisions are measured using the pro rata degressive projected unit credit method, applying the average market interest rate resulting from an assumed remaining maturity of 15 years (10-year average). As at the reporting date, the Deutsche Bundesbank (the German central bank) had set this interest rate at 2.71 %. The comparative interest rate used for the required disclosures in the notes to the annual financial statements (7-year average) is 1.97 % and is also set by the Deutsche Bundesbank.

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

Other provisions are measured at their required settlement amount arising in compliance with Section 253 (1) HGB in accordance with the principles of prudent commercial judgement. If the expected remaining term of a provision is more than one year, the provision is discounted using the interest rate published by the Deutsche Bundesbank for the respective remaining term.

Fund for general banking risks

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

Deferred taxes

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

The current surplus as at 31 December 2019 is not recognised in the balance sheet when exercising the right of election under § 274 (1) Sentence 2 HGB.

Acquisition of treasury shares

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

If the Treasury shares are sold again, they are not deducted in the first column. Any difference exceeding the imputed value arising from the disposal proceeds is transferred to the respective reserve up to the amount offset against freely available reserves. Any further difference is allocated to the capital reserve, while any loss arising on sale is charged to retained earnings.

In fiscal year 2019, there were no changes with regard to the acquisition of treasury shares.

Currency translation

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

The asset and liability items for balances in foreign currencies are translated into euros at the mean spot exchange rate on the reporting date, with the exception of equity which is translated into euros at the historical rate. The items in the income statement are converted into euros at the average exchange rate. A difference resulting from the conversion is reported within the consolidated equity as a "difference in equity due to currency conversion".

Net interest income

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

III. Changes in accounting policies

There were no changes in accounting policies in the 2019 financial year.

IV. Group of consolidated companies

The consolidated financial statements as at 31 December 2019 include Baader Bank AG as the parent company and a total of six subsidiaries (previous year: seven subsidiaries) (Baader Bank Group). Baader Bank AG holds more than 50 % of the shares in these subsidiaries, directly or indirectly, or exercises control over them. Two of these companies are based in Germany, and four have their headquarters abroad.

The following companies were included in the consolidated financial statements as at 31 December 2019, and were consolidated in full:

Name/headquarters	*Share of capital*	Share capital	Equity	Total assets	Net income for the year	First-time consolidation
	%	EUR'000	EUR'000	EUR'000	EUR'000	
Baader Helvea AG, Zurich (Switzerland) [2]	*100.00*	4,967	8,409	11,078	–45	31 August 2013
Baader Helvea Inc., New York (United States of America) [1, 3]	*100.00*	1,597	2,483	2,715	–213	31 August 2013
Baader Helvea Ltd., London (United Kingdom) [1, 4]	*100.00*	943	553	687	17	31 August 2013
Baader & Heins Capital Management AG, Unterschleissheim	*75.00*	50	3,046	4,864	669	1 January 2005
Selan Holding GmbH, Unterschleissheim	*100.00*	25	8,560	8,560	–451	1 January 2017
Selan d.o.o., Senj (Croatia) [5, 6]	*100.00*	2,138	13,026	46,286	3,918	1 January 2017

[1] Indirect holding via the investment in Baader Helvea AG, Zurich. | [2] The figures for the financial year as at 31 December 2019 have been translated (EUR/CHF 1.0854). | [3] The figures for the financial year as at 31 December 2019 have been translated (EUR/USD 1.1234). | [4] The figures for the financial year as at 31 December 2019 have been translated (EUR/GBP 0.8508). | [5] Indirect holding via the investment in Selan Holding GmbH, Unterschleissheim. | [6] The figures for the financial year as at 31 December 2019 have been translated (EUR/HRK 7.4395).

Changes in the group of consolidated companies occurred in the past fiscal year due to the reduction in shares in ***Conservative Concept Portfolio Management AG, Frankfurt am Main*** from 66.67 % to 19.90 %. This led to a change in the consolidation method used in the past fiscal year, which means that the company has been run as an associated company since then. Taking into account the continuation of the investment in the amount of the pro rata result, the carrying amount as of the reporting date was EUR 517 thousand. In compliance with Section 294 (2) HGB, due to the low level of importance, there were no material changes that would affect the comparability of the net assets, financial position and results of operations of the consolidated financial statements in consecutive fiscal years.

In ***Baader Unterstützungskasse e.V., Unterschleissheim,*** Baader Bank AG maintains a special purpose vehicle within the meaning of Section 290 (2) No. 4 HGB for which there is, in principle, an obligation to include same in the consolidated financial statements. However, due to immateriality it was not consolidated on 31 December 2019, as permitted by Section 296 (2) Sentence 1 HGB.

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

Name/headquarters	*Share of capital*	Carrying amount of the shares	Equity	Total assets	Net income for the year	Market value of the shares
	%	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Conservative Concept Portfolio Management AG, Frankfurt am Main	*19.90*	517	2,303[1]	2,902[1]	266[1]	n/a[2]

[1] Figures based on the audited annual financial statements as at 31 December 2019. | [2] 2) No published market price available as at 31 December 2019.

Changes in the associated companies resulted from sales of the shares in the associated companies ***Gulf Baader Capital Markets S.A.O.C., Muscat (Oman),*** and ***Ophirum ETP GmbH, Frankfurt am Main,*** in which Baader Bank AG had stakes of 30 % and 50 % respectively up to the point of sale.

As at 31 December 2019, Baader Bank AG continues to hold 21.93 % of the shares in ***Parsoli Corporation Ltd., Mumbai (India).*** The departure of Baader Bank AG's representatives from Parsoli Corporation Ltd's Board of Directors in financial year 2009 means that Baader Bank AG can no longer be presumed to exert significant influence on the company. The holding is recognised under the item equity investments, with a notional residual value of EUR 1.00.

V. Consolidation methods

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

Subsidiaries

The subsidiaries of the Baader Bank Group are the entities which it controls. The Baader Bank Group has a controlling influence on the subsidiaries if it can determine their financial and business policies. This is generally assumed if the Baader Group holds a direct or indirect equity interest in more than half of the voting rights in the company. The existence of potential voting rights which are currently exercisable or convertible is taken into account when assessing whether the Group controls another company. As at the reporting date there were no potential voting rights.

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

The Baader Bank Group reviews previous consolidation decisions to ensure that they are still appropriate at the end of every fiscal year, at a minimum. Likewise, any organisational changes are taken into account immediately. Besides changes in ownership, these also include any changes to the Group's existing contractual obligations and any new obligations entered into with an entity.

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

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

Article 66 (3) Sentence 4 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) provides for the option of using the carrying amount method for the capital consolidation of subsidiaries (acquired before 31 December 2009), depending on the method of acquisition. In addition, pursuant to Section 301 (1) HGB, it is mandatory to use the revaluation method for acquisitions from 1 January 2010.

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

Carrying amount method

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

The difference between the proportional equity and the carrying amount of the investments is allocated to the hidden reserves and charges attributable to the subsidiary's assets and liabilities in proportion to the interest held. The remaining difference represents goodwill or negative goodwill. The goodwill resulting from this process was offset against retained earnings in accordance with Section 309 (1) Sentence 3 HGB (old).

Revaluation method

At the time of acquisition, the net assets of the subsidiary are revalued at fair value. In addition to calculating the fair value of assets and liabilities that have already been recognised on the balance sheet, assets and liabilities that have not yet been recognised are also recorded. The revaluation of the assets and liabilities results in a revaluation of equity. The portion of equity attributable to the Group companies is offset against the acquisition cost and the difference represents goodwill or negative goodwill.

The writing down of goodwill takes place principally in accordance with the individual useful life.

If the Group acquires a controlling influence by gradually increasing its ownership interest, goodwill or negative goodwill is calculated at the time of each additional acquisition.

If a subsidiary is consolidated for the first time as at 1 January of each financial year, the items in the subsidiary's income statement are fully incorporated into the consolidated income statement. If a subsidiary is consolidated for the first time during the course of the year, the items are incorporated on a pro rata basis.

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

Associates

An associate is a company over which the Group exercises significant influence, but not a controlling influence, on decisions concerning financial and operational policy. As a rule, significant influence is presumed if the Group holds between 20 % and 50 % of the voting rights. In assessing whether the Group has the ability to exercise significant influence on another company, the existence and the effect of potential voting rights that are currently exercisable or convertible are taken into account.

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

Examples of other factors used in assessing significant influence include representation on the management and supervisory boards of the company in which the investment is held, and significant transactions with the company. The presence of such factors could indicate the existence of an associate even if the Group's interest involves less than 20 % of the voting rights.

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

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

The writing down of goodwill takes place principally in accordance with the individual useful life. Any negative goodwill is immediately released through the income statement.

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

If the Group disposes of the interests in an associated company, in whole or in part, the gain or loss on disposal is determined by offsetting the disposal proceeds realised against the equity value attributable to the outgoing interest. If the Group loses significant influence over an associate but there is no change in the interest held by the Group, the equity value is amortised using the cost method.

The Group's interests in associated companies changed in fiscal year 2019, as described in the section "Group of consolidated companies". In addition, the Group continued to have significant influence over its associates as at 31 December 2019.

VI. Notes to the balance sheet

Foreign currency holdings

As at the reporting date, assets in foreign currency amounted to (translated) EUR 128,905 thousand (previous year: EUR 118,475 thousand). Liabilities denominated in foreign currency totalled EUR 108,919 thousand (previous year: EUR 91,375 thousand). This involved the following balance sheet items:

	Loans and advances (clients and banks)	Securities, equity investments and associates	Other assets	Payables (clients and banks)	Other liabilities
Currency	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
AUD	223	202	0	375	75
BRL	1	0	0	0	0
CAD	3	0	0	1	0
CHF	6,650	15,075	571	2,277	564
DKK	5	0	0	1	0
GBP	1,295	469	146	1,340	225
HKD	15	0	0	2	5
HRK	4,535	0	41,750	23,157	1,742
HUF	1	0	0	0	0
INR	17	0	0	0	0
JPY	2,840	115	0	2,943	6
MYR	2	0	0	0	0
NOK	97	0	0	100	0
NZD	202	0	11	215	0
OMR	106	0	0	101	0
PLN	2	0	0	0	0
SEK	76	0	0	82	0
SGD	1	0	0	0	0
USD	46,366	7,763	364	75,117	591
ZAR	2	0	0	0	0
	62,439	23,624	42,842	105,711	3,208

Foreign currency translation resulted in expenses amounting to EUR 834 thousand (previous year: EUR 565 thousand) which are recognised under other operating expenses, and income in the amount of EUR 690 thousand (previous year: EUR 1,154 thousand) recognised under other operating income. Expenses arising from currency conversion of the trading portfolio amount to EUR 0 thousand (previous year: EUR 89 thousand).

Cash reserves

In addition to credit balances at the Deutsche Bundesbank in the amount of EUR 187,769 thousand (previous year: EUR 209,094 thousand), cash reserves are made up of cash balances in the amount of EUR 50,000 thousand (previous year: EUR 0 thousand), which are stored in the form of cash in a security deposit box at the Bayerische Landesbank.

Loans and advances to banks

Loans and advances to banks comprise bank balances due on demand in the amount of EUR 52,674 thousand (previous year: EUR 83,216 thousand) as well as loans and advances due on demand and other loans and advances in the amount of EUR 25,917 thousand (previous year: EUR 15,980 thousand).

Loans and advances to clients

Loans and advances to clients amount to EUR 38,525 thousand (previous year: EUR 26,780 thousand).

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities totalled EUR 94,947 thousand.

The debt securities and other fixed-income securities contain a class measured as fixed assets in the amount of EUR 668 thousand. There were no indications that an impairment would be permanent.

EUR'000	31/12/2019	31/12/2018
Bonds and debt securities	93,172	189,569
Accrued interest	1,775	2,707
Debt securities and other fixed-income securities	94,947	192,276

In the coming year, bonds and debt securities totalling EUR 21,363 thousand will fall due.

Equities and other variable-income securities

Under shares and other non-fixed income securities such as fixed assets, Baader Bank AG has shares valued at EUR 11,494 thousand at 31 December 2019 as well as investment interest that comes under the "securities of the liquidity reserve" category totalling EUR 2,921 thousand. A market price at 31 December 2019 for the shares held is not available on any active market. Baader Bank AG determined the fair value using a DCF model and applied unplanned depreciation of EUR 1,203 thousand to the book value on the basis that impairment appears to be permanent.

	Cost of acquisition or production					
EUR'000	As at 01/01/2019	Additions	Pro rata result	Transfers	Changes in the scope of consolidation	Disposals
Intangible assets	103,510	974	0	0	0	–68
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	69,778	944	0	265	0	–68
Goodwill	33,411	0	0	0	0	0
Advance payments for intangible assets	321	30	0	–265	0	0
Property, plant and equipment	136,206	496	0	0	–23	–73
Land and buildings	56,838	13	0	0	0	0
Furniture and office equipment	77,418	71	0	0	–23	–60
Advance payments for property, plant and equipment and assets under construction	1,950	412	0	0	0	–13
Financial assets	28,907	6,128	53	0	–4,432	–3,855
Equity investments	6,408	2,840	0	0	–231	–31
Associates	7,468	0	53	0	–3,180	–3,824
Securities held as fixed assets	15,031	3,288	0	0	–1,021	0

Breakdown of residual maturities

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

EUR'000	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
Other loans and advances to banks	1,179	8,314	0	0
Loans and advances to clients	36,858	1	1,588	78
Bank loans and advances with an agreed term or notice period	8,768	7,038	14,137	11,886
Payables to clients with an agreed term or notice period	3,344	29,519	57,982	40,000

Breakdown of marketable securities by listed and unlisted securities:

EUR'000	Non-marketable securities	Marketable securities		Marketable securities not measured at the lower of cost or market value
		Listed	Unlisted	
Debt securities and other fixed-income securities	0	94,947	0	0
Equities and other variable-income securities	0	14,414	0	0
Investments in associates	0	0	517	0
Equity investments	6,521	0	250	0

Fixed assets

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

Taking into account the actual benefit of the customer business acquired and transferred to Baader Bank AG due to the merger, as well as due to the actual useful lives of the goodwill acquired in the past, it is clear that a useful life of five years is entirely insufficient. The same applies to capitalised goodwill resulting from the takeover of ***Helvea Holding SA, Geneva*** (merger into ***Baader Helvea AG, Zurich).*** The assumed remaining useful life of the wind turbines operated by ***Selan d.o.o., Senj*** is 14 years. Taking into account Section 253 (3) Sentences 3 and 4 HGB, capitalised goodwill is also amortised over 10 years.

All the land and buildings recognised in the schedule of fixed assets are used by the Baader Bank Group in the context of its activities. No intangible assets produced in-house were recognised. The movements in and composition of fixed assets are shown in the following schedule of fixed assets (see table below):

	Depreciation and amortisation					Carrying amount	
	As at 01/01/2019	of which 2019	of which disposals	Changes in the scope of consolidation	As at 31/12/2019	As at 31/12/2019	As at 31/12/2018
	–85,914	**–4,371**	**68**	**0**	**–90,217**	**14,199**	**17,596**
	–59,761	–3,239	68	0	–62,932	7,987	10,017
	–26,153	–1,132	0	0	–27,285	6,126	7,258
	0	0	0	0	0	86	321
	–54,498	**–4,630**	**–84**	**18**	**–59,194**	**77,412**	**81,708**
	–20,217	–762	0	0	–20,979	35,872	36,621
	–34,281	–3,868	–84	18	–38,215	39,191	43,137
	0	0	0	0	0	2,349	1,950
	–9,824	**–1,203**	**31**	**3,644**	**–7,352**	**19,449**	**19,083**
	–2,246	0	31	0	–2,215	6,771	4,162
	–3,644	0	0	3,644	0	517	3,824
	–3,934	–1,203	0	0	–5,137	12,161	11,097

Other assets

Other liabilities include:

EUR'000	31/12/2019	31/12/2018
Other tax receivables	2,664	1,495
Other trade receivables	807	722
Receivables from brokerage fees, exchange rate differences and transaction fees	140	95
Reinsurance claims from life insurance policies	44	50
Other assets	3,655	2,362

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges relate to an amount of EUR 31 thousand (previous year: EUR 41 thousand) in differences from the issue of promissory note loans recognised on the assets side pursuant to Section 250 (3) HGB. This difference is released pro-rata over the remaining term on a straight-line basis.

Bank loans and advances

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

Liabilities to customers

As at the reporting date, client deposits due on demand amounted to EUR 313,249 thousand (previous year: EUR 333,847 thousand) and liabilities to customers with an agreed term or notice period amounted to EUR 130,845 thousand (previous year: EUR 153,308 thousand) which were primarily attributed to promissory note loans issued.

Other liabilities

Other liabilities include:

EUR'000	31/12/2019	31/12/2018
Trade payables	4,771	4,412
Tax liabilities	2,849	1,494
Other liabilities	1,434	1,229
Liabilities from capital market services	0	6,455
Other liabilities	9,054	13,590

Pension provisions

As at 31 December 2019, pension provisions amounted to EUR 17,377 thousand (previous year: EUR 16,172 thousand) and are determined using the procedure described in the "Liabilities and provisions" section. For the reinsurance of liabilities, bank accounts, securities deposits and reinsurance policies are available.

The actuarial calculations are based on the following parameters:

	31/12/2019	31/12/2018
Actuarial interest rate	2.71 %	3.21 %
Changes in salaries	2.00 % to 3.00 %	2.00 % to 3.00 %
Pension adjustments	1.80 % to 2.00 %	1.80 % to 2.00 %

In compliance with Section 253 (6) HGB, a difference of EUR 894 thousand arises between the recognition of provisions using the relevant average market interest rate of the past 10 financial years and the recognition of the provision using the relevant average market interest rate of the past seven financial years.

In addition, the Klaus Heubeck "Richttafeln 2018 G" (mortality) tables were used as the basis for the calculations in both the commercial financial statements and the statements used for tax purposes as at 31 December 2019.

Plan assets

EUR'000	31/12/2019	31/12/2018
Cost	22,882	21,268
Fair value	23,675	21,710
Offset liabilities	15,095	14,208

Bank deposits, reinsurance policies and securities deposits qualifying as plan assets are netted against the pension obligations. In addition, an excess of plan assets over pension liabilities totalling EUR 8,580 thousand is reported within assets (previous year: EUR 7,502 thousand). On a net basis, this results in a balance sheet recognition of pension provisions in the amount of EUR 2,882 thousand (previous year: EUR 1,964 thousand). Income and expenses from the offset assets are recognised in the net amount of EUR 372 thousand and in compliance with Section 246 (2) HGB under the item "other operating income". Expenses in the amount of EUR 1,384 thousand were offset against income in the amount of EUR 1,756 thousand under application of Section 246 (2) Sentence 2 HGB.

Other provisions

Other provisions are comprised as follows:

EUR'000	31/12/2019	31/12/2018
Personnel provisions	3,614	6,780
Administrative and commission expenses	5,137	2,722
Legal and consulting costs	539	509
Other provisions	500	519
Other provisions	**9,790**	**10,530**

Fund for general banking risks

Under Section 340e (4) HGB, banks are required to create a special "Fund for general banking risks" item in accordance with Section 340g HGB. At least 10 % of the net income generated by the trading portfolio is to be allocated annually to this special item in order to cover the special risks arising from valuation at fair value. The special item is to be funded annually with at least 10 % of the net income generated by the trading portfolio until it reaches at least 50 % of the average annual net income from the trading portfolio over the last five years prior to the date of calculation (minimum level).

On the reporting date, the special item was funded with EUR 11,620 thousand on the basis of withdrawals in the amount of EUR 10,500 thousand as at the reporting date, 31 December 2019.

Trading portfolio

Assets and liabilities held for trading as at 31 December 2019 were as follows:

Assets held for trading in EUR'000	31/12/2019	31/12/2018
Derivative financial instruments	173	23
Debt securities and other fixed-income securities	1,091	1,658
Equities and other variable-income securities	37,013	48,504
Risk discount	–408	–778
Assets held for trading on the balance sheet	**37,869**	**49,407**

Liabilities held for trading in EUR'000	31/12/2019	31/12/2018
Derivative financial instruments	11	48
Liabilities	3,314	1,755
Liabilities held for trading on the balance sheet	**3,325**	**1,803**

Valuation units

No valuation units as defined by Section 254 HGB were created in the 2019 financial year.

Derivative financial instruments

As at the balance sheet date of 31 December 2019, Baader Bank AG held index-related derivative financial instruments in its trading portfolio. These transactions relate to options and futures.

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

Futures transactions

At the reporting date, outstanding futures transactions consist solely of forward exchange contracts as defined by Section 36 No. 1 RechKredV.

		Nominal
Term	Currency	EUR'000
27 December 2019 to 02 January 2020	USD	14.400
30 December 2019 to 02 January 2020	USD	110
30 December 2019 to 03 January 2020	USD	12.700
30 December 2019 to 02 January 2020	USD	–578

The transactions shown relate solely to customer-originated futures transactions as well as spot transactions not fulfilled as at the balance sheet date.

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

Assets held for trading

Portfolio	Description	Category	Maturity	Contracts	Currency	Market price	Market value	Carrying amount
JPM FW FH	E-Mini Nasdaq 100 Stock Index Future	Equity index futures	March 2020	2	USD	8,752,25	350,090.00	337,953.06
Eurex SV	DAX® options (ODAX)	Eurex Equity Index Option	March 2020	100	EUR	24.60	12,300.00	113,055.00
Eurex SV	DAX® options (ODAX)	Eurex Equity Index Option	March 2020	68	EUR	42.90	14,586.00	112,237.40
Eurex SV	VSTOXX® options (OVS2)	Eurex Equity Index Option	February 2020	559	EUR	1.15	64,285.00	139,945.65
Eurex SV	VSTOXX® options (OVS2)	Eurex Equity Index Option	February 2020	1,164	EUR	0.53	61,692.00	140,087.40
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	January 2020	6	USD	0.35	210.00	1,740.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	January 2020	20	USD	0.34	680.00	5,845.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	January 2020	29	USD	0.25	725.00	7,900.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	February 2020	30	USD	1.35	4,050.00	7,200.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	February 2020	10	USD	1.30	1,300.00	2,100.00
JPM FW FH	S&P 500® Index options (SPX)	Share index option	February 2020	15	USD	0.76	1,140.00	3,000.00
JPM FW FH	S&P 500® Index options (SPX)	Share index option	February 2020	15	USD	1.25	1,875.00	7,500.00

Liabilities held for trading

Portfolio	Description	Category	Maturity	Contracts	Currency	Market price	Market value	Carrying amount
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	January 2020	30	USD	0.40	1,200.00	8,950.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	February 2020	20	USD	1.40	2,800.00	6,200.00
JPM FW FH	SPX weeklys℠ options (SPXW)	Share index option	March 2020	20	USD	3.20	6,400.00	6,400.00
JPM FW FH	S&P 500® Index options (SPX)	Share index option	February 2020	10	USD	0.91	910.00	3,000.00
JPM FW FH	S&P 500® Index options (SPX)	Share index option	February 2020	10	USD	1.15	1,150.00	5,600.00

Risk factors	Cash flows
Cash flow fluctuations arise mainly due to the change in value of the Nasdaq 100 (USD 20 per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly due to the change in value of the DAX index (5 euros per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly due to the change in value of the DAX index (5 euros per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly from the change in value of the EURO STOXX 50® (100 euros per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly from the change in value of the EURO STOXX 50® (100 euros per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly due to the change in value of the S&P 500 index (USD 50 per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
Cash flow fluctuations arise mainly due to the change in value of the S&P 500 index (USD 50 per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
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Risk factors	Cash flows
Cash flow fluctuations arise mainly due to the change in value of the S&P 500 index (USD 50 per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day
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Cash flow fluctuations arise mainly due to the change in value of the S&P 500 index (USD 50 per index point)	▪ Daily: difference settlement ▪ Cash settlement takes place on the first exchange trading day after the final settlement day

Interests in investment funds

As at 31 December 2019, the Baader Bank Group has an interest of more than 10 % in the following domestic investment funds as defined by Section 1 of the German Investment Act (Investmentgesetz) or similar foreign investment interests as defined by 2 (9) of the German Investment Act:

Instrument	Investment objective	Volume	Market value	Carrying amount	Distribution 2019
		Units	EUR'000	EUR'000	EUR'000
TRISTONE UI AK I[1] (ISIN: DE000A1XDWV2)	Hybrid fund	12,000	941	941	0
ATHENA UI AK I[1] (ISIN: DE000A0Q2SF3)	Derivative	19,000	1,979	1,979	0

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

The shares in the investment assets are allocated to the liquidity reserve in full (EUR 2,921 thousand).

The investment fund shares can be returned daily.

Assets transferred as collateral

For the liabilities below, assets with the collateral values indicated were deposited as collateral as at 31 December 2019:

EUR'000	Mortgages	Securities (liquidity reserve)	Bank deposits
Bank loans and advances	26.200	0	13.251

Deferred taxes

Deferred taxes are calculated on the basis of differences in value between commercial and tax law, which mainly arise from recognition of pension provisions and the fund for general banking risks (deferred tax assets) as well as the useful life of the office building, plan assets, capitalised order books and discounting of other provisions (deferred tax liabilities). The tax rate used is 28.51 %. In accordance with the option under Section 274 (1) Sentence 2 HGB, the resulting asset surplus is not recognised on the balance sheet.

Equity

1. Share capital

The company's share capital amounted to EUR 45,909 thousand as at 31 December 2019 (previous year: EUR 45,909 thousand). It is subdivided into 45,908,682 (previous year: 45,908,682) no-par bearer shares (ordinary shares).

2. Authorised capital

a) Authorised capital 2016

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

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

a) in order to exclude fractions from the subscription right;

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

c) in order to issue shares against contributions in kind to acquire companies, investments in companies or company divisions or assets – including by means of share swaps – and in the event of business combinations.

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

The authorised capital for 2016 was not utilised in the reporting year (previous year: EUR 0 thousand).

b) Other authorised capital

There was no other authorised capital in financial year 2019.

3. Contingent capital

a) Contingent capital 2007

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

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

b) Other contingent capital

There was no other utilisable contingent capital in financial year 2019.

4. Treasury shares

a) Authorisations to buy treasury shares

The company's shareholders' meeting passed the following resolution on 1 July 2019:

(1) In accordance with Section 71 (1) No. 7 AktG, the company is authorised to purchase and sell treasury shares by 30 June 2024 for the purposes of securities trading. The trading portfolio of the shares to be acquired for this purpose may not exceed 5 % of the company's share capital at the end of any given day. The lowest equivalent value at which a share may be acquired is determined by the average closing price of the company's shares in Xetra trading (or a comparable successor system) on the last three trading days of the stock exchange in Frankfurt am Main prior to the acquisition in question or the respective entry of an obligation to acquire less 10 %. The highest equivalent value amounts to this average closing price plus 10 %. No more than 10 % of the share capital may be allotted to the acquired shares at any time. This includes other shares that the company has already acquired and still owns, or that are attributable to it in accordance with Section 71a et seq. AktG.

(2) **a)**
The Board of Directors is authorised to acquire treasury shares of the company up to the amount of 10 % of the current share capital by 30 June 2024 with the consent of the Supervisory Board. Together with any treasury shares acquired for other reasons that are in the possession of the company or are attributable to it in accordance with Section 71a et seq. AktG, the shares acquired on the basis of this authorisation may at no time exceed 10 % of the company's share capital.

The acquisition may take place on the stock exchange or by means of a public purchase offer addressed to all shareholders of the company or a public invitation to submit offers for sale.

The equivalent value for the acquisition of the shares (excluding ancillary purchase costs) must not be more than 10 % higher or lower than the average value of the share price on the Frankfurt Stock Exchange on the last three exchange trading days before the obligation to acquire (closing price in Xetra trading or a comparable successor system replacing the Xetra system) in the event of acquisition via the stock exchange. In the event of a public purchase offer or a public invitation to the company's shareholders to submit offers for sale, the company may either set a price or a price range at which it is willing to purchase the shares. However, the purchase price (excluding ancillary purchase costs) must not – subject to adjustment during the offer period – be more than 20 % higher or lower than the average value of the share price on the Frankfurt Stock Exchange (closing price in Xetra trading or a comparable successor system replacing the Xetra system) on the last three exchange trading days before the day on which the public announcement of the purchase offer takes place.

If there are significant deviations from the relevant price following publication of the formal purchase offer or the formal invitation to submit offers for sale, then the offer may be adjusted. In this case, the closing price on the Frankfurt Stock Exchange (in Xetra trading or a comparable successor system replacing the Xetra system) of the third trading day preceding the announcement of the adaptation is applied. If the volume of shares offered exceeds the designated repurchase volume, then offers may be accepted in proportion to the respective shares offered or by quota (if applicable by creating transferable put options). A privileged acceptance of small offers or small contingents of offers of up to 50 shares can be provided for.

b)
The Board of Directors is authorised, with the consent of the Supervisory Board, to use treasury shares that are or have been acquired on the basis of this authorisation or authorisation granted at previous shareholders' meetings pursuant to Section 71 (1) No. 8 AktG – in a way other than via the stock exchange or by offering them to all shareholders – as a (partial) consideration in the context of corporate mergers or for the acquisition of companies, divisions, interests in companies or

other assets to the exclusion of the shareholders' subscription right, to sell the treasury shares to third parties for cash, provided that the sale is transacted at a price that is not significantly lower than the trading price, or to offer the treasury shares for purchase, or transfer them, to individuals who are employed by the company or one of its affiliates.

c)
Moreover, the Board of Directors is authorised to redeem designated shares without such redemption requiring an additional resolution by the Shareholders' Meeting. With the consent of the Supervisory Board, shares can also be redeemed in such a manner that the share capital does not change, but rather that through the redemption the proportion of share capital per remaining common share is increased pursuant to Section 8 (3) AktG (simplified redemption procedure according to Section 237 (3), No. 3 AktG). If the redemption is performed using the simplified procedure, then the Supervisory Board is authorised to adjust the number of no-par value bearer shares contained in the company's articles of incorporation.

d)
The authorisation may be exercised as a whole or in instalments, once or more than once, for one or more purposes, by the company or also by affiliated companies or by third parties on the account of the company or its affiliates.

b) *Number of treasury shares*

The company held 276,996 treasury shares as at 31 December 2019.

Retained earnings

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

Balance sheet profit/loss

EUR'000	31/12/2019	31/12/2018
Consolidated net income	–415	–21.024
Non-controlling interests	–176	–286
Consolidated income after non-controlling interests	–591	–21,311
Loss of the parent company brought forward	–33,644	–11,036
Withdrawals from retained earnings	37,307	3,801
Transfers to retained earnings	–9,864	–5,098
Consolidated net loss	–6,792	–33,644

The net loss for fiscal year 2019 of Baader Bank AG as the parent company amounts to EUR –2,518 thousand. Taking into account transfers from retained earnings (in accordance with the decision taken by the Board of Directors on 5 February 2020) totalling EUR 29,370 thousand at the Baader Bank AG level and the loss carried forward from previous years in the amount of EUR 33,644 thousand, there is a balance sheet loss of EUR 6,792 thousand.

Treasury shares

The company held 276,996 treasury shares as at 31 December 2019. The number of treasury shares held did not change during the reporting period, and represents 0.60% of share capital. The share capital held as treasury shares amounts to EUR 277 thousand.

Balance as at 31/12/2018	Additions (Number)	Average price (in EUR)	Disposals (Number)	Average price (in EUR)	Balance as at 31/12/2019
276,996	0	0	0	0	276,996

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

Contingent liabilities

Contingent liabilities are a result of guarantees given to members of the Board of Directors and, as at the reporting date, amount to EUR 203 thousand (previous year: EUR 203 thousand) as well as in respect of an employee in the amount of EUR 5 thousand (previous year: EUR 5 thousand).

Other obligations

There are irrevocable open loan commitments to clients totalling EUR 2,065 thousand (previous year: EUR 7,584 thousand).

VII. Transactions not included in the balance sheet

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

During the course of its normal business activities, the Baader Bank Group has entered into financial commitments in addition to the liabilities shown in the balance sheet as at 31 December 2019, as shown in the following table:

	Remaining term	Financial obligation
	Months	EUR'000
Future payments from lease agreements for office space, usable areas and parking spaces	1 to 106	3.959
Future payments from vehicle lease agreements and lease agreements for furniture and office equipment	1 to 54	7.351
Future payments from other service agreements	3 to 57	11.407

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

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

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

VIII. Notes to the income statement

Interest income and interest expenses

he item "interest income" from lending and money market transactions includes negative interest on credit balances on current accounts in the amount of EUR 965 thousand (previous year: EUR 711 thousand) as well as from term and client deposits in the amount of EUR 11 thousand (previous year: EUR 9 thousand).

Negative interest in the amount of EUR 1,023 thousand (previous year: EUR 1,068 thousand) resulting from client deposits and time deposits, as well as expenses in the amount of EUR 6 thousand (previous year: EUR 9 thousand) from the compounding of other provisions were recognised under the item "Interest expenses".

Revenue

Revenue of EUR 12,808 thousand relates in full to feed-in remuneration for electricity generated by the wind farm.

Other operating income

Other operating income in the amount of EUR 3,514 thousand (previous year: EUR 3,005 thousand) comprises income from the reversal of provisions (EUR 490 thousand), income from fringe benefits (company car) (EUR 476 thousand) as well as out-of-period income (EUR 56 thousand).

Other income totalling EUR 1,787 thousand is also included, which has resulted primarily from project costs to be passed on, which are incurred predominantly from the supervision of capital market services, as well as calculated expenses from the discounting of pension provisions, with the expenses and income from plan assets in compliance with Section 246 (2) of HGB (EUR 372 thousand).

Out-of-period income relates primarily to reimbursements of contributions.

Other administrative expenses

The other administrative expenses of EUR 42,763 thousand include expenses for the operation and maintenance of the wind farm in the amount of EUR 2,505 thousand.

Other operating expenses

Other operating expenses in the amount of EUR 1,841 thousand (previous year: EUR 1,650 thousand) primarily include out-of-period expenses in the amount of EUR 495 thousand and other expenses in the amount of EUR 1,346 thousand, the majority of which are due to expenses for project costs paid.

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

Taxes on income

The tax expense reported in fiscal year 2019 of EUR 416 thousand essentially comprises income taxes for the past financial year amounting to EUR 439 thousand and payments of tax arrears from previous years of EUR 17 thousand.

IX. Additional disclosures

Controlling interests

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

Employees

In the 2019 fiscal year, the average number of staff employed was 413 (previous year: 447). Of these employees, 53 held executive positions.

Total remuneration of the Board of Directors and Supervisory Board

The total remuneration of the Board of Directors members for their activity during the financial year amounted to EUR 1,410 thousand.

The total remuneration of the Supervisory Board members for their activity during the financial year amounted to EUR 233 thousand.

Audit fees

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

The fees for financial year 2019 can be broken down as follows:

EUR'000	2019	2018
Annual audit	460	534
Other confirmation services	200	202
Other services	0	11
Tax consulting services	3	0
Total fees	663	747

The services provided by the auditor in addition to the annual audit include, primarily, the audit as defined in Section 89 (1) Sentence 1 WpHG, the securities deposit audit (other confirmation services) and confirmation services in connection with the annual contribution increase for the fiscal years 2018, 2019 for the German Compensatory Fund of Securities Trading Companies (EdW) (other services).

Executive bodies of the Baader Bank Group

Board of Directors

Mr Nico Baader, Grafelfing
(Chairman)

Occupation: Banker

Responsible for:
Board of Directors Support,
Group Strategy & Communication,
Executive Committee for Market Making,
Legal & Corporate Finance Execution,
Capital Market Analysis,
Market Making Equities Stuttgart,
Market Making Equities Frankfurt / Berlin / Munich / TC / Funds / ETF / ATF,
Market Making Securitised Derivatives,
Market Making Bonds, Treasury,
Information Technologies, Capital Markets

Mr Dieter Brichmann, Penzberg
(Deputy Chairman)

Occupation: Kaufmann (Business Administrator)

Responsible for:
Risk Management & Regulatory Reporting,
Compliance / Money Laundering,
Internal Audit, Data Protection, Credit,
Accounting & Corporate Taxes / Controlling,
Human Resources & Company Organisation,
Information Security, Back Office, Outsourcing

Mr Oliver Riedel, Lauf

Occupation: Banker

Responsible for:
Corporate Brokerage,
Distribution, Products,
Client Services / Business Development,
Business Management Office

Supervisory Board

Dr Horst Schiessl, Munich
(Chairman)

Lawyer

Mr Helmut Schreyer, Munich
(Deputy Chairman)

Former general partner at Hauck & Aufhäuser Privatbankiers KGaA

Prof Dr Georg Heni, Freudenstadt

Managing Partner of WirtschaftsTreuhand GmbH, Public Auditors

Mr Nils Niermann, Lauingen
(until 30 June 2019)

Chairman of the Board of Directors of Sparkasse Neuburg-Rain

Mr Christoph Mast, Bad Nauheim
(since 1 July 2019)

Independent Consultant, law firm

Mr Ali Cavli, Frankfurt am Main
(employee representative)

Securities trader in the Market Making Funds department of Baader Bank AG

Mr Thomas Leidel, Bruckmuhl
(employee representative)

Head of Data & Risk Management of Baader Bank AG

Appointments pursuant to Section 340a (4) No. 1 HGB

As at 31 December 2019, appointments on statutory supervisory committees of large companies limited by shares were held. These and other noteworthy appointments are listed below:

Appointee	Company/institution in which appointment held	Appointment
Mr Nico Baader	Baader & Heins Capital Management AG, Unterschleissheim	Deputy Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main (until 14 May 2019)	Member of the Supervisory Board
Mr Dieter Brichmann	Baader & Heins Capital Management AG, Unterschleissheim	Chairman of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board
Mr Oliver Riedel	Baader Helvea AG, Zurich (Switzerland)	Chairman of the Managing Board
	Baader Helvea Limited, London (UK)	Member of the Supervisory Board of Directors
	Baader Helvea Inc., New York (USA)	Member of the Supervisory Board of Directors
	Gulf Baader Capital Markets, S.A.O.C., Muscat (Oman) (until 28 March 2019)	Member of the Board of Directors
Mr Florian Schopf	Baader & Heins Capital Management AG, Unterschleissheim (from 11 February 2019)	Member of the Supervisory Board
	Conservative Concept Portfolio Management AG, Frankfurt am Main (from 1 February 2019)	Member of the Supervisory Board
Mr Lukas Burkart	Baader Helvea Limited, London (UK)	Member of the Supervisory Board of Directors
Mr Sebastian Niedermayer	Baader Helvea Inc., New York (USA)	Member of the Supervisory Board of Directors

List of Baader Bank Group shareholdings

The Baader Bank Group directly holds more than 5% of the shares in the following companies, which were not included as subsidiaries or associates as at 31 December 2019:

Name / headquarters	*Share of capital*	Last interim/ annual financial statements	Equity (Total)	Net profit/loss for the year
	%		EUR'000	EUR'000
Vjetropark Vrataruša d.o.o., Senj (Croatia)[1]	*100.00*	31 December 2019	448	0
Parsoli Corporation Ltd., Mumbai (India)	*21.93*	*No current data are available as at 31 December 2019.*		
Earlybird DWES Fund VI GmbH & Co. KG[2]	*6.45*	31 December 2019	97,119	1,195
AlphaValue SA, Paris (France)	*5.39*	31 December 2018	1,836	–494

[1] Equity and the net profit for the financial year as at 31 December 2019 have been translated (EUR/HRK 7.4395).
[2] Equity and the net profit for the fiscal year were disclosed on the basis of unaudited annual financial statements as at 31 December 2019.

Supplementary report

With the outbreak of the coronavirus and the resultant pandemic, there is a huge amount of uncertainty surrounding further economic development in 2020, not only in Germany but also in Europe and around the world. The financial impact of the coronavirus pandemic on the real economy could not be quantified when the annual financial statements were prepared. However, the longer the coronavirus pandemic lasts, the more severe the negative consequences will be for the real economy and the financial markets.

Unterschleissheim, 18 March 2020

Baader Bank AG, The Board of Directors

Nico Baader

Dieter Brichmann

Oliver Riedel

Independent Auditor's Report

To Baader Bank Aktiengesellschaft, Unterschleissheim

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

Audit Opinions

We have audited the consolidated financial statements of Baader Bank Aktiengesellschaft, Unterschleissheim and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the group management report of Baader Bank Aktiengesellschaft, which is combined with the Company's management report,] for the financial year from January 1 to December 31, 2019. We have not audited the content of the group statement on corporate governance pursuant to § 289f HGB in accordance with the Ger-man legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the group statement on corporate governance referred to above.

Pursuant to § 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reser-vations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to De-cember 31, 2019. These matters were addressed in the context of our audit of the consolidated fi-nancial statements as a whole, and in forming our audit opinion thereon; we do not provide a sep-arate audit opinion on these matters.

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

I. Impairment of Goodwill

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

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

Hereinafter we present the key audit matter[s]:

I. Impairment of Goodwill

1. In the consolidated financial statements of Baader Bank, goodwill from the consolidation of subsidiaries totalling 6.1 million (1.0% of total assets and 8.2% of equity) is reported under the balance sheet item "Intangible assets". Goodwill is amortized on a scheduled straight-line basis over its expected useful life. If there are objective indications of a probable permanent impairment and if these cannot be disproved, the goodwill is tested for impairment and, if necessary, an impairment loss is determined and the carrying amount is reduced. The amount of the impairment loss is determined by comparing the carrying amount of goodwill with its fair value. To simplify matters, the fair value of the investment is determined by comparing the fair value of the investment with the sum of the consolidated carrying amount of the sub-sidiary's net assets and the residual carrying amount of the subsidiary's goodwill. Since no market price can be used, the fair value of the investments is determined on the basis of a busi-ness valuation model. The basis of the valuation is regularly the present value of the expected future cash flows, which is determined using discounted cash flow models. The starting point for this is the budgets prepared by the legal representatives of the investees, which are up-dated with assumptions about long-term growth rates. Expectations of future market develop-ments and assumptions about the development of macroeconomic factors are also taken into account. Discounting is based on the weighted average cost of capital of a comparable alterna-tive investment. The impairment test did not reveal any need for impairment. The perfor-mance and result of this valuation is highly dependent on the assessment of the legal repre-sentatives with regard to the indications of a probable permanent impairment, the expected future cash flows of the respective subsidiaries, the discount rate used, the growth rate and other assumptions and is therefore subject to considerable uncertainty. Against this back-ground and due to the complexity of the valuation, this matter was of particular importance in the context of our audit.
2. Within the scope of our audit, we have, among other things, understood the methodical proce-dure for testing the recoverability of goodwill. We also examined whether there were any indi-cations of probable impairment by, among other things, interviewing employees of the Com-pany and reviewing the annual financial statements of the subsidiaries and other documents. With regard to the determination of the fair value, after comparing the expected future cash flows used in the calculation with the Group's approved medium-term planning, we assessed the appropriateness of the calculation, in particular by reconciling the planning assumptions with general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate used can have a significant impact on the amount of the en-terprise value determined in this way, we have intensively studied the parameters used to de-termine the discount rate used and reconstructed the calculation scheme. We have carried out our own sensitivity analyses in order to take account of the existing forecast uncertainties. In these analyses, we determined that the consolidated carrying amount of net assets plus the re-sidual carrying amount of goodwill of the subsidiaries are sufficiently covered by the dis-counted expected future cash flows, taking into account the information available. The esti-mates made by the legal representatives as well as the valuation parameters and assumptions applied are generally in line with our expectations and are also within the ranges that we con-sider to be reasonable.
3. The Company's disclosures on goodwill are contained in the "Fixed assets" section of the notes to the consolidated balance sheet.

Other Information

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

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Finan-cial Statements and the Group Management Report

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropri-ate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circum-stances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to con-tinue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to mod-ify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial state-ments, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, super-vision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective infor-mation and on the assumptions used as a basis. There is a substantial unavoidable risk that fu-ture events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on July 1, 2019. We were en-gaged by the supervisory board on November 4, 2019. We have been the group auditor of the Baa-der Bank Aktiengesellschaft, Unterschleissheim, without interruption since the financial year 2014.

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

German Public Auditor Responsible for the Engagement

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

Information and Service

The Annual Report 2019 was published in German and English. The report is available as PDF on the Internet www.baaderbank.de/Investor-Relations/News-and-financial-reports

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

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

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

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

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

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

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

Notes
We classify external data sources, which have been processed in our report, as trustworthy and reliable. Although they have been carefully researched, we accept no responsibility for the accuracy of this information. Forward-looking statements made in this report are based on current expectations, assumptions and forecasts on the basis of information currently available. No guarantee can be accepted regarding future developments. If registered brands or trademarks have been listed, they also belong to their respective owners, even if they have not been identified as such. Even if they are not labelled, they are not free names as defined by the law on brands and trademarks.

Financial calendar 2020

tba	Annual General Meeting
30 July 2020	Publication of half-year report and press release on half-year results
14 October 2020	m:access Analyst Conference
29 October 2020	Press release on the nine-month results

Corporate Governance

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

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

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