



Baader Bank Group

Semi-Annual Report 2018

Reporting date: 30/06/2018

Overview of key figures – 1st half-year 2018

BAADER BANK GROUP		01/01- 30/06/2018	01/01- 30/06/2017	Change in %
Income	EUR'000	53,194	62,578	-15.0
of which interest income and current income	EUR'000	105	428	-75.5
of which net commission income	EUR'000	20,089	25,791	-22.1
of which trading profit/loss	EUR'000	25,118	28,894	-13.1
of which revenue	EUR'000	6,415	6,022	6.5
of which other income	EUR'000	1,284	1,443	-11.0
of which profit/loss from shares in associated companies	EUR'000	183	0	100.0
Expenses	EUR'000	-54,774	-59,619	-8.1
of which personnel expenses	EUR'000	-24,955	-27,392	-8.9
of which administrative expenses and other operating expenses	EUR'000	-22,141	-21,841	1.4
of which depreciation, amortisation and impairment	EUR'000	-7,678	-10,129	-24.2
of which profit/loss from shares in associated companies	EUR'000	0	-257	-100.0
Earnings before tax (EBT)	EUR'000	-1,580	2,959	-
Operating result*	EUR'000	453	5,848	-92.3
Total assets	EUR'000	747,534	715,714	4.4

Reported in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB).

*Gross profit less personnel and other administrative expenses as well as amortisation and depreciation of intangible assets and property, plant and equipment (gross profit = net interest income and current income, commission and net trading income, revenue)

FIRST HALF-YEAR 2018

The market

The first half of 2018 was characterised by an increasing questioning of the optimism about growth prospects which prevailed at the beginning of the year. While the US tax reform passed at the end of 2017 prompted the IMF to revise its forecasts for the global economy upwards in January, the disappointments in published economic data soon increased. In the first quarter, GDP growth in Germany, the Eurozone and the USA weakened significantly compared with the second half of 2017, while it became negative again in Japan.

In addition to weaker than expected demand, the increase in political uncertainty had a negative impact on economic sentiment indicators. In the first half of 2018, this included the lengthy formation of governments in Germany and Italy, the German government crisis in the wake of the refugee policy, the emergence of a populist coalition government in Italy and the lack of progress in the Brexit negotiations. In addition, there were geopolitical issues such as the temporary threat that the North Korean conflict would escalate, the extension of US sanctions against Russia, and the unilateral termination of the US nuclear agreement with Iran. Beyond these issues, the escalating US trade conflict with China and the EU has become increasingly burdensome, as reciprocal threats of tariffs have become more widespread.

The US Fed continued its policy of continuous streamlining under its new President Powell through two further interest rate hikes, with the market in the meantime having to deal with an even tighter pace. However, despite its increased confidence, the Fed reiterated its pragmatic response to changing circumstances. The ECB provided its guidance for the further course of monetary policy, even with significant restrictions. However, in June it announced that, from October, it would halve the monthly volume of its bond purchase programme to EUR 15 billion and then stop it completely from January 2019. At the same time, however, it assumed that inflation would develop in line with expectations and also ruled out interest rate hikes over the next 12 months.

In terms of currency developments, the disappointment over the weak growth of the Eurozone in the first quarter and the political uncertainty and cautious statements by the ECB about further monetary policy brought about a significant turnaround. The initial strength of the euro against the US dollar ended in February and reversed during the second quarter. The development of the gold price largely appeared to be a mirror image of the development of the euro. A strong start to the year was followed by a turnaround in the spring, which led to significant discounts by the middle of the year.

The stock markets saw a sharp correction in the face of bearish economic expectations, heightened political uncertainty and growing concerns about an escalation in the trade dispute after some indices hit record highs at the end of January. The decline in both the DAX and the S&P 500 peaked at more than 10 per cent. However, most markets recovered significantly during the second quarter. Nevertheless, the environment was characterised by continued nervousness and increasing selectivity, so that the half-year balance sheet for most indices was negative.

At sector level, there was a significant rotation. If late-cycle industrial and commodity stocks initially topped the list of winners, there was subsequently an increasingly more defensive tone, favouring in particular interest-rate-sensitive sectors and companies with a sustainable earnings performance.

Influence of macroeconomic and political framework conditions on the Baader Bank Group's business

The noticeable upward trend on the German financial market in the first quarter of 2018 initially benefited Baader Bank, which is shaped by securities trading. After a positive start at the beginning of the year, however, there was a collapse on the European markets at the beginning of the second quarter. Geopolitical uncertainties – such as the constant threat of escalation of the tariff and trade dispute between the USA, China and the EU, which has an inhibiting effect on export-dependent sectors – and the lack of impetus from the US stock market were the main reasons for this.

The stifled market sentiment led to declining sales in all asset classes and reduced Baader Bank's revenues, primarily in trading in equities, ETFs and funds. Due to persistent and low volatilities in the second quarter of 2018, trading in securitised derivatives also had a lower-than-expected result.

For bond trading, which is largely dependent on European interest rate policy, the two interest rate hikes by the Federal Reserve in the USA in the first half of 2018 did not promise a normalising effect on European monetary policy, with the result that income remained at a consistently low level, as expected.

In order to reduce its dependency on the German stock market, Baader Bank's business strategy is increasingly based on complementary sources of income in its core and basic business segments, as explained below.

Events and developments in the first half of 2018 in individual business lines

Technological change and regulation require a high degree of flexibility in market making

After the Deutsche Börse Group's electronic trading platform Xetra was converted to the T7 trading platform in 2017 and the infrastructural conditions for trading were put in place in open order books, the gradual transfer of the new trading procedures to various asset classes was pursued in the first half of 2018.

The increased regulatory burden after the entry into force of MiFID II at the beginning of 2018 also presented challenges for market making. The conditions and transparency requirements for trading linked to the Financial Markets Directive were accompanied by the introduction of numerous procedural and operational measures.

The increasing technical and regulatory requirements continue to put pressure on less capital-intensive market makers within Germany, which means that consolidation tendencies in the competitive environment of Baader Bank will continue in the remainder of financial year 2018.

There was no notable growth in over-the-counter trading in Germany during the first half of 2018. The objective of continuing to generate constant order flow volumes through existing partnerships with online and direct banks participating in the quota, trading and settlement systems of Baader Bank is maintained. In the longer term, the aim is to extend OTC activity to non-German markets.

In the first half of 2018, Baader Bank was mandated to act as a specialist for a total of six IPOs in the Prime Standard segment of the Frankfurt Stock Exchange. It took over the order bookkeeping of Instone, Siemens Healthineers, DWS, Godewind Immobilien AG, Home24 SE and Akasol.

Restrained market inhibits transaction business in the capital markets business line

In the Equity Capital Markets business, Baader Bank advised on a total of three transactions having a total volume of approx. EUR 130 million in the first half of 2018. Given the rather subdued forecasts for the reporting period, this result is almost in line with the Management Board's expectations, which still gives a continued satisfactory interim result in view of the mandates promised for the third quarter of 2018.

The increasingly volatile market environment during the first half of 2018 kept some companies from their originally planned IPOs. With the IPO of NFON AG, a leading European provider of cloud-based high-end telephone solutions, Baader Bank was nevertheless able to support a successful transaction with a total volume of EUR 73 million as a joint bookrunner. In addition, it completed the capital increase of Medigene AG, also in the role of joint bookrunner, as well as that of Paion AG. For the latter, it was also appointed corporate broker and designated sponsor, underscoring its excellent position as capital market partner for biotech companies in the GSA region.

Since the demand for securities technology services is significantly less dependent on market fluctuations, the Special Execution business line posted a series of mandates in the first half of 2018, thereby increasing its record level of sales achieved in the same period in the previous year. With the implementation of high-quality transactions, such as the capital increase of H&R GmbH & Co. KGaA in the form of a scrip dividend, of Softing AG or Wallstreet Online AG, Baader Bank demonstrated its first-class expertise in its role as technical lead manager.

Constant growth in the asset management business – digital offers testify to innovative strength

The expansion of cooperations with traditional and digital asset managers progressed further in the first half of 2018. The special offering of banking and trading services for online asset managers and their end customers has created a market interface with solid earnings potential. With the growth in account and securities account customers participating in a B2B2C set-up (bank – asset manager – end customer) of complementary banking services, the business line's share of the bank's total order volume has also increased. Furthermore, the acquisition of new customers by asset managers and FinTechs was limited to the German-speaking region. With Exporo and Qualitinvest, two renowned online asset managers were contractually linked to Baader Bank. Overall, Baader Bank already manages 14 online asset managers in this business line.

As part of a cooperative project, Baader Bank developed a portal solution that can be used by asset managers as a white label onboarding tool and can be made available to their end customers in order to emphasise innovative and sales-oriented features in the light of the ongoing digitisation within the financial industry. A new comparison platform for asset managers named "Vermögens-Fuchs", which was also developed on the initiative of Baader Bank, offers end customers a transparent comparison of providers with a direct option to enter into business.

At this year's Asset Managers' Day at Baader Bank's site in Unterschleißheim, over 200 guests were able to exchange views on the opportunities and risks of investment strategies and market-moving, geopolitical events. Issues relating to digitisation in the banking and asset management business were met with great interest in the discussions and expert presentations.

Complementary banking and asset management services – evolution in numbers

Compared to the end of the first half of 2017, the number of customer securities accounts increased from around 10,500 to 19,700 and the volume of securities accounts increased by around 36 per cent to EUR 3 billion in the same period. By the end of the reporting period, a total of 56 asset managers were contractually linked to Baader Bank; in the previous year there were 49.

Assets under management in the Asset Management Services segment increased by around 35 per cent compared to the previous year. As at the half-year reporting date for 2018, they stood at just under EUR 7.5 billion.

Awards for research and brokerage – Baader Bank receives quality label as a top broker in German equities and is voted the number one for trading and execution in Germany

In the annual ranking of world-leading sell-side analysts, the Thomson Reuters Analyst Awards 2018, Baader Helvea Equity Research achieved second place in the overall category “Top Brokers Germany” in June 2018. Baader Helvea’s analysts also ranked first once and second four times in terms of stock and sector selection. In the cross-sector category, Baader Bank was among the top 10 institutes.

Once again, Baader Bank’s research and trading achievements were honoured with top rankings in the Extel Survey 2018. In the survey, the assessment was carried out on the client side by institutional investors, who rated Baader Bank number one for trading and execution in Germany. In addition, the Baader Helvea Swiss Equities Conference, which takes place annually in Bad Ragaz, Switzerland, was ranked as one of Europe’s top five conferences.

Over 60 leading Swiss companies and approx. 300 institutional investors from 15 countries attended the 14th Baader Helvea Swiss Equities Conference in January 2018.

From a strategic point of view, these awards reinforce Baader Bank’s international reputation as a first choice for equity research with a clear focus on the GSA region and promote its reputation among institutional investors who are guided by the recognised assessment standards of the awards and rankings.

As MiFID II, introduced at the beginning of 2018, provides for the dissolution of research offerings for further brokerage services, Baader Bank, as an analysis provider, is in an increasingly price-driven competitive environment. In order to exploit the potential opportunities that can be identified from this, the creation of new structural framework conditions has begun, including digital solutions for the provision of research content, customer-friendly settlement via research payment accounts and adequate research controlling instruments.

On the basis of targeted marketing activities and fair market pricing, numerous contractual agreements for research services have already been closed in recent months.

The initial conclusion regarding the effects of MiFID II for the brokerage and research business is that the Baader Bank can rank among the profiteers of the newly developed market structures. On the one hand, in the brokerage business, a significant market share was acquired in trading activities, and on the other hand, the now solely independently marketed research activities enjoyed a positive demand from customers and investors.

Miscellaneous

New members of the Supervisory Board of Baader Bank

In June 2018, two new members were appointed to the Supervisory Board of Baader Bank at the shareholders' meeting. Prof Dr Georg Heni and Nils Niermann are to follow in the footsteps of Dr Christoph Niermann and Karl-Ludwig Kamprath. The election of two new employee representatives to the Supervisory Board took place as scheduled in April 2018. Ali Cavli and Thomas Leidel took over the two Supervisory Board mandates of Theresia Weber and Jan Vrbsky. Dr Horst Schiessl, Chairman of the Supervisory Board, and Deputy Chairman Helmut Schreyer remain members of the Supervisory Board.

As managing partner of WirtschaftsTreuhand GmbH and as an auditor, Prof Dr Georg Heni has many years of expertise in the accounting and auditing of medium-sized companies.

Nils Niermann has enjoyed a successful career in the banking industry, at Bayerische Landesbank among others, and is the managing director at Dr. Nagler & Company GmbH.

Ali Cavli is a graduate computer scientist and has been authorised as a securities trader on the Frankfurt Stock Exchange since 1998. He has worked for Baader Bank in the line of market making funds for 12 years.

Thomas Leidel has been working at Baader Bank since 2009. He studied business administration, specialising in capital market research, and is Head of Data & Risk Management at Baader Bank.

NET ASSETS

ASSETS	30/06/2018 EUR'000	31/12/2017 EUR'000	Change %
1. Cash reserves	161,354	217,508	-25.8
2. Loans and advances to banks	72,467	90,251	-19.7
3. Loans and advances to customers	35,375	31,555	12.1
4. Debt securities and other fixed-income securities	267,395	225,730	18.5
5. Equities and other variable-income securities	17,907	19,017	-5.8
6. Trading portfolio	66,856	55,761	19.9
7. Equity investments	3,587	234	>100.0
8. Investments in associated companies	4,041	3,858	4.7
9. Intangible assets	19,544	21,292	-8.2
10. Property, plant and equipment	84,109	86,307	-2.5
11. Other assets	3,125	2,850	9.6
12. Prepaid expenses and deferred charges	4,155	3,078	35.0
13. Excess of plan assets over pension liabilities	7,619	7,403	2.9
Total assets	747,534	764,844	-2.3

EQUITY AND LIABILITIES	30/06/2018 EUR'000	31/12/2017 EUR'000	Change %
1. Bank loans and advances	102,457	115,660	-11.4
2. Payables to customers	501,215	510,802	-1.9
3. Trading portfolio	12,949	2,898	>100.0
4. Other liabilities	7,034	6,942	1.3
5. Prepaid expenses and deferred charges	42	0	100.0
6. Provisions	6,850	8,966	-23.6
7. Fund for general banking risks	22,120	22,120	0.0
8. Equity	94,867	97,456	-2.7
Total equity and liabilities	747,534	764,844	-2.3

Net assets as at 30/06/2018 decreased by 2.3 per cent and now amount to EUR 747.5 million compared to the balance sheet date as at 31/12/2017.

The change resulted mainly from the balance sheet date-related development of the securities portfolios with an increase of 17.0 per cent, offset by a decline in cash reserves, and loans and advances to banks. This also applies to the changes in the items bank loans and customer advances.

Equity investments increased by EUR 3.35 million through payments to the "Earlybird DWES Fund VI" fund of the venture capital investor Earlybird, a professional and established partner in the VC sector with its registered office in Munich.

As at 30/06/2018, the Group has equity in the amount of EUR 94.9 million (31/12/2017: EUR 97.5 million). The fund for general banking risks pursuant to Section 340g HGB [German Commercial Code] in the amount of EUR 22.1 million increases the Bank's own funds accordingly to EUR 117.0 million. The equity ratio amounts to 12.7 per cent. The change in equity primarily corresponds to the balance from the negative net income before third party shareholders for the first six months of the financial year 2018 in the amount of EUR 2.1 million, as well as dividend distributions of subsidiaries of EUR 0.5 million.

The sale of the subsidiary SKALIS Asset Management AG resulted in no significant changes within equity in the course of the deconsolidation.

The Group's net asset position remains sound.

RESULTS OF OPERATIONS

INCOME STATEMENT	01/01 - 30/06/2018 EUR'000	01/01 - 30/06/2017 EUR'000	Change %
1. Net interest	-573	-258	>100.0
2. Current income from			
a) Equities	678	686	-1.2
3. Net commission income	20,089	25,791	-22.1
4. Net result from the trading portfolio	25,118	28,894	-13.1
5. Revenue	6,415	6,022	6.5
6. Other operating income	1,284	1,443	-11.0
7. Administrative expenses			
a) Personnel expenses	-24,955	-27,392	-8.9
b) Other administrative expenses	-20,949	-20,950	0.0
	-45,904	-48,342	-5.0
8. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	-5,370	-6,943	-22.7
9. Other operating expenses	-1,192	-891	33.8
10. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in the lending business	-2,277	-3,186	-28.5
11. Depreciation, amortisation and write-downs on equity investments, shares in affiliated companies and securities treated as assets	-31	0	100.0
12. Net income from interests in associates	183	-257	-
13. Result from ordinary business activities	-1,580	2,959	-
14. Taxes on income	-425	-773	-45.0
15. Other taxes not shown under Item 9	-40	-55	-27.3
16. Net income before third party shareholders	-2,045	2,131	-
17. Profit owing to third party shareholders	-66	-25	>100.0
18. Net income for the year	-2,111	2,106	-
19. Losses from the previous year	-11,036	-6,642	66.2
20. Consolidated net income	-13,147	-4,536	>100.0

In the first half of the year, the Baader Group was not able to build on the previous year's positive results from ordinary business activities. After the previous year's result of EUR 3.0 million, the result from ordinary business activities fell by EUR 4.6 million to EUR -1.6 million over the current reporting period, due to the following factors.

Net interest income is below that of the previous year. Once again, the significantly lower interest expenses due to the maturity of high-interest-bearing promissory note loans were not able to compensate for the interest expenses arising from the third party financing of the wind park at Selan d.o.o. in the amount of EUR 0.7 million, with the result that the net interest income is at EUR -0.6 million as at the reporting date.

Current income remains at the previous year's level and amounts to EUR 0.7 million.

As a result of the current market environment and new regulatory requirements, including those resulting from the entry into force of the second Markets in Financial Instruments Directive (MiFID II) and the exclusion of promissory note loans from the German voluntary deposit protection scheme (ESF), commercial and commission income significantly declined.

Net commission income fell by 22.1 per cent, or EUR 5.7 million to EUR 20.9 million. This development is primarily a result of lower net commission income compared to the previous year from the brokerage of promissory note loans and capital market services.

With a decline of 13.1 per cent, or EUR 3.8 million, the result from the trading portfolio, resulting from the Market Making Equities and Market Making Funds/ETFs business segments of Baader Bank AG, was also more restrained.

The recognised sales revenue item is fully attributable to the feed-in remuneration for electricity generated by the wind park.

The administrative expenses decreased by 5.0 per cent, or EUR 2.4 million, compared to the previous year. Although personnel expenses were impacted by one-off effects in the previous year, the first six months of the financial year showed an expected decline of 8.9 per cent, or EUR 2.4 million. The other administrative expenses are at the previous year's level, which confirms the Group's operational efficiency.

Depreciation, amortisation and write-downs on intangible assets, and property, plant and equipment result in full from scheduled depreciation, which declined by a total of 22.7 per cent, or EUR 1.6 million, primarily as a result of the depreciation of individual order books and goodwill that expired in full last year.

For the subsidiaries, it was the Selan Group, the Baader Helvea Group and the Baader & Heins Capital Management AG that generated positive contributions to profits in the first six months of the financial year.

Despite the decrease in profit components in the first half of the year, Group management expects a significant revival over the course of the year and a positive result towards the end of the year.

The result from associated companies is attributable in full to the pro rata net income for the year and amounts to EUR 0.2 million, representing a significant increase from the previous year.

The tax expense represents the actual taxes charged to the Group.
As of 30/06/2018, the Group had 451 employees (30/06/2017: 445).
Earnings per share amounted to EUR -0.05 (previous year: EUR 0.05).

FINANCIAL POSITION

On 30/06/2018, current receivables and marketable securities for sale at any time amounting to EUR 593.7 million were offset by current liabilities in the amount of EUR 396.4 million. Netted, this results in a balance sheet liquidity surplus of EUR 197.3 million. The Group's solvency during the reporting period was assured at all times and is also secure in the future due to the Bank's risk monitoring systems.

OUTLOOK

The market

In view of increasing uncertainty for global trade, it can be assumed that the global economy will continue to experience weaker-than-expected growth in the second half of 2018. This could also gradually become the case for countries whose economies have so far proven comparatively robust, such as the USA. Against this backdrop, the early indicators are not expected to gradually stabilise until the autumn.

As long as economic news is dominated by disappointment, the financial markets are likely to remain susceptible to losses as a result of political uncertainty. This will be especially true should there be a further escalation in the international trade war, which is quite likely in the run-up to the US elections in the autumn. The potential failure of Brexit negotiations also poses a risk, as the domestic political friction that has become apparent in the UK could prevent the October deadline set for agreement with the EU from being met.

A strengthening US dollar and weaker-than-expected growth in demand should tend to have a negative impact on the development of commodity prices. Given the willingness of OPEC countries to expand oil production once more, a fall in oil prices is a likely outcome. Against this backdrop, the price of gold is likely to move sideways for quite some time, and will only rise more sharply if there are indications of a slowdown in the reduction of monetary policy stimulus.

The ECB is likely to stick to its plan to end bond purchases for the time being. However, it is quite likely that the markets will discuss extending the exit schedule, at least in phases. Depending on how quickly growth and inflation slow down in the USA, there is also the possibility that the cycle of US interest rate hikes will be paused. At present, the most likely scenario for the markets is that the Fed will raise the key interest rate twice more in the second half of the year.

On the stock markets, there is a risk that the correction phase that began at the end of January will continue for some time. This is particularly true with regard to the seasonally weak months of August and September. Although the lows reached in the spring appear to be possible once again, they should not be significantly undershot. A much more positive stock market environment can then be expected for the fourth quarter. However, the increase in selectivity observed in recent quarters is expected to persist and contribute to volatility returning to near long-term average levels.

At sector level, defensive and interest-sensitive sectors and companies with a sustainable earnings trend are likely to outperform at first, while very cyclical and commodity price-sensitive sectors and companies with a weak balance sheet and high leverage are likely to underperform. This trend should then partially reverse towards the end of the year.

Baader Bank

The environment tended to be mixed and nervous for Baader Bank's business activities in the first half of the year. The second half of the year should see a stabilisation in this regard. From a political and economic perspective, there are some signs that would suggest a positive basic trend in the international financial markets and thus encouraging basic growth in Baader Bank's markets and business segments. The improving bond markets and rising interest rates are of particular note in this regard.

Baader Bank is responding to market developments with the targeted implementation of its chosen strategy. The redesign of the business segments for 2017 was the basis for the development of Baader Bank's Vision 2022 by the Executive Board in 2018. This involved an intensive development process to design the Baader Bank of the future and to formulate a vision. It resulted in a forward-looking image, "Vision 2022".

Vision 2022 includes Baader Bank's fundamental and long-term direction and target market position, as well as defining which business segments should be populated and which strategy should be used to achieve the fixed goals. Based on extensive market and potential analyses, attractive and potent markets and business activities are being developed or further developed for Baader Bank. The second half of 2018 will see the introduction of further measures aimed at implementing Vision 2022.

Overall, the market forecasts for the second half of the year have worsened somewhat. These trends are expected to be offset as a result of further strategic development. From these points of view, the Baader Bank Executive Board assumes that the projections for financial year 2018 will be met, so a positive overall result from normal business activities is expected in financial year 2018 for the Baader Bank Group. Baader Bank AG is again expected to break even. It remains to be seen whether both key figures can be classified as significant.

Given the uncertain, exogenous influencing factors, the Executive Board is of the opinion that reliable forecasts for the business development can only be made with reservations. For this reason, the statements, expectations and forecasts on the future development of Baader Bank made in this interim report are therefore based on the information and knowledge available to the company as at the closing date.

Unterschleißheim, 24/07/2018

Baader Bank AG
The Board of Directors