BAADER

Consolidated Semiannual Report of Baader Bank AG as of June 30, 2016

KEY FIGURES FOR THE FIRST HALF 2016

BAADER BANK GROUP		01/01-06/30/2016	01/01-06/30/2015	Change in %
Income	**EUR'000**	**50,099**	**61,628**	**-18.7**
thereof net interest income and current income	EUR'000	1,869	1,057	76.8
thereof net commission income	EUR'000	22,053	27,257	-19.1
thereof trading profit/loss	EUR'000	24,457	31,705	-22.9
thereof other income	EUR'000	1,720	1,609	6.9
Expenses	EUR'000	**-52,240**	**-58,162**	**-10.2**
thereof personnel expenses	EUR'000	-26,554	-31,924	-16.8
thereof administrative expenses and other operating expenses	EUR'000	-20,599	-20,484	0.6
thereof depreciation, amortization, and impairments	EUR'000	-4,886	-5,395	-9.4
thereof profit/loss from shares in associated companies	EUR'000	-201	-359	-44.0
Earnings before taxes (EBT)	**EUR'000**	**-2,141**	**3,466**	**-**
Operating result*	**EUR'000**	**-2,760**	**3,162**	**-**
Total assets	**EUR'000**	**644,636**	**576,330**	**11.9**

***** Gross income less personnel and other administrative expenses, and depreciation, amortization, and impairments of intangible assets and property, plant, and equipment.
(Gross income = Net interest income and current income, net commission income, and trading profit/loss)

FIRST HALF OF 2016

Monetary policy relieves stress in the financial markets

In the first half of 2016, the world economy was adversely impacted by reduced purchasing power in commodity-producing countries due to the weaker prices of oil and industrial metals, among other factors. Another contributing factor was the normalization of the formerly high rate of growth in China. As a result, the previously strong economic performance of the United States faded somewhat. The Eurozone was even forced to contend with persistent deflationary pressures. The German economy suffered losses on the export side, but was generally solid on the strength of stable domestic demand.

The referendum on Britain's exit from the European Union was a source of great political uncertainty. However, the repercussions on financial markets were contained by expansive monetary policy worldwide. Specifically, the ECB increased the monthly volume of its bond purchasing program from EUR 60 billion to EUR 80 billion and also began to purchase investment-grade corporate bonds. It also lowered its main refinancing rate to 0.0 percent and its deposit facility rate to minus 0.4 percent.

In the later course of the second half, the US Federal Reserve increasingly played an important stabilizing role as it backed away from a sustained cycle of interest rate hikes. The resultant weakening of the U.S. dollar initially slowed the capital flight from Asia to the United States and led to an improvement in the purchasing power of commodity-exporting countries as a result of the typical correlation of a weaker world reserve currency with higher commodity prices. This development, in turn, benefited the global economy and eased global anxieties.

In euro terms, risk assets generally lost ground in the first half of 2016. While Brent crude was one asset class that appreciated considerably as a result of dollar weakness and declining production outside of OPEC, the precious metals of silver and gold benefited from their traditional safe-haven status, as did German government bonds. U.S. and emerging-market equities overcame the weakness exhibited at the start of the year, particularly due to the Fed's decision not to continue raising U.S. interest rates. The Japanese equity market was adversely impacted by the strong yen, which has placed tremendous pressure on Japanese exports. Even the Bank of Japan has been unable to counteract this development due to the fact that Japan has lost its low interest rate advantage compared to other currency zones, as interest rates are declining across the world. Other losers were German and Eurozone equities, which were weighed down by political and economic uncertainties.

The already ailing banking sector fell even further after the Brexit vote. The automotive sector also lost ground, due in no small part to the VW emissions scandal, while export-sensitive sectors followed a volatile sideways trend, despite global economic weakness. Thanks to positive consumer sentiment, the consumer goods sector remained solid.

Baader Bank's operating performance in the first half of 2016

Trading activities in all asset classes were characterized by restraint and uncertainty, resulting in low trading volumes on the various trading platforms, which are important for Baader Bank's market-making business. However, trading volumes spiked on certain trading days, due to unforeseen intraday events. Trading activity and trading volumes increased only towards the end of the first half, but then considerably, due to the rising tensions surrounding the Brexit decision. The situation of the bank's brokerage business was similarly characterized by persistently weak trading activity on the part of clients, though with intermittent periods of higher trading volumes. Here too, the situation began to improve only towards the end of the first half. The corporate clients that mandate Baader Bank to advise them on capital market transactions found only few opportunities to place their financial instruments in the market at favorable terms, resulting in a low number of transactions in all the world's capital markets in the first half of 2016.

Equity markets began to improve only in late May and reached a satisfactory level in June. Especially in the early part of the year, the bank generated lower income on mutual funds and ETFs due to falling commodity prices and the economic slowdown in China. However, trading volumes in these products spiked temporarily in the month of June as a result of the Brexit vote. The volatile market situation did not lead to higher income on the trading of securitized derivatives, although high volatility typically leads to higher trading volumes and increased income in this segment. In this case, however, the income generated in this business did not rise because the volatility witnessed during this period was based on very low trading volumes, and investors were filled with great uncertainty. Bond trading activity was restrained particularly as a result of monetary policy factors such as the ECB's decision to extend its bond purchasing program to include corporate bonds, the expansion of quantitative easing, and the protracted and intensified period of low interest rates.

Nonetheless, Baader Bank took the market phase described above as an opportunity to implement strategically important measures to further expand its client business, in particular, during the first six months of 2016.

As part of this effort, Baader Bank considerably expanded its activities in the institutional client business, especially with asset managers. At an information event devoted specifically to this client group, which was held in the bank's office in Unterschleißheim, Baader Bank showcased its pioneering role in the collaboration with asset managers, family offices, and fin-techs. As a fully licensed bank and full-range provider of banking services, Baader Bank optimally complements their services, expertise, and diversity in securities trading. The thoroughly positive client feedback proved that Baader Bank is on the right track with this highly promising strategy.

Further proof that Baader Bank is capable of optimally serving the needs of its clients can be seen in the results of this year's Extel Survey 2016, which is Europe's most important independent ranking of institutional stockbrokers. Baader Helvea's top rankings reaffirmed its outstanding position in equities in the German-speaking region of Germany, Austria, and Switzerland. In fact, Baader Helvea was awarded second place in each one of these countries in the category of Leading Brokerage Firm (Country).

In the segment of Equity Capital Markets, Baader Bank advised on the capital increase of Global Bioenergies SA as Joint Bookrunner and served as Sole Bookrunner on the capital increase of MPC Münchmeyer Petersen Capital AG in the first half of 2016. Baader Bank also acted as Sole Bookrunner on another capital increase and secondary placement for publity AG.

The Swiss subsidiary Helvea, which is integrated into Baader Bank's Sales, Sales Trading, and Equity Research Divisions, announced the formal name change of its international subsidiaries in early June 2016. They were renamed to Baader Helvea AG, Baader Helvea Limited, and Baader Helvea Inc., respectively. While they have retained their independent legal and regulatory status, they are now operating in the international financial markets on the basis of a broad investor network under the brand name Baader Helvea. The Geneva location was closed and the Baader Helvea headquarter was relocated to Zurich. In order to acquire and serve further international clients a new Boston office was opened.

Due to the prevailing market conditions, Baader Bank generated a consolidated net loss from ordinary activities in the amount of EUR -2.1 million in the first half of 2016 (PY: EUR 3.5 million). Net commission income declined by -19.1% to EUR 22.1 million (PY: EUR 27.3 million). The trading profit of EUR 24.5 million was -22.9% less than the corresponding figure for the first half of last year (PY: EUR 31.7 million). Fortunately, administrative expenses were reduced by -10.7%, from EUR 51.8 million to EUR 46.3 million, mainly due to a decrease in personnel expenses.

Taken by itself, it certainly cannot be said that the consolidated net income of EUR -2.9 million for the first half of 2016 (PY: EUR 2.7 million) was in line with expectations; however, due consideration should be given to the bank's extremely strong performance in the first half of 2015 and the challenging market conditions in the first half of 2016.

FINANCIAL POSITION

ASSETS	06/30/2016 EUR'000	12/31/2015 EUR'000	Change %
1. Cash reserve	4,666	14,593	-68.0
2. Receivables due from banks	164,329	117,067	40.4
3. Receivables due from customers	35,586	30,253	17.6
4. Bonds and other fixed-income securities	271,905	225,003	20.8
5. Equities and other variable-yield securities	23,884	27,124	-11.9
6. Trading portfolio	47,421	59,995	-21.0
7. Equity interests	234	234	0.0
8. Shares in associated companies	5,533	5,734	-3.5
9. Intangible assets	23,938	27,006	-11.4
10. Property, plant, and equipment	42,977	43,980	-2.3
11. Other assets	15,230	15,986	-4.7
12. Prepaid expenses	2,844	2,606	9.1
13. Excess of plan assets over pension liability	6,089	6,749	-9.8
Total assets	**644,636**	**576,330**	**11.9**

EQUITY AND LIABILITIES	06/30/2016 EUR'000	12/31/2015 EUR'000	Change %
1. Liabilities due to banks	87,020	53,223	63.5
2. Liabilities due to customers	418,424	386,031	8.4
3. Trading portfolio	7,978	1,686	>100.0
4. Other liabilities	5,237	4,929	6.2
5. Deferred income	5	0	100.0
6. Provisions	7,734	8,770	-11.8
7. Deferred tax liabilities	0	0	0.0
8. Fund for general banking risks	21,536	21,536	0.0
9. Equity	96,702	100,155	-3.4
Total equity and liabilities	**644,636**	**576,330**	**11.9**

The total assets of EUR 644.6 million as of June 30, 2016, were 11.9 percent higher than as of December 31, 2015.

The development of the securities portfolio is closely related to the current situation in the markets and is therefore dependent on the timing of the reporting date. As of June 30, 2016, the total securities portfolio was 10.0 percent higher than as of the previous reporting date. The increases in the items of receivables due from banks and liabilities due to banks are attributable to the same circumstance.

As of June 30, 2016, the Group's equity amounted to EUR 96.7 million (12/31/2015: EUR 100.2 million). At EUR 21.5 million, the fund for general banking risks pursuant to Section 340g HGB (German Commercial Code) raises the bank's capital to EUR 118.2 million. The equity ratio is 15.0 percent. The change in equity is basically equivalent to the balance of net income before non-controlling interests in the amount of EUR -2.8 million, the dividend distributions of subsidiaries in the amount of EUR 0.3 million, and currency translation effects of EUR 0.2 million.

The Group's financial position is adequate and orderly on the whole.

FINANCIAL PERFORMANCE

INCOME STATEMENT	01/01 - 06/30/2016 EUR'000	01/01 - 06/30/2015 EUR'000	Change %
1. Net interest income	1,392	-100	-
2. Current income from			
a) Equities	477	1,157	-58.8
b) Equity interests	0	0	0.0
	477	1,157	-58.8
3. Net commission income	22,053	27,257	-19.1
4. Profit/loss on the trading portfolio	24,457	31,705	-22.9
5. Other operating income	1,245	1,608	-22.6
6. Administrative expenses			
a) Personnel expenses	-26,554	-31,924	-16.8
b) Other administrative expenses	-19,697	-19,881	-0.9
	-46,251	-51,805	-10.7
7. Depreciation, amortization, and impairments of intangible assets and property, plant, and equipment	-4,886	-5,053	-3.3
8. Other operating expenses	-902	-603	49.6
9. Writedowns of receivables and certain securities, and appropriations to credit risk provisions	0	-342	-100.0
10. Income from reversals of writedowns of receivables and certain securities, and reversals of credit risk provisions	475	0	100.0
11. Income from reversals of impairments of equity interests, shares in associated companies, shares in affiliated companies, and securities classified as noncurrent assets	0	1	-100.0
12. Profit/loss from shares in associated companies	-201	-359	-44.0
13. Profit/loss from ordinary activities	**-2,141**	**3,466**	-
14. Income taxes	-581	-681	-14.7
15. Other taxes not presented within Item 8	-70	-76	-7.9
16. Profit/loss before non-controlling interests	**-2,792**	**2,709**	-
17. Share of profit/loss attributable to non-controlling interests	-129	4	-
18. Net income/loss after taxes	**-2,921**	**2,713**	-
19. Profit/loss carried forward from the prior year	-6,546	739	-
20. Consolidated net income/loss	**-9,467**	**3,452**	**-**

Grave concerns about future economic growth had resurfaced already at the beginning of the year. The renewed declines of the Chinese equity market, the rather subdued expectations in many emerging-market countries, and signs of slowing economic growth in North America, coupled with the outcome of the British referendum on whether to remain in the EU, provoked great uncertainty and restraint among investors. These conditions are reflected both in the business volumes and results of the Baader Bank Group in the first half of 2016.

The Baader Bank Group closed the first half 2016 with a loss from ordinary activities in the amount of EUR -2.1 million, as compared to a profit in the first half of last year.

Due to the currently tense market environment, the trading profit and net commission income exhibited smaller gains than in the first half of last year. Lower income in the Market Making and Corporates & Markets Divisions also contributed to the deterioration of the operating result.

The net interest income generated in the reporting period was considerably higher than the corresponding figure for the previous year's period. This increase is mainly attributable to the lower interest expenses that resulted from the maturity of higher interest-bearing promissory note loans.

Net commission income was EUR -5.2 million or -19.1 percent lower than the corresponding figure for the first half of last year. This decline was caused by the pronounced restraint of investors, which led to lower profit contributions by the Corporates & Markets Division of Baader Bank AG and the Baader Helvea companies. Moreover, the trading profit was EUR -7.2 million or -22.9 percent less than the previous year's figure. This decline was almost completely attributable to the Market Making Division of Baader Bank AG.

With a decrease of -10.7 percent, administrative expenses were markedly lower than the previous year's corresponding figure. This decline resulted mainly from lower variable compensation components and lower contributions to the pension provisions. Thanks to the cost reduction measures initiated already at the start of fiscal year 2015, the other administrative expenses were basically on the same level as the year-ago figure.

The subsidiaries Baader & Heins Group and Conservative Concept Portfolio Management Group made positive profit contributions, whereas Baader Helvea Group incurred losses due to substantially lower commission income compared to the first half of last year.

About two thirds of the profit/loss from associated companies in the total amount of EUR -0.2 million consisted of the Group's shares of the respective company results, and one third from the amortization of goodwill.

The tax expenses represent the Group's current tax liability.

The Baader Bank Group had 451 employees as of June 30, 2016 (06/30/2015: 460).

Earnings per share came to EUR -0.06 (PY: EUR 0.06).

LIQUIDITY POSITION

As of June 30, 2016, current receivables and marketable securities amounted to EUR 509.9 million, and current liabilities amounted to EUR 254.0 million, resulting in a book liquidity surplus of EUR 255.9 million. The Group's solvency was assured at all times in the reporting period and will also be assured in the future through the operation of the bank's risk monitoring systems.

OUTLOOK

Political developments will continue to influence the equity markets subconsciously until clarity is established with regard to the future relationship between the United Kingdom and the European Union. It can be expected, however, that the parties will arrive a legal framework that promotes robust economic relationships. To that extent, the political risk of an eventual Brexit is limited.

The crisis of Italian banks, which are burdened by a high level of non-performing loans and inadequate capital, could theoretically lead to tremendous economic losses and social disruptions for the entire Eurozone, due to the intensive interlinkages between banks. This situation could potentially even evoke the specter of systemic risks.

However, governments and central banks will actively strive to mitigate such disruptions so as to shore up public acceptance of the EU and the euro. First, the European Central Bank will continue to purchase bonds as a means of preventing yields from rising, as a typical expression of investor anxiety. This will make it possible for Eurozone countries to continue issuing new government debt at favorable terms.

Second, a pragmatic solution will be found to the problem of recapitalizing Italian banks. Under the EU Bank Directive, a member state is permitted to assume liability for its national banks only in emergency situations. Given the dire situation, however, the state will indeed have no choice but to reinforce its ailing banks with government funds.

In consideration of the foregoing, it will not be possible to completely eliminate political and banking-sector risks in Europe; on the other hand, there is little reason to believe that they pose lasting risks to the European financial markets. On the contrary, monetary policy efforts to overcome the crisis will continue to channel liquidity to the markets, as the continued lack of fixed-income investments as an attractive asset class will continue to favor investments in equities.

This support afforded by monetary policy will not be undermined by the interest rate policy of the US Federal Reserve. Given the comparatively weak US economy, the reduced growth prospects of the emerging-market countries, and the need to assuage international anxieties, one may even presume that the US Fed will refrain from any further interest rate hikes. By taking this course, the United States would also seek to prevent the U.S. dollar from appreciating further, which would weaken the country’s exports. Barring a grave political crisis in the EU, therefore, the euro should not depreciate further, but follow a sideways pattern.

On the one hand, the prevailing political uncertainty presents a problem for industry-heavy and export-dependent German enterprises due to the potential adverse effect on real economic activity. On the other hand, the German equity market could benefit as a longer-term alternative to Britain as a financial center, which is fraught with uncertainty. Investors will develop an even greater appreciation for Germany’s strong industrial base. International investors will take advantage of low entry prices to invest in the German companies comprised within the DAX, which is considerably less dependent on banks than other competing European indices.

MDAX and SDAX stocks are even more promising. These companies stand to benefit from their broad-based industrial know-how and numerous patents related to the advancing digitalization of the global economy, as the so-called “Industrial Revolution 4.0.” Because it would be too costly for countries like China to develop the necessary technologies themselves, these industrial names will also benefit from the potential for mergers and acquisitions.

German real-estate stocks also offer upside potential. They are well positioned to attract inflows from the United Kingdom, where the future development of the real estate market is regarded as uncertain.

The United States will be largely unaffected by political crises, and will therefore benefit from its status as a safe haven. Furthermore, the United States offers a more attractive business environment from the standpoint of competition and market economics, especially compared to other industrialized regions such as Japan and Europe, where even the most expansive monetary policy has proved practically useless in mitigating the entrenched economic problems resulting from the failure to implement reforms to bolster competitiveness. U.S. equities are further supported by subsiding fears of continued interest rate hikes, which had hung over U.S. markets like the sword of Damocles.

While developments in China theoretically represent an inherent risk to the global economy, and therefore also to the markets’ assessment of fundamentals, it can be expected that the Chinese government will be able to further stabilize the economy through supportive policy measures. Such an outcome would also come as a relief to financial markets in Shanghai, and indeed across the world.

If equity markets take a friendlier course, one should also expect increased volatility due to potential crisis flashpoints that may not even erupt.

In the second half of the year, market trading volumes can be expected to follow a generally positive trend, albeit coupled with rising volatility, which should lead to a positive order flow in the trading business.

After increasing towards the end of the first half, Baader Bank expects that trading volumes will stabilize in the second half of 2016, providing a solid basis for the planned profit contributions from trading activities. On the transactions side, a somewhat more relaxed and more positive sentiment in the markets would be conducive to capital market transactions, which would lead to fresh mandates for Baader Bank. Some of these transactions are scheduled for the third and fourth quarters of 2016. In the absence of any perceived improvement potential, seekers of capital are reluctant to act in the current state of capital markets. Market sentiment will be heavily influenced not only by the monetary policies of major central banks, but also by the political situation especially in Europe, due to Brexit and the unresolved Greek problem, as well as the Presidential election in the United States and the ever-present terror threat. Macroeconomic and company-specific fundamental data point to increased trading activity.

Baader Bank is confident that the many measures taken to boost client acquisition in all areas of business can make a positive contribution to the full-year results already in the second half of 2016.

Unterschleissheim, July 27, 2016
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