

/ BAADER /



Baader Bank Group

Semi-Annual Report 2019

Reporting date: 30/06/2019

Overview of key figures – 1st half-year 2019

BAADER BANK GROUP	01/01- 30/06/2019 EUR'000	01/01- 30/06/2018 EUR'000	Change in %
Income	48,665	53,194	-8.5
of which interest income and current income	-154	105	-
of which net commission income	17,727	20,089	-11.8
of which trading profit/loss	23,220	25,118	-7.6
of which revenue	6,199	6,415	-3.4
of which other income	1,642	1,284	27.9
of which profit/loss from shares in associated companies	31	183	-83.1
Expenses	-48,696	-54,774	-11.1
of which personnel expenses	-23,455	-24,955	-6.0
of which other administrative expenses and other operating expenses	-22,218	-22,141	0.3
of which depreciation, amortisation and impairment	-3,023	-7,678	-60.6
Earnings before tax (EBT)	-31	-1,580	-98.0
Operating result*	-1,818	453	-

*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)

BAADER BANK GROUP Key balance sheet figures	30/06/2019 EUR'000	31/12/2018 EUR'000	Change in %
Total assets	680,695	713,190	-4.6
Balance sheet equity ratio	11.0 %	10.7 %	-
Total supervisory capital ratio	12.5 %	13.6 %	-

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

FIRST HALF-YEAR 2019

The market

In the first half of 2019, macroeconomic news remained predominantly negative. In Germany in particular, persistently disappointing economic figures led to economic expectations being further revised downwards. While at the beginning of the year the consensus for real GDP growth in 2019 was still 1.5 per cent, it declined by the middle of the year to only 0.8 per cent.

Despite these negative conditions, the mood on the financial markets brightened increasingly during the first half of the year. Supported by signs that the political tension was easing, hope began to emerge on the financial markets that the stress factors which dominated in 2018 would decline in the medium term. This was due in particular to the prospect of an easing of the trade conflict between the US and China, although in the meantime a failure of the negotiations was to be feared, after the US announced additional import tariffs and additional trade restrictions. Concerns around a hard Brexit also declined after the EU and the United Kingdom agreed to postpone the exit date from the end of March until the end of October.

But the hope for positive effects from stimulus measures also supported the mood on the financial markets. China, for example, decided to further reduce the reserve ratio and lower the VAT rate. The US Federal Reserve did not continue its policy of gradual interest rate hikes and signalled an increasing willingness to lower the key interest rates again. The ECB announced further long-term liquidity support for the banking sector in the autumn, as well as extending the period in which it would avoid increasing key interest rates until mid-2020.

As a result of these developments, interest rates dropped significantly on the global bond markets. Yields on 10-year German government bonds fell below zero once more, and even reached a new all-time low of -0.4 per cent. In contrast, developments on the foreign exchange markets were rather calm. The USD only appreciated moderately against the euro. However, there was a more significant movement in the price of gold, which benefitted hugely from the increasing hopes of a change in interest rates in the US and double-digit growth in euros.

Despite the relatively weak development of many fundamentals relevant to the business sector in the first half of the year, the equity markets still recorded a significant double-digit price increase. On the one hand, many investors once again considered the prices attractive after the sharp decline in the previous year. On the other hand, the equity markets benefitted from increasing hopes that the numerous political tensions would ease, such as the rapprochement of the trade conflict and the postponement of the Brexit deadline. In addition, the abating discussion around further, early interest rate increases and/or the prospect of renewed monetary stimulus measures proved an important support. In May, there was a temporary setback due to the growing risk of a renewed escalation in the trade conflict between the US and China, but these concerns dampened by the middle of the year.

Need for structural changes and new market strategies identified in Market Making

Baader Bank only benefitted partly from the upward trend on the financial markets in the first half of 2019. Persistently high technical and regulatory requirements, coupled with some significant declines in sales, especially on German stock exchanges such as the Frankfurt Stock Exchange, continued to put market participants under pressure in the first half of 2019. This promotes consolidation in the brokerage business and forces remaining competitors, as well as Baader Bank, to make structural changes.

This phenomenon is characterised by the strong trend towards shifting sales volume away from the traditional stock exchanges with remuneration models, towards non-remunerated trading platforms. Exchange platforms such as Tradegate, gettex, Quotrix and L&S-Exchange strive for order flow within the regulatory framework of MiFID II. The market-compatible fulfilment of regulatory obligations becomes a competitive factor, from which Baader Bank can profit through appropriate competence building and procedural measures.

In the first half of 2019, additional order flow providers were acquired on the gettex trading platform of the Munich Stock Exchange, where Baader Bank operates exclusively and supports the expansion of the trading universe, including the ING Group, whose clients can now trade approx. 11,000 bonds in euros and foreign currencies on gettex.

In addition, for bond trading on gettex and on the electronic trading systems Max One and Cats, longer trading hours were introduced until 20:00, allowing for rapid response to market movements even after 17:30.

Significant progress was also recorded in the further development of trade in open order books. In the first half of 2019, trading began in almost all ETPs and selected shares on Xetra, representing a significant market share of more than 5 per cent for ETPs in relation to the total number of transactions (*as at: June 2019*) in open order books. In the second half of 2019, a focus should be on opening up new markets in European countries and expanding trading strategies in Market Making.

In over-the-counter trading, revenues were at the same level as the previous 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 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.

In the first half of 2019, Baader Bank was mandated to act as a specialist for two IPOs in the Prime Standard segment of the Frankfurt Stock Exchange. It took over the order books of the Global Fashion Group SA and of the Traton Group SE.

A focus on the Capital Markets division, potentials in Special Execution and increasing demand for Corporate Brokerage services

During the first half of 2019, in the Capital Markets division Baader Bank acted as the Sole Global Coordinator and Sole Bookrunner for IFA Hotel & Touristik AG's capital increase with subscription rights in the amount of EUR 200 million.

Due to the busy order situation in Special Execution services, the sensitivity of which to volatile market movements is less pronounced, the satisfactory level of revenues from the previous year was maintained in the first half of 2019. In addition to the technical support of bonds, the Special Execution division received a number of mandates, including for the capital increases of co.don AG, Solutiance AG and micData AG, as well as for tender offers, such as the one made to shareholders of SHW AG.

The Corporate Brokerage division continued to gain new mandates in the first half of 2019. As at the half-year reporting date, Baader Bank provides services in capital market processing and designated sponsoring for a total of 50 companies. This means an increase of 47 per cent compared to the previous year.

Digital platforms as growth drivers in asset management

The banking and trading services for end clients of asset managers and online asset managers continue to represent a solid source of income with uninterrupted growth potential for Baader Bank. The expansion of cooperations progressed further in the first half of 2019. The number of accounts and custody accounts increased to approx. 32,400 (+65 per cent on the previous year), which increased the custody account volume by 30 per cent to a total of just under EUR 4 billion over the same period.

The acquisition of new clients by asset managers and FinTechs continued to be limited to the German-speaking region. By the end of the reporting period, a total of 64 asset managers were contractually linked to the Baader Bank; up from 56 in the previous year. Baader Bank supported renowned partners such as Oskar, the Targobank and the VTB Bank (Germany) in various client projects to establish digital asset management platforms.

The assets managed in the Asset Management Services business line were consistent with the previous year overall. As at the half-year reporting date for 2019, they totalled EUR 7.1 billion.

Awards for research and brokerage – Baader Bank retains its top rankings for trading and execution in Germany and ranks among the top providers of research and conferences worldwide

In the annual Extel survey, an internationally recognised ranking for brokerage and research services, Baader Bank and Baader Helvea achieved outstanding results. For the fifth time in a row, the survey placed Baader Bank top in the “Trading/Execution Germany” category. In the “Small & Mid Cap Trading Germany” category, Baader Bank achieved second place. In addition, it placed third in the “Trading/Execution Switzerland” category, which underpins Baader Bank’s strong position in its core markets of Germany, Austria and Switzerland (DACH).

Baader Bank’s services in research and corporate access were also honoured with top rankings. It was awarded second place in the “Country Research Austria” category, as well as third place in the “Company & Expert Meetings Switzerland” category. The “Swiss Equity Conference”, which is held annually in Bad Ragaz, Switzerland, was voted the best “Pan European Broker Conference” worldwide, while second place was awarded to the “Baader Investment Conference”, which draws international investors and companies to Munich every year, and exemplifies high client satisfaction and leading expertise in brokerage and research within the DACH region.

At the 15th Baader Helvea Swiss Equities Conference in January 2019, more than 65 leading Swiss companies and around 270 institutional investors from 18 countries were guests.

In Equity Brokerage, new and international clients were added, bringing market share with them. A significant increase in trade and commission volumes resulted in earnings increasing by 7.1 per cent compared to the previous year. Customer commission business High Touch alone contributed 11.2 per cent less to earnings than in the same period of 2018.

With its research activities distributed separately within the MiFID II regulated markets, Baader Bank remained in an increasingly price-driven competitive environment in the first half of 2019. Baader Bank expects its cooperation with the independent French research provider AlphaValue, which began in 2018, to bring sales advantages. The “Baader Europe” product combination, which was produced through this cooperation and offered on a shared platform, combines Baader Helvea Equity Research’s traditionally fundamental, sector-oriented approach with a broad, European component, resulting in coverage of approx. 600 equities.

Miscellaneous

New member of the Supervisory Board of Baader Bank

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.

NET ASSETS

ASSETS	30/06/2019 EUR'000	31/12/2018 EUR'000	Change %
1. Cash reserves	221,548	209,096	6.0
2. Loans and advances to banks	67,986	99,196	-31.5
3. Loans and advances to clients	39,027	26,780	45.7
4. Debt securities and other fixed-income securities	160,250	192,276	-16.7
5. Equities and other variable-income securities	13,955	15,442	-9.6
6. Trading portfolio	59,129	49,407	19.7
7. Equity investments	4,741	4,162	13.9
8. Investments in associated companies	495	3,824	-87.1
9. Intangible assets	15,932	17,596	-9.5
10. Property, plant and equipment	79,494	81,708	-2.7
11. Other assets	5,321	2,362	>100.0
12. Prepaid expenses and deferred charges	4,711	3,839	22.7
13. Excess of plan assets over pension liabilities	8,106	7,502	8.1
Total assets	680,695	713,190	-4.6

EQUITY AND LIABILITIES	30/06/2019 EUR'000	31/12/2018 EUR'000	Change %
1. Bank loans and advances	75,792	98,814	-23.3
2. Payables to clients	479,402	487,155	-1.6
3. Trading portfolio	9,426	1,803	>100.0
4. Other liabilities	11,590	13,591	-14.7
5. Prepaid expenses and deferred charges	602	426	41.3
6. Provisions	9,395	13,252	-29.1
7. Fund for general banking risks	19,920	22,120	-9.9
8. Equity	74,568	76,029	-1.9
Total equity and liabilities	680,695	713,190	-4.6

Net assets as at 30/06/2019 decreased by 4.6 per cent and now amount to EUR 680.7 million compared to the balance sheet date as at 31/12/2018.

The change resulted mainly from the balance sheet date-related development of the securities portfolios, with a decline of 9.3 per cent, and lower advances to banks, which are faced with an increase in cash reserves and advances to clients. This also applies to changes in the items liabilities to banks and clients.

Equity investments/shares in affiliated companies came in particular as a result of the sale of shares in the Gulf Baader Capital Markets S.A.O.C. equity investments and in Ophirum ETP GmbH, in which Baader Bank held 30.0 per cent and 50.0 per cent up to the time of sale. Hence, Baader Bank 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 shareholdings in the former subsidiary, Conservative Concept Portfolio Management AG, were reduced to less than 20 per cent.

As at 30/06/2019, the Group has balance sheet equity of EUR 74.6 million (31/12/2018: EUR 76.0 million). The regulatory equity capital amounted to EUR 75.7 million. The equity ratio is 11.0 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 financial year 2019 in the amount of EUR 0.7 million, shares in minority interests due to changes in the scope of consolidation of EUR 0.8 million, as well as dividend distributions of subsidiaries amounting to EUR 0.3 million.

The Group's net asset position remains sound.

RESULTS OF OPERATIONS

INCOME STATEMENT	01/01 - 30/06/2019 EUR'000	01/01 - 30/06/2018 EUR'000	Change %
1. Net interest	-570	-573	-0.5
2. Current income from			
a) Equities	357	678	-47.3
b) Equity investments	59	0	100.0
	416	678	-38.6
3. Net commission income	17,727	20,089	-11.8
4. Net result from the trading portfolio	23,220	25,118	-7.6
5. Revenue	6,199	6,415	-3.4
6. Other operating income	1,642	1,284	27.9
7. Administrative expenses			
a) Personnel expenses	-23,455	-24,955	-6.0
b) Other administrative expenses	-20,932	-20,949	-0.1
	-44,387	-45,904	-3.3
8. Depreciation, amortisation and write-downs on intangible as- sets and property, plant and equipment	-4,423	-5,370	-17.6
9. Other operating expenses	-1,286	-1,192	7.9
10. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in the lending business	0	-2,277	-100.0
11. Income from the write-up of receivables and certain securities as well as the reversal of provisions in the lending business	1,085	0	100.0
12. Reductions of the fund for general banking risks	2,200	0	100.0
13. Depreciation, amortisation and write-downs on equity invest- ments, shares in affiliated companies and securities treated as assets	-1,885	-31	>100.0
14. Net income from interests in associates	31	183	-83.1
15. Result from ordinary business activities	-31	-1,580	-98.0
16. Taxes on income	-456	-425	7.3
17. Other taxes not shown under Item 9	-36	-40	-10.0
18. Net income before third party shareholders	-523	-2,045	-74.4
19. Profit owing to third party shareholders	-126	-66	90.9
20. Net income for the year	-649	-2,111	-69.3
21. Losses from the previous year	-33,644	-11,036	>100.0
22. Consolidated net income	-34,293	-13,147	>100.0

After posting significant annual losses in the financial year 2018, the negative trend was slowed in the first half of the year. For the first half of 2019, the Baader Bank Group accumulated almost balanced earnings before taxes. This shows that the adjustments in the Group's structure and the overall bank strategy, as well as the cost-savings measures put in place, are gradually materialising.

Net interest income is at the previous year's level. Net interest income was negative as at the reporting date, totalling EUR -0.6 million as a result of lower interest expenses due to the maturity of higher-interest promissory note loans and interest expenses arising from the third party financing of the wind farm at Selan d.o.o. in the amount of EUR 0.6 million.

Current income decreased and amounted to EUR 0.4 million.

Commission income fell by 11.8 per cent, or EUR 2.4 million, to EUR 17.7 million. The reduction is explained by a decline in brokerage business at the Swiss Baader Helvea, primarily as a result of lower capital market business in the Group as a whole. Additionally, the former subsidiary, Conservative Concept Portfolio Management AG, which is no longer consolidated, did not make a contribution to earnings. Contributions to the net commission income were increased by using classic brokerage.

With a decline of 7.6 per cent, or EUR 1.9 million, net trading income was also slightly below the previous year's level. The declines in trading volumes on the major stock exchanges relevant to Baader Bank continue to worsen. Nevertheless, higher profit contributions were generated from this business segment, driven primarily by further optimisation of the trade setup and trading quality in Market Making.

The reported revenue item is fully attributable to the feed-in remuneration for electricity generated by the wind farm.

Administrative expenses declined to 3.3 per cent, or EUR 1.5 million, compared to the previous year. Since personnel expenses in the previous year were impacted by extraordinary effects, an anticipated decline of 6.0 per cent, or EUR 1.5 million, was recorded for the first six months of the financial year. The other administrative expenses are at the previous year's level, which confirms the operational efficiency of the Group.

Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment result in full from scheduled depreciation, which, mainly due to the total depreciation of individual order books and goodwill that expired in the last year and reduced depreciation on the company building, saw an overall decrease of 17.6 percent, or EUR 1.0 million.

For the subsidiaries, it was the Selan Group and Baader & Heins Capital Management AG that generated positive contributions to profits in the first six months of the financial year. The Baader Helvea Group did not contribute a positive result.

The result from associated companies relates solely to the pro rata net income for the year.

The tax expense represents the actual taxes charged to the Group.

As at 30/06/2019, the Group had 409 employees (30/06/2018: 451).

Earnings per share amounted to EUR -0.01 (previous year: EUR -0.05).

FINANCIAL POSITION

On 30/06/2019, current receivables and marketable securities for sale at any time amounting to EUR 541.0 million were offset by current liabilities in the amount of EUR 377.7 million. Netted, this results in a balance sheet liquidity surplus of EUR 163.3 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 the second half of 2019, the question around the scenario – currently anticipated by the financial markets – of the extent to which a gradual recovery in the economic conditions will actually materialise, is likely to regain prominence. As the slowdown in many forward-looking economic indicators continued until recently, the prospects for imminent, sustained improvement are currently considered limited. As a result, there is a risk that the combination of unpleasant surprises in published economic data and downwards revision of growth expectations will continue.

Additionally, in the second half of the year, political uncertainties could once again cause negative impacts. On the one hand, there is a risk that the trade conflict between the US and China and/or the EU could continue to escalate if current negotiations fail to settle the issue amicably. Furthermore, a disorderly Brexit scenario could cause uncertainty should the next prime minister also fail to secure a majority for a withdrawal agreement in the UK Parliament.

Significant continued stimulus measures by central banks, such as interest rate cuts and potential further securities purchases, are likely to be necessary for a sustainable turnaround in the macroeconomic environment and are already discussed or expected on the financial markets. However, due to the very slow policy change in the last few quarters that the central banks are using to respond to the global slowdown in growth, there is a risk of disappointment. This is because the desired and necessary steps to ease the situation may not be moving fast enough to begin with.

In this environment, there is a risk of a new, significant correction in the equity markets. Possible triggers in this context could be ongoing disappointment regarding the development of corporate profits and growing concerns about a severe economic slowdown. This risk applies to the seasonally difficult period from August to October in particular. On the other hand, at the end of the year, there may be a price recovery if the central banks are able to agree upon much more aggressive monetary easing measures or if a solution to the Brexit impasse is found.

[View to Baader Bank](#)

Group restructuring and strategy review successfully completed – package of measures to increase profitability initiated

With the sale of its shares in the issuing house Ophirum ETP GmbH in June 2019 and the current investment in French business partner AlphaValue, which is important for research, the extensive group restructuring initiated by the Baader Bank Board of Directors was completed in the first half of 2019 as planned. It considers itself strategically positioned in the Group's structure so that future conditions and challenges, as well as client needs, can be met to a high standard. The Group does not intend to make any further changes in the foreseeable future. Baader Bank has been successfully cooperating with AlphaValue since September 2018 on their joint research product, "Baader Europe". The investment in the single-digit percentage range, which is now complete, underpins the international cooperation between the two companies. It enables Baader Bank to offer an efficient, needs-based research universe on competitive terms.

In addition, the Baader Bank Board of Directors has completed a comprehensive strategy project for the strategic adjustment of the institute. The resulting structural, organisational and strategic alteration measures have paved the way for the improvements in earnings and cost-control seen compared to the previous year (2018).

Despite the positive signs, the evidence suggests that the persistently challenging market conditions will continue unabated, with Baader Bank being particularly badly affected. For this reason, the institution's management still does not anticipate that it will be able to achieve a positive result for the current financial year as a whole.

Unterschleißheim, 31/07/2019

Baader Bank AG
The Board of Directors