



Baader Bank

Group Semi-Annual Report 2020

Reporting date: 30/06/2020

All figures are preliminary and unaudited

Overview of key figures – 1st half-year 2020

All figures are preliminary and unaudited

BAADER BANK GROUP Key P&L figures	01/01- 30/06/2020 EUR'000	01/01- 30/06/2019 EUR'000	Change in %
Income	112,025	48,665	>100.0
of which net interest income and current income	-1,505	-154	-
of which net commission income	22,175	17,727	25.1
of which net trading income	84,690	23,220	>100.0
of which revenue	5,606	6,199	-9.6
of which other income	1,036	1,642	-36.9
of which net income from interests in associates	23	31	-25.8
Expenses	-87,988	-48,696	80.1
of which personnel expenses	-33,346	-23,455	42.2
of which other administrative expenses and other operating expenses	-22,691	-22,218	2.1
of which amortisation and depreciation on intangible assets and property, plant and equipment	-3,981	-4,422	-10.0
Other amortisation and depreciation/Risk provision	-12,970	1,399	-
<i>of which write-downs/write-ups of loans and advances and certain securities as well as additions to provisions in lending business</i>	-12,970	3,284	-
<i>of which write-downs/write-ups of equity investments, interests in associates and securities treated as assets</i>	0	-1,885	-100.0
Additions to the fund for general banking risks	-15,000	0	100.0
Earnings before taxes (EBT)	24,037	-31	-
Operating result	51,891	-1,818	-

BAADER BANK GROUP Key balance sheet figures	30/06/2020 EUR'000	31/12/2019 EUR'000	Change in %
Total assets	669,121	617,375	8.4
Balance sheet equity ratio	13.8%	12.1%	-

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

FIRST HALF-YEAR 2020

The market

The first half of 2020 was characterised by the global spread of the Covid-19 pandemic and the resulting mitigation measures in the affected countries. After the virus initially broke out in the Chinese province of Hubei, this and other regions of China were in lockdown by late January, which included both curfews and factory closures. Although it initially appeared that the spread of the virus and the associated deaths would remain largely local, it was becoming increasingly apparent towards the end of February that other Asian countries, and also Europe, would be affected by the wave of infections. During March, therefore, we also saw extensive lockdown measures applied in Europe. However, since the cases of infection and deaths were significantly higher than those known from China, the state-mandated restrictions were only gradually relaxed at the beginning of May. Travel warnings for many countries outside the EU and the obligation to wear a mask in many everyday situations were, however, still in place by mid-year.

As the pandemic spread from one region to the next, prices on the global financial markets slumped significantly. They were already driven by the fear in the run-up to the lockdown that the pandemic and the battling of it would have a massive impact on economic development. In addition, fears about the threat of companies' insolvency as a result of the crisis triggered significant distortions in credit markets and the availability of liquidity. This prompted central banks to take significant countermeasures from the middle of March. The ECB initially expanded its bond purchases, which had already resumed in the autumn, and subsequently announced a new purchase programme worth EUR 750 billion, which was increased by a further EUR 600 billion at the beginning of June. It also relaxed the refinancing conditions for the banking sector. The US Federal Reserve also took significant far-reaching measures, such as a return to a zero interest rate policy and the renewed start of bond purchases, which were extended to corporate bonds for the first time.

In addition to the widespread monetary stimulus, many countries have put in place considerable aid programmes for households and businesses. These have included grants, tax relief, funding programmes, loan guarantees and investments in struggling companies. In Germany, many European countries and also in the USA, the volume of these fiscal measures went well beyond the state aid granted in the wake of the global financial crisis. After global leading indicators had fallen to historic lows by April in the wake of the Corona crisis, the massive monetary and fiscal stimulus and the gradual withdrawal of the lockdown measures eventually led to a marked recovery in economic sentiment indicators from May onwards.

Following a friendly start to the year, these developments led to an unprecedented V development, particularly in the equity markets. Thus, the DAX lost almost 40 per cent between its all-time high in mid-February and mid-March but was able to recover to a level that was just 10 per cent below its annual high by the middle of the year. This development is extremely remarkable, particularly given the significantly downwards revision of earnings estimates for 2020 and 2021, and the still rising infection rates in many countries by the middle of the year. While the recovery of most European equity indices was somewhat more moderate compared to the DAX, the NASDAQ Composite reached a new all-time high in June in the USA. Prices of other asset classes that are sensitive to economic development also experienced extreme fluctuations. For example, the price of oil fell by more than 70 per cent to below USD 20 from January to April, but then doubled to over USD 40 by the middle of the year.

Events and developments in the first half of 2020 in individual business lines

Market Making has been developed structurally and sustainably, sales volumes and volatility are evidence of significant trading activities in market making

As early as the beginning of 2020, trading volumes on the stock exchanges and on the trading platforms of the international financial markets increased markedly. This was also the case on markets where Baader Bank is active as a market maker. The trend strengthened significantly with the spread of the Covid-19 pandemic. Volatility increased enormously. Monthly securities trading turnover on the German stock exchanges in the first half of 2020 was overall higher than in the first half of 2019. Sales peaked in March. Sales across all foreign markets are more than double compared to the same period in 2019.

Baader Bank's over-the-counter market making services also benefited considerably from market developments in the first half of 2020. Volatile markets combined with a high level of price and service quality resulted in Baader Bank increasing trading volumes by around 250 per cent between January and June 2020 compared with the same period last year.

The above-average increase is due, on the one hand, to the – in some cases – historically high sales volumes, but on the other hand, to the earnings and results effects of Baader Bank's strategic measures that are already beginning to affect earnings and results and which are aimed at the long-term structural development of the trading set-up and the quality of trading in Market Making. As part of the strategy project concluded at the end of July 2020, the quoting and trading processes were optimised, especially in Market Making, and the sales and cooperation channels were reorganised. One of Baader Bank's most important business lines is therefore in a competitive position for the future. New emerging business models and business offers in these markets, particularly the emergence of free or fee-optimised broker offers in exclusive cooperation with market makers, banks and trading platforms, can therefore be served by Baader Bank as an enabler.

In this strategic context, the important partnership with the Munich stock exchange and the cooperation on Gettex must also be assessed. Gettex is now developing into a significant competitor to Tradegate. Following the entry into the market of the new providers "Free brokers" and "Smart brokers" in the last quarter of 2019, very encouraging sales and transaction figures started emerging after just a few months of trading activity. The main feature of these cooperation arrangements is that investors can trade their securities orders exclusively through Gettex. Baader Bank is the exclusive and thus the only market maker on Gettex. In the first half of 2020, we were able to acquire an important provider for this cooperation arrangement – Neo-Broker, which is already trading live.

Looking at the bond markets, the actions of the central banks continued to shape the situation. The ECB and all central banks around the world have intervened massively in the markets (through QE, interest rate cuts, tenders), making bonds with good credit ratings even scarcer. At the same time, the market faced a wave of emissions that had never been seen before. Although public debt exploded, the oversupply of bonds could not raise yields in the long term. Retail investors could also benefit only to a limited degree from the variety of products and the – in some cases – significantly higher interest rates on corporate bonds, as many bonds cannot be traded for this group of customers in accordance with the PRIIPS regulation. As a result, sales of many new issues were limited. Nevertheless, Baader Bank has managed to significantly improve its earnings by means of its own liquidity guarantee and thus its own trading.

Covid-19-related restraint in capital market business, but nevertheless lively order development in Special Execution and Corporate Brokerage Services

In Equity Capital Markets, Baader Bank, as Joint Global Coordinator and Joint Bookrunner, accompanied the EUR 58 million capital increase of Deutsche Industrie REIT-AG in the first half of 2020. Some companies shelved planned capital measures in the first two quarters of 2020 due to the prevailing uncertainty about market developments in view of the Covid-19 pandemic. This meant that no further transaction mandates for Baader Bank were recorded during this period.

Despite a difficult market environment, several new mandates for Special Execution services were gained in the reporting period, thus compensating for the Covid-19-related order losses. A total of 29 transactions were carried out, which actually resulted in an increase in sales in this area compared with the previous year. The characteristics of acquired mandates were particularly varied, especially during the second quarter of 2020: In addition to several capital increases with subscription rights, the Special Execution division accompanied several challenging restructuring projects focusing on both equity and debt topics. Other mandate gains included share buybacks, technical support for employee option programmes and taking on the co-applicant role for ETF and ETC approvals. Potential demand for Special Execution also exists from new business ideas focusing on "investing in cryptocurrency with custodial capacity".

Despite the weakened market situation caused by the Covid-19 pandemic, Corporate Brokerage saw new mandates added in the first half of 2020. Baader Bank was providing capital market processing and designated sponsoring services for a total of 62 companies as of the end of the first six months. This corresponds to growth of 24 per cent in this area compared to the previous year.

Baader Bank is sought after as a partner among asset managers and banks

The expansion of cooperation arrangements with classical and digital asset managers in the German-speaking region continued to advance in the first half of 2020, with new customer acquisition seeing a sustained focus on the German-speaking region. Baader Bank's complementary offering of banking and trading services provides added value not only to asset managers but also to other banks. Another cooperation partner was found in the shape of International Bodensee Bank (IBB). In the first half of 2020, asset management firm Gerd Kommer Invest was tied in, and the existing cooperation with ThomasLoyd was expanded to include brokerage services of Baader Bank.

The number of accounts and custody accounts more than doubled to approx. 73,000 compared to the previous year (approx. 32,000). In the same period, the custody account volume increased by 41 per cent to a total of approx. EUR 5.5 billion. By the end of the reporting period, a total of 74 asset managers were contractually linked to Baader Bank; up from 64 in the previous year.

At EUR 6.7 billion, assets managed in Asset Management Services were slightly below the previous year's level; the number of fund mandates was virtually consistent.

Sustained market growth in Multi Asset Brokerage

In the previous year, Baader Bank and Baader Helvea achieved outstanding results in the international ranking for brokerage and research services, the Extel survey—combined with the Institutional Investor Survey Europe in 2020—with numerous top positions in trading and execution as well as research and corporate access. The voting results from the new survey format for 2020 were not yet available at the half-year reporting date.

Baader Bank's solid positioning as a DACH broker and the continuous expansion of the Bank's international client relationships in institutional commission business also had a positive impact on the net commission income of the Multi Asset Brokerage business line in the first half of 2020. Overall, the increase in its trading and commission volumes in the first half of 2020 resulted in earnings increasing by approximately 40 per cent compared to the previous year.

In January 2020, the 16th Baader Helvea Swiss Equities Conference took place in Bad Ragaz. In addition to 71 leading Swiss companies, 300 institutional investors from 20 countries attended.

Sales strategy measures provide a solid basis for a wide range of research offerings

Together with AlphaValue, an independent French research provider which has been a cooperation partner since 2018, the final foundations were laid in the first half of 2020 ready for the joint research platform to go live. The "Baader Europe" product combination offered via this platform combines Baader Helvea Equity Research's traditionally fundamental, sector-oriented approach with a broad, European component provided by AlphaValue, resulting in coverage of approx. 600 equities.

In February 2020, Baader Bank announced a further cooperation with Scandinavian universal bank Danske. The aim of this business partnership is to expand the sales network for the Baader Europe product and at the same time to create new market access for the offering of brokerage, conference and roadshow services to Danish and Finnish investors.

NET ASSETS

Baader Bank Group

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ASSETS	30/06/2020	31/12/2019	Change
	EUR'000	EUR'000	%
1. Cash reserves	326,638	237,769	37.4
2. Loans and advances to banks	96,122	78,591	22.3
3. Loans and advances to clients	29,962	38,525	-22.2
4. Debt securities and other fixed-income securities	47,980	94,947	-49.5
5. Equities and other variable-income securities	13,726	14,414	-4.8
6. Trading portfolio	39,386	37,869	4.0
7. Equity investments	7,491	6,771	10.6
8. Investments in associates	306	517	-40.8
9. Intangible assets	12,899	14,199	-9.2
10. Property, plant and equipment	75,888	77,412	-2.0
11. Other assets	6,239	3,654	70.7
12. Prepaid expenses and deferred charges	3,982	4,127	-3.5
13. Excess of plan assets over pension liabilities	8,502	8,580	-0.9
Total assets	669,121	617,375	8.4

EQUITY AND LIABILITIES	30/06/2020	31/12/2019	Change
	EUR'000	EUR'000	%
1. Bank loans and advances	54,124	61,816	-12.4
2. Liabilities to customers	450,683	444,094	1.5
3. Trading portfolio	10,920	3,325	>100.0
4. Other liabilities	9,001	9,053	-0.6
5. Prepaid expenses and deferred charges	410	366	12.0
6. Provisions	24,754	12,338	>100.0
7. Fund for general banking risks	26,620	11,620	>100.0
8. Equity	92,609	74,763	23.9
Total equity and liabilities	669,121	617,375	8.4

Total assets as at 30/06/2020 increased by 8.4 per cent compared to the balance sheet date as at 31/12/2019 and now amount to EUR 669.1 million.

The change is mainly due to the significant increase in cash reserves and in loans and advances to banks as a result of the further reduction in risk assets in the area of debt securities and the positive cash flow from the half-year result. On the liabilities side, provisions, the fund for general banking risks and equity were also higher.

The decline in the result for associates was due to dividend distributions of the former subsidiary Conservative Concept Portfolio Management AG.

As at 30/06/2020, the Group had balance sheet equity of EUR 92.6 million (31/12/2019: EUR 74.8 million). Regulatory equity capital amounted to EUR 67.5 million. The equity ratio is 13.8 per cent. The change in equity substantially corresponds to the balance of net income before third-party shareholders for the first six months of financial year 2020 in the amount of EUR 18.2 million and dividend distributions of subsidiaries of EUR 0.2 million.

The Group's net asset position remains sound.

RESULTS OF OPERATIONS

All figures are preliminary and unaudited

CONSOLIDATED INCOME STATEMENT	01/01 - 30/06/2020 EUR'000	01/01 - 30/06/2019 EUR'000	Change %
1. Net interest income	-1,697	-570	>-100.0
2. Current income from			
a) Equities	192	357	-46.2
b) Equity investments	0	59	-100.0
	192	416	-53.8
3. Net commission income	22,175	17,727	25.1
4. Net result from the trading portfolio	84,690	23,220	>100.0
5. Revenue	5,606	6,199	-9.6
6. Other operating income	1,036	1,642	-36.9
7. Administrative expenses			
a) Personnel expenses	-33,346	-23,455	42.2
b) Other administrative expenses	-20,970	-20,932	0.2
	-54,316	-44,387	22.4
8. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	-3,981	-4,423	-10.0
9. Other operating expenses	-1,721	-1,286	33.8
10. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in lending business	-12,970	0	100.0
11. Income from the write-up of receivables and certain securities as well as the reversal of provisions in lending business	0	1,085	-100.0
12. Depreciation, amortisation and write-downs on equity investments, shares in affiliates and securities treated as assets	0	-1,885	-100.0
13. Net income from interests in associates	23	31	-25.8
14. Expenses from the addition of the fund for general banking risks	-15,000		100.0
15. Income from the liquidation of the fund for general banking risks	0	2,200	-100.0
16. Profit/loss on normal activities	24,037	-31	-
17. Taxes on income	-5,795	-456	>100.0
18. Other taxes not shown under Item 9	-28	-36	-22.2
19. Net income before third party shareholders	18,214	-523	-
20. Profit owing to third party shareholders	-233	-126	84.9
21. Net profit/loss for the year	17,981	-649	-
22. Losses from the previous year	-6,791	-33,644	-79.8
23. Balance sheet profit/loss	11,190	-34,293	-

For the first half of 2020, the Baader Bank Group recorded strong cumulative earnings before taxes of around EUR 24.0 million. Besides the significantly increased sales volumes on international markets and the current turbulent market conditions, the strategic and structural measures taken by the Board of Directors were instrumental in the positive growth in earnings.

The net interest result of EUR -1.7 million is below the previous year's level. The smaller portfolio overall of debt securities and other fixed-income securities resulted in significantly lower interest income, which means that the interest income declined again.

Current income also fell slightly to EUR 0.2 million.

Net commission income rose by 25.1 per cent or EUR 4.5 million to EUR 22.2 million. In classic brokerage activities undertaken by Baader Bank and Swiss Baader Helvea, contributions to the net commission income were again significantly increased by further expanding international customer relationships and thus market shares. Despite a rather restrained market environment for equity transactions, Baader Bank's Special Execution business remains on track for a record year. Baader Bank has also secured a competitive position in

the market for research products, which continues to be competitive, thanks to its cooperation with AlphaValue.

Net trading income almost quadrupled in the first half of the year compared to the same period in the previous year. With an absolute earnings contribution of EUR 84.7 million, it was the decisive factor behind the positive performance in the first half of the year. As early as the first quarter, it became clear that the growth was attributable not only to the generally turbulent market conditions and high sales volumes, but also to the long-term positive structural development of the trading set-up and the quality of trading in Market Making.

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

Administrative expenses increased by 22.4 per cent, or EUR 9.9 million, compared to the previous year. Other administrative expenses are at the same level as in the previous year, which confirms the Group's operational efficiency. However, personnel expenses are higher due to variable compensation components based on positive business performance. Current personnel expenses have fallen slightly.

Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment were entirely attributable to scheduled depreciation, which decreased overall by 10.0 per cent, or EUR 0.4 million, mainly due to the total depreciation of individual order books and goodwill that expired in 2019.

The addition to the fund for general banking risks also includes the statutory addition to the fund for general banking risks as specified in Section 340 e) HGB at year-end.

All subsidiaries – the Baader Helvea Group, the Baader & Heins Capital Management AG and the Selan Group – contributed to earnings in the first six months of the financial year.

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

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

As of 30/06/2020, the Group had 395 employees (30/06/2019: 409).

Earnings per share amounted to EUR 0.39 (previous year: EUR –0.01).

FINANCIAL POSITION

All figures are preliminary and unaudited

On 30/06/2020, current receivables and marketable securities for sale at any time amounting to EUR 547.5 million were offset by current liabilities in the amount of EUR 366.4 million. Netted, this results in a balance sheet liquidity surplus of EUR 181.1 million. The Group's solvency during the reporting period was assured at all times and is also secure in the future thanks to the Bank's risk monitoring systems.

OUTLOOK

The market

The ongoing Covid-19 pandemic and its impact on economic activity is likely to continue to have a significant impact on the development of the financial markets in the second half of 2020. Continued/renewed rises in the numbers of cases in many countries and uncertainty as to when an effective drug or vaccine will be available continue to intensify the risk of a second wave later in the year.

In the second half of the year, political issues are also likely to garner more attention on the financial markets. These include the presidential elections in the USA on 3 November, but also the ongoing struggle to negotiate a trade deal between the EU and the UK after 2020 could raise questions in some countries about the financial viability of further fiscal aid packages if further measures to curb the spread of the Covid-19 pandemic become necessary.

Against this background, uncertainty about the course of economic recovery and its sustainability is likely to continue. Although consensus forecasts for economic growth have now stabilised following significant downward revisions, the question of how quickly economic performance can return to its pre-crisis level remains extremely dependent on a number of unclear factors. According to current Bloomberg consensus forecasts, the Eurozone economy will shrink by around 8 per cent this year and grow by 5.5 per cent and 2.2 per cent respectively over the next two years. However, if further widespread lockdown measures are implemented, these forecasts could be adjusted downwards again.

Given that the prospect of continued economic recovery continues to hold so far, the upward trend on the stock markets is generally likely to continue. However, as we have not yet seen the follow-up correction typical of extreme price drops, the risk of temporary setbacks is likely to increase as prices continue to rise. There could therefore be a renewed increase in volatility by autumn.

An additional risk factor for the second half of the year could also come from interest rate developments. The strong economic recovery, the renewed increase in inflation due to sharply rising commodity prices and the massive expansion of public debt could trigger a more significant increase in bond yields in the meantime.

Unterschleissheim, 30/07/2020

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