

Baader Bank

Group Semi-Annual Report as of 30/06/2023

All figures are provisional and unaudited

NET ASSETS

Baader Bank Group

All figures are provisional and unaudited

ASSETS	30/06/2023	31/12/2022	Change
	EUR'000	EUR'000	%
1. Cash reserves	17,630	160,010	-89.0
2. Loans and advances to banks	3,215,752	1,396,425	>100.0
3. Loans and advances to clients	138,459	90,565	52.9
4. Debt securities and other fixed-income securities	578,427	537,564	7.6
5. Equities and other variable-income securities	8,465	8,780	-3.6
6. Trading portfolio	73,602	57,525	27.9
7. Equity investments	12,140	19,572	9.5
8. Intangible assets	16,594	11,090	13.2
9. Property, plant and equipment	69,058	14,663	-2.9
10. Other assets	17,658	71,151	15.3
11. Prepaid expenses and deferred charges	5,250	4,252	23.5
12. Excess of plan assets over pension liabilities	8,926	8,266	8.0
Total assets	4,161,961	2,375,611	75.2

EQUITY AND LIABILITIES	30/06/2023	31/12/2022	Change
	EUR'000	EUR'000	%
1. Bank loans and advances	109,189	117,644	-7.2
2. Liabilities to customers	3,760,468	1,994,184	88.6
3. Trading portfolio	14,422	15,365	>100.0
4. Other liabilities	35,615	3,195	>100.0
5. Prepaid expenses and deferred charges	282	250	12.8
6. Provisions	15,641	24,763	-36.8
7. Fund for general banking risks	61,381	55,271	11.1
8. Equity	164,963	164,939	0.0
Total equity and liabilities	4,161,961	2,375,611	75.2

Total assets as at 30/06/2023 increased by 75.2% compared to the balance sheet date as at 31/12/2022 and now amount to EUR 4,162.0 million.

On the assets side, the change is mainly due to the significant increase in loans and advances to banks due to the investment of credit balances with the Deutsche Bundesbank under the deposit facility. On the liabilities side, liabilities to customers increased due to continued significant growth in customer deposits.

As at 30/06/2023, the Group had balance sheet equity in the amount of EUR 165.0 million (31/12/2022: EUR 164.9 million) and a balance sheet ratio of 4.0 %. Capital resources stood at EUR 196.5 million. The Common Equity Tier 1 ratio (CET 1 ratio) was 22.7 % in the first half of 2023 as well as the total capital ratio. With this basis, Baader Bank is solidly positioned for further growth and investment.

The Group's net asset position remains sound.

RESULTS OF OPERATIONS

Consolidated income statement

All figures are provisional and unaudited in accordance with HGB (German Commercial Code (Handelsgesetzbuch))

	1st half of 2023 EUR'000	1st half of 2022 EUR'000	Change %
1. Net interest income	38,774	-457	-
2. Current income from			
a) Equities	635	236	>100.0
b) Equity investments	58	160	-63.8
	693	396	75.0
3. Net commission income	-16,206	8,647	-
4. Net result from the trading portfolio	52,853	68,662	-23.0
5. Revenue	5,795	5,219	11.0
6. Other operating income	1,546	2,349	-34.2
7. Administrative expenses			
a) Personnel expenses	-36,073	-32,700	10.3
b) Other administrative expenses	-33,975	-30,231	12.4
	-70,048	-62,931	11.3
8. Depreciation, amortisation and write-downs on intangible assets and property, plant and equipment	-5,567	-4,967	12.1
9. Other operating expenses	-1,412	-1,038	36.0
10. Depreciation, amortisation and write-downs on receivables and certain securities as well as allocations for provisions in credit transactions	0	0	0.0
11. Income from the write-up of receivables and certain securities as well as the reversal of provisions in credit transactions	545	3,962	-86.2
12. Depreciation, amortisation and write-downs on equity investments, shares in affiliates and securities treated as assets	0	-173	-100.0
13. Income from the write-up of equity investments, shares in affiliates and securities treated as assets	2,034	0	100.0
14. Expenses from the addition of the fund for general banking risks	-6,110	-8,700	-29.8
15. Profit/loss on normal activities	2,897	10,969	-73.6
16. Taxes on income	-2,770	-5,003	-44.6
17. Other taxes not shown under Item 9	-26	-26	0.0
18. Consolidated net income	101	5,940	-98.3
19. Non-controlling interests	-55	-135	-59.3
20. Retained earnings from the previous year	4,167	21,427	-80.6
21. Consolidated net retained profit	4,213	27,232	-84.5

Note on the presentation of the income statement

The table above furthermore shows the consolidated income statement in accordance with the requirements for annual financial statements in the HGB structure.

In a departure from the HGB structure, the income statement with notes is presented below using the management account structure. As a result, earnings from the interest business will include interest-induced commission expenses in addition to interest income. Earnings from trading will include trading income, brokerage and transaction income and trade-induced commission expenses, incl. exchange and settlement fees. Current income is reported under other income. In addition to general risk provisions, pension expenses include allocations to the fund for general banking risks in accordance with Section 340g HGB.

There were no changes in valuation, accounting and reporting methods in the first half of 2023.

OVERVIEW OF KEY FIGURES – 1ST HALF-YEAR 2023

Consolidated income statement

All figures are provisional and unaudited

in € mn	1 st half year (01/01/-30/06/)		
	2023	2022	Delta
Result from interest business	15.0	-0.5	15.5
Result from commission business	40.5	37.5	3.0
Result from trading activities	20.0	39.8	-19.8
Revenue	5.8	5.2	0.6
Other income	2.2	2.7	-0.5
Income	83.5	84.8	-1.3
Personnel expenses	36.1	32.7	3.4
Other operating expenses	41.0	36.2	4.8
Risk provision	3.5	4.9	-1.4
Expenses	80.6	73.8	6.8
Earnings before tax (EBT)	2.9	11.0	-8.1
Taxes	2.8	5.0	-2.2
Minorities	0.1	0.1	0,0
Group results	0.0	5.8	-5.8
Earnings per share in EUR	0.00	0.12	-0.12
Return on equity after tax in %	0.1	7.1	-7.0

The Baader Bank Group generated pre-tax earnings of EUR 2.9 million in the first half of 2023 (H1 2022: EUR 11.0 million).

Earnings from the interest business (generally consisting of interest income and interest-induced commission expenses) rose noticeably to EUR 15.0 million compared to the same period last year (H1 2022: EUR -0.5 million). This is attributable to interest rate changes and deposit growth. Earnings from the commission business increased to EUR 40.5 million compared to the same period last year due to further growth in the B2B business (H1 2022: EUR 37.5 million). At EUR 20.0 million, earnings from trading (generally consisting of trading income and trade-induced commission expenses) significantly declined compared to the first half of the previous year (H1 2022: EUR 39.8 million). Whilst in the same period of the previous year, special inflation-related and crisis-related situations boosted volatility, there has been no major stimulus so far in 2023 and thus less trading activity. Instead, the equity markets as a whole benefited significantly from fundamental performance that was better than feared, which was also reflected in a clear decline in volatility. Total revenue was EUR 83.5 million in the first half of the year (H1 2022: EUR 84.8 million) and decreased moderately by 2% compared to the strong comparable period.

Total expenses increased noticeably to EUR 80.6 million in the first half of 2023 (H1 2022: EUR 73.8 million). Personnel expenses of EUR 36.1 million were up on the same period of the previous year due to the planned increase in staff capacities (H1 2022: EUR 32.7 million). Operating expenditure rose to EUR 41.0 million (H1 2022: EUR 36.2 million), mainly due to continued investments to optimise the IT infrastructure and the expansion of platform functionality as part of Baader Bank's high-performance banking strategy, as well as additional inflation-related cost increases. The pension expense in the first half of 2023 amounted to EUR 3.5 million (H1 2022: EUR 4.9 million) and included allocations to the fund for general banking risks amounting to EUR 6.1 million (H1 2022: EUR 8.7 million).

As of 30/06/2023, the Group's total number of employees (in full-time equivalents) is 536 (31/12/2022: 503).

The Group companies, Baader Helvea Group, Baader & Heins Capital Management AG and the Selan Group, all posted a positive contribution to earnings in the first half of 2023.

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

Earnings per share amounted to EUR 0.00 (H1 2022: EUR 0.12) and return on equity after tax was 0.1% (H1 2022: 7.1 %).

FINANCIAL POSITION

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Operational liquidity management, which involves the management of daily payments, the planning of expected cash flows, and the management of disposable liquidity, serves the purpose of ensuring that the Group is able to satisfy all its payment obligations at all times. The Group's cash position, which was already solid in previous years, was also held constant in the past first half of the year.

Baader Bank AG's liquidity coverage ratio (LCR) as of 30/06/2023 was 326.0 % (previous year: 327.2%). The LCR requirement is met if the institution always has access to liquid assets (liquidity buffer) whose total value is at least equal to the liquid outflows less liquid inflows within the next 30 days under stress conditions. This implies a minimum LCR of 100 %.

FIRST HALF-YEAR 2023

Equity markets are benefiting from better fundamental performance than expected, with a resulting decline in volatility

The main macroeconomic issues in the first half of 2023 were performance of the global economy that was better than initially feared, declining global inflation rates and the slowing pace of monetary policy tightening by the international central banks.

Although both Germany and the eurozone slipped into a technical recession in the winter half-year, in an international context this was offset by a robust US labour market and a recovery in the Chinese economy after the end of its zero-Covid policy. In a sector comparison, the services sector in particular benefited from catch-up effects as a result of global pent-up demand, while the order situation in the manufacturing sector remained weak due to the reduction in inventories.

In the eurozone, inflation fell from 9.2 % in December 2022 to 5.5 % in June. It thus followed the course of the US inflation rate, where price increases had already begun to decline in summer 2022, which continued in the first half of 2023. This development was predominantly driven by a significant decline in energy prices. Despite the resulting marked decline in headline inflation rates, the core rate, which excludes volatile components such as energy and food prices, decreased only slightly. Given the tight labour markets and the resulting significant wage increases, this was due in particular to sustained high price rises for services.

Against this backdrop, many central banks continued to raise benchmark interest rates in the first half of the year, but gradually reduced the extent of tightening measures. After raising the benchmark interest rate corridor by 0.75 % and 0.5 % in the fourth quarter, the Fed only increased it by 0.25 % each in February, March and May, and then paused in June. The ECB increased the benchmark interest rates twice by 0.50 % in the first quarter and then twice by 0.25 % in the second quarter. By mid-year, the target range for Fed funds was ultimately 5.0-5.25 % and the ECB's main refinancing operation rate was 4.0 %. Each of these rates was the highest since the global financial crisis.

After a very high level of scepticism at the beginning of the year about the outlook for economic growth and corporate earnings, many European companies managed to reach or exceed their subdued expectations in the first half of the year. Even though the government-mandated takeover of some of the distressed banks in the US and Switzerland has caused some uncertainty in the meantime, the equity markets as a whole benefited significantly from fundamental performance that was better than feared on balance, which was also reflected in a clear decline in volatility.

The DAX gained 16.0% in the first half of the year, while the S&P 500 rose by 15.9 %, which was mainly due to the strong performance of some highly capitalised technology securities. The STOXX Europe 600, which represents the broad European equity market, was up by 8.7 %. The yield on 10-year government bonds moved largely sideways in both Germany and the US. In USD terms, commodity prices showed a mixed trend, although gold prices did rise by 5.5 %. The US dollar weakened moderately against the euro.

Dwindling trading activities and declining volatility in market making

In the first half of 2023, market volatility declined significantly compared to the same period in the previous year, reaching a level in June that was lower than before the coronavirus outbreak. Special situations caused by inflation and crises boosted volatility, especially in the first quarter of the previous year. In the current financial year, however, there has been no major stimulus so far and thus less trading activity. In an environment that is challenging for market makers, the current overall trend is marked by lower trading volumes in Germany compared to the exceptional years of 2020 and 2021. Although Baader Bank was able to maintain its market share on the relevant stock exchanges in terms of trading volume and share of trades, there was a downward trend in line with lower trading levels on stock exchanges and trading venues.

Within the first half of 2023, Baader Bank once again recorded more than 10 million trades in market making. In particular, gettex, the trading venue of the Munich Stock Exchange, continued to hold its own against established exchanges. In exchange trading with securitised derivatives, the stock exchange platform has developed into an important market player for the long term. With the continued growth in the supply of neo-brokers – both in Germany and in Europe – the trend towards gettex as a free-of-charge trading venue remains promising. The trading volume in the first half of the year was lower over both quarters compared to the previous year, both on the Frankfurt Stock Exchange and on the Stuttgart Stock Exchange. In the foreign equities segment on the Stuttgart Stock Exchange, business declined significantly compared to the same period of the previous year.

While equity markets have been less volatile, bond markets posted exceptionally high volatility in the first half of 2023, even by historical standards. The resulting nervousness among market players was reflected in the bond trading volume.

Overall, Baader Bank was able to further consolidate its position in retail trading – and in particular via gettex – as a market making service provider within the segments of equities, funds and ETFs through its strong positioning in the context of the ongoing acquisition of new customers by neo-brokers beyond the GSA region (Germany, Switzerland and Austria). Accordingly, Baader Bank is focusing on systematic expansion of its platform functionalities and optimisation of its high-performance IT and process infrastructure for future growth in this business segment. The solid capital and liquidity resources serve as a key competitive advantage for reliable settlement, even in volatile market phases.

Baader Bank is a full-service provider with the highest quoting and execution quality on several stock exchanges, with an increasing focus on European business in the broker market. We are quick to assess and implement the latest technology, process and service innovations and tap into potential new markets and products. The strong trading set-up in Baader Bank's market making is also able to be competitive in the exceptional conditions on the markets and provide the bank's customers with high-quality trading and quotation.

The latest developments on the issue of payment for order flow and an imminent ban on commission payments cannot yet be conclusively assessed. The expectation is that the relevant rules will be applied in the next two to three years. During this timeframe, Baader Bank will be increasingly engaged in dialogue with its cooperation partners regarding the adaptation of existing business models to the changed framework conditions. At this stage, it is expected that the new legislation will be passed in the interests of competitive and efficient customer trading with low entry barriers for end customers, and that Baader Bank could even benefit in the long term from the changed framework conditions.

Growth in the European B2B platform business continued

Baader Bank's growth in the first half of 2023 continues to be driven by B2B platform collaborations in the account and securities account business. In the first half of 2023, this increased by more than 150,000 additional securities accounts to over 1,000,000 securities accounts managed within the Group (31/12/2022: 843,000). Managed customer assets, consisting of securities account volumes and customer deposits, have increased to a total of EUR 23.4 billion since the start of 2023 (31/12/2022: EUR 17.6 billion).

The range of digital products for private investors investing in the financial market continues to grow. In addition to the onboarding of new B2B partners in the current environment, the opening up of European markets and the trend in interest rates are currently playing an important role. Some brokers have expanded their business model in the wake of rising interest rates and are offering interest on customer balances, which also has a positive effect on Baader Bank's net interest income.

Further B2B partnerships are also being established in Baader Bank's cooperation business. In addition to Smartbroker, which will be migrated to the Baader Bank platform in the course of the current financial year, another new online broker based in Germany is also joining the platform. The cooperation with Smartbroker ties another major partner to Baader Bank's platform. This growth is not expected to be reflected in earnings until 2024.

For further growth, Baader Bank will continue its investment path in order to model the IT infrastructure with scalability in mind. This will be particularly evident in market phases with high trading volumes.

The growth in the B2B platform business promotes sustainable cross-selling in the best execution service on gettex, the trading platform of the Munich Stock Exchange. New providers entering the market are not in competition with Baader Bank, but are considered possible collaboration partners for Baader Bank's platform business.

In addition to the expansion of products within Europe, current developments in the cryptocurrency segment are also driving the securities trading and custody business. As part of its B2B collaborations, Baader Bank also takes this into account in its strategic outlook and acts as a provider of financial commission transactions in crypto trading, with custody by third parties.

Positive business performance in the brokerage sector

The brokerage division continues its positive performance in the first half of 2023, while normalisation of transaction figures in Germany is currently becoming apparent, compared to the same period last year.

Trading volume and the number of trades in brokerage increased slightly compared to the same period last year. In particular, the collaboration and B2B2C business is increasing – in line with the growth trend – despite a general decline in trading activities. In particular, the growth in the private customer business on the part of neo-brokers as well as the high level of interest in, for example, crypto products continue to provide important momentum.

Baader Bank also continues to strive for sustained business expansion and an increase in brokerage market shares. In doing so, it positions itself as a high-profile and market-leading trading partner, particularly in relation to the cash equity product from Germany, Austria and Switzerland. The product range is complemented by derivatives and interest rate products. In line with the high-performance strategy, the brokerage business expansion will also be directed toward Europe in the future and with regard to the service universe as well as the quality and scope of connections. This goes hand in hand with the efficiency-driven automation of the business segment in order to remain competitive.

Capital market business continues to be restrained due to the global economic environment, continuing positive performance of mandate situation for securities services

The capital market business continues to face a number of challenges, largely due to the macroeconomic environment such as the various global interest rate changes. After a very restrained year for the capital market business in 2022, the first half of the current financial year tended to be better, but still restrained, in line with a slowly recovering environment. Overall, recession fears have weighed on the IPO business, which was evident in postponements of planned IPOs. However, Baader Bank expects to be able to implement the projects it already has in the pipeline in the second half of the year as planned. The focus in this environment remains on secondary placements, share buybacks or capital increases and de-SPACS.

At the beginning of the year, Baader Bank acted as a listing agent for the de-SPAC of GFJ ESG Acquisition I SE in the first quarter. The company, leardn, was listed on the regulated market of the Frankfurt Stock Exchange as part of the business combination. As early as 2021, Baader Bank assisted in the de-SPAC of Lakestar SPAC I SE and thus the stock exchange début of the company, HomeToGo. In the German-speaking region, three de-SPAC transactions have been concluded in recent years, with Baader Bank assisting with two of the three transactions. This highlights Baader Bank's expertise in assisting with complex and innovative transaction structures.

Despite the market-related challenges, the bank's Special Execution business continued its positive performance of the previous year. There was increased demand for mandates for takeover and delisting offers (tender offers) in particular, the issue or securitisation of bonds was successfully implemented.

In total, the bank assisted with and concluded 40 transactions in the capital market services business in the first half of this year. Despite the current market situation, the outlook for the second half of the year remains positive, partly due to the imminent expansion into Switzerland.

As at the half-year reporting date, Baader Bank managed a total of 72 mandates in the Corporate Brokerage division. Although competition remains intense, Baader Bank is already preparing several new designated sponsoring mandates for the remainder of the year. This is reflected in the positive performance of commission income.

Research services as an integral part of the business model

In a competitive environment, Baader Bank continues to drive its in-house research business forward. The number of research contracts concluded has decreased by 2% compared to the same period of the previous year. However, fluctuations of this size are considered as minor. New research mandates are also in the pipeline, with rising demand for ESG research boosting business. Baader Bank's holding in the independent French research provider, AlphaValue SA, which it has held since 2019, also has a reinforcing effect. As a result, all the assets analysed have a sustainability rating. As part of a disciplined and quantitative analysis procedure, the areas of environment, social and governance are awarded individual scores.

Important cross-selling opportunities arise from the in-house research service as an interface between two customer groups of particular importance to Baader Bank: corporate customers, the majority of whom are from the GSA region, and international institutional investors.

With virtual and hybrid event formats becoming less common in the previous year, interest in investment conferences is at an all-time high. At the three-day Baader Helvea Swiss Equities Conference in January, around 80 leading Swiss companies and over 300 investors took advantage of the opportunity to exchange ideas by attending the event in Bad Ragaz. The Baader Investment Conference in September will also take place in full as a face-to-face event; current registrations look very promising. In this twelfth year of the conference, small and mid-cap companies will also participate in the conference, in addition to numerous DAX-listed companies.

OUTLOOK

Some quite strong fluctuations and price setbacks on equity markets, with rising volatility on the bond market

In the second half of the year, the performance of the capital markets will be decisively influenced by the extent to which the hopes for a soft landing of the global economy will be realised. Against this background, inflation and the resulting central bank policy is likely to continue to play an important role. In contrast, it remains unclear whether countries with already very low rates of inflation, such as China, will adopt more sustainable stimulus measures than they have done so far.

Despite the first signs of gradual easing, core inflation rates in the US and the eurozone remain well above the central banks' target of 2%. Monetary policy direction is therefore likely to remain restrictive initially. At their most recent meetings, both the Fed and the ECB have already signalled that, despite the massive tightening measures taken in recent quarters, further ad hoc interest rate hikes are likely. At the same time, they dashed hopes of any rate cuts soon.

As a result, global growth prospects are expected to continue to be dampened by weak monetary supply and slowing credit growth. As long as there is no sign of a sustained economic recovery, there is still a risk that economic indicators will weaken more than expected due to overly restrictive monetary policy by central banks. Even though the reduction in inventories is already at a very advanced stage, economic expectations in the manufacturing sector have recently weakened again. Against this background, the robust performance of the services sector could gradually come to an end, which might lead to rising fears of recession, at least temporarily.

Consequently, the consensus estimates for corporate earnings that have remained relatively stable so far could gradually be revised downwards in the coming months. In particular, the economic outlook for 2024 is likely to increasingly take centre stage. Equity market valuations are not currently at above-average levels. However, increasing doubts about the earnings base could test the price recovery of recent months.

The equity markets therefore run the risk that there will be at least occasional relatively strong fluctuations and price setbacks in the second half of the year. This is also supported by the fact that investor sentiment has recently reached a very high level. In the bond market, volatility could also rise again if the current extremely inverse interest rate structure returns to normal. Any phase of risk aversion on financial markets is likely to be accompanied by a rebound in the US dollar and declining commodity prices.

In this scenario, a gradual reduction in expected inflation is likely, which should provide relief for the yield on long-term government bonds. Interest rate-sensitive securities with stable growth rates could particularly benefit from this. Even though a renewed upturn in the equity markets is expected in the fourth quarter due to seasonal factors, the second half of the year is likely to be rather volatile on balance.

Growth through focus on European business and investment based on solid capital strength

In the second half of 2023, the bank's business activities will focus on the medium- and long-term strategic goals. Baader Bank has positioned itself as a leading partner for securities and banking services in Europe, and as the operator of a leading platform in terms of technology and processes. The foundations for the planned further growth are therefore in place, including on the capital side. In addition to strong capital resources, the powerful IT and process infrastructure guarantees reliable delivery capabilities, cementing Baader Bank's position as a resilient partner in the global capital market environment. The sustained high trading volumes can be handled reliably due to Baader Bank's solid capital and liquidity position, even during particularly volatile market phases. This assurance underlines Baader Bank's aim of high-performance banking.

For the remainder of the current financial year, Baader Bank will continue its investment path for future growth and for optimising and expanding platform functionality. The current strategy focuses on expanding business beyond the GSA region, as well as on automation, digitisation, innovation and internationalisation in order to achieve further growth and significant economies of scale in the long term. The main objective is to increase the volume of business on the bank's platform.

Unterschleissheim, 27/07/2023

Baader Bank AG
Board of Directors