

Mid Cap
 Financials
 Equity – Germany

German Small Cap Financials

Baader had better Q1 results while DAB was in line

- ▶ **Baader Bank reported better-than-expected Q1 results, mainly due to one-off effects, while DAB bank was exactly in line with our expectations but slightly below consensus**
- ▶ **We make some changes to our forecasts to reflect underlying revenue dynamics and rising costs**
- ▶ **We maintain our target price of EUR4.1 and Neutral rating for DAB bank – we still prefer Baader Bank of the two with an unchanged target of EUR2.6 and Overweight (V) rating**

DAB bank (DRNG.DE, EUR3.84, Neutral, TP EUR4.1) released its Q1 results on 26 April 2012: Pre-tax and net profits were exactly in line with our but slightly below market expectations. As the company will not issue its guidance until July with the Q2 results, we only make small changes to our EPS forecasts. We are 9% above the median of Factset consensus for FY2012e, 11% above for FY2013e and 9% above for FY2014e.

Baader Bank (BLMG.DE, EUR2.12, Overweight (V), TP EUR2.6) reported its Q1 results on 24 April: Baader's quarterly results were better than we expected mainly due to positive one-off effects as a reversal of risk provisions boosted pre-tax and net profits. We make some adjustments to our forecasts, raising 2012e EPS but reducing 2013e EPS, and introduce our FY2014 forecasts. There is no consensus available.

27 April 2012

Johannes Thormann*

Analyst
 HSBC Trinkaus & Burkhardt AG,
 Germany
 +49 211 910 3017
 johannes.thormann@hsbc.de

View HSBC Global Research at:
<http://www.research.hsbc.com>

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: HSBC Trinkaus and Burkhardt AG

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Valuation for DAB bank: Our target price of EUR4.1 is unchanged and still based on our equal-weighted 2012 and 2013 forecasts. On our target price, we see a limited potential return of just 7% and hence reiterate our Neutral rating. The company is currently trading at 13.5x and 11.9x our 2012 and 2013 EPS forecasts, which does not seem cheap to us. However, the high tax-free dividend yield of 5.7% in 2011a is a supporting argument to hold the shares.

Valuation for Baader Bank: We maintain our target price of EUR2.6, which is still based on our equal-weighted 2012 and 2013 forecasts. As this target price implies a 23% potential return, we reiterate our Overweight (V) rating. The 2011a yield of 1.4% is just a minor add-on but overall we believe the stock offers a better risk/reward profile.

Catalysts and risks: Any significant change in equity and bond trading volumes always has some effect on stock prices. Furthermore, the quarterly results can often surprise as neither stock is followed by many analysts or investors. The main risks are a severe decline in trading activity and an unexpected change in interest rates, which could negatively affect the companies' treasury operations.

Baader's Q1 results were driven by positive one-offs

Baader Bank reported Q1 results on 24 April. The quarterly results were better than we expected mainly due to positive one-off effects as a reversal of risk provisions boosted pre-tax and net profits.

Quarterly results for Baader Bank

EURm	Q1 2011a	Q4 2011a	Q1 2012a	Q1 2012e	diff.	q-o-q	y-o-y
Net interest income	1.6	1.4	1.7	1.6	8%	25%	10%
Risk provisions	0.1	13.6	9.3	-0.5	-1951%	-32%	6239%
Net fees/commissions	9.5	5.7	9.7	8.0	21%	69%	2%
Trading profit	20.3	11.0	15.2	18.0	-16%	38%	-25%
Operating expenses	-26.4	-19.6	-25.8	-24.2	7%	32%	-2%
Pre-tax result	5.0	4.8	10.2	5.0	106%	111%	102%
Net result	4.1	5.1	8.8	4.4	103%	75%	114%

Source: Company data, HSBC estimates

Net interest income was slightly better than we expected. Against expectations, there was a massive release of risk provisions due to the successful sale of sovereign bonds that were previously impaired and led to a poor Q4. This is mainly an accounting effect as we had expected part of these gains to be shown in the 'Net income from financial instruments'. Baader CFO Brichmann stated that the bank has significantly reduced its sovereign holdings and so we should see less P+L volatility due to this issue. Also net commission income was stronger than expected, driven by good equity trading volumes in Q1. Management stated that the new equities business is breaking even despite investments. However, we also saw a weaker trading result, which was impacted by FICC trading and market-making. This should not change in the coming quarters. The increased headcount led to a higher-than-expected cost base.

Changes to our forecasts for Baader Bank

EURm	New 2012e	Old 2012e	diff.	New 2013e	Old 2013e	diff.
Net interest income	8.0	8.4	-5%	9.2	9.6	-4%
Risk provisions	7.0	-2.0	-450%	-1.5	-1.5	0%
Net fees/commissions	37.0	36.0	3%	43.0	40.0	8%
Trading profit	54.0	56.0	-4%	62.0	64.0	-3%
Total income	110.0	106.4	3%	118.7	121.6	-2%
Operating expenses	-97.4	-96.8	1%	-101.8	-102.2	0%
PBT	13.8	10.8	28%	18.3	20.9	-12%
Net profit	11.8	9.3	27%	15.7	18.2	-14%
EPS (EUR)	0.26	0.20	27%	0.34	0.40	-14%
DPS (EUR)	0.09	0.07	27%	0.11	0.13	-14%

Source: HSBC estimates

Following these results, as well as the release of the annual report for FY2011, we make some changes to our forecasts. We change our risk provision estimates to factor in the gain in Q1 2012 but cut other income lines as we expect to see lower revenues following the sale. We also reduce our trading result estimates. We increase our cost expectations as we see two drivers for rising personnel costs in 2012: rising performance-related compensation and the hiring of more staff to build up the investment banking and cash equities activities. We also increase our tax rate assumption from 10% to 12%. As a consequence of our higher EPS in 2012e, we raise our DPS forecast. For FY 2013e, we see the opposite effect. Last but not least, we introduce our FY2014 forecasts.

Valuation and risks for Baader Bank

We use an equity value model to compute our unchanged target price of EUR2.6, which is still based on our equal-weighted 2012 and 2013 forecasts. We divide our ROE estimate of 12.0% (was 11.3%) by our slightly lower cost of equity (COE) of 12.1% (12.2% before), which is calculated using the CAPM approach, including a risk-free rate of 3.0%, a 6.0% risk premium and a beta of 1.51 (versus 1.53 before) due to the changing risk profile. We multiply this factor by the estimated book value of EUR2.60 per share and add the 2011a dividend proposal of EUR0.03 to arrive at our rounded target price of EUR2.6.

Baader Bank valuation model

	2012e	Mix 12/13e	2013e	2014e
RoE	10.9%	12.0%	13.1%	18.6%
CoE	12.1%	12.1%	12.1%	12.1%
Book multiplier	0.91	1.00	1.09	1.54
Book value (EUR)	2.48	2.60	2.73	3.29
Business value (EUR)	2.24	2.60	2.98	5.08
Dividend (EUR)	0.03	0.03	0.03	0.03
Fair value (EUR)	2.3	2.6	3.0	5.1
Potential return	7%	23%	42%	141%

Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.
 Source: HSBC estimates

Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for Europe ex-UK stocks of 9.0%. Our 12-month target price of EUR2.6 implies a potential return of 23%, which is above the Neutral band; we therefore reiterate our Overweight (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

The main downside risks to our Overweight (V) rating on Baader Bank are: a renewed decline in trading activity, which could harm future revenue development. An unexpected change in interest rates could have a negative impact on the success of the bank's treasury operations. Furthermore, a failure of the bank's IT platform could frustrate clients and damage its business model as this is one of its critical success factors. The low liquidity of Baader Bank's own shares is also a risk. Transparency has reduced with the shift in reporting standard from IFRS to German GAAP (HGB). Last, but not least, the high degree of control by, as well dependence on, the CEO Uto Baader remains an investment risk.

DAB's Q1 results were mixed with lower net profit

DAB bank released its Q1 results on 26 April 2012. Pre-tax and net profit were exactly in line with our but slightly below market expectations. Looking at other key performance indicators, the volume of assets under custody of EUR26.35bn was better than the EUR25.65bn we expected. However, one small negative item was the decline in securities accounts by 529 despite the newly launched co-operation with ADAC – we had expected a small increase of 2,000.

Quarterly results for DAB bank

EUR	Q1 2011a	Q4 2011a	Q1 2012a	Q1 2012e	Diff.	q-o-q	y-o-y	VARA	diff
Net interest income	12.9	13.7	14.5	13.5	7%	6%	13%	13.8	5%
Net commission income	23.8	19.2	20.5	21.1	-3%	7%	-14%	21.4	-4%
Results from trading and investments	0.9	-1.6	2.3	2.1	11%	-244%	149%	1.9	20%
Operating earnings	37.7	31.2	37.2	36.7	1%	19%	-1%		
Operating costs	28.9	27.2	28.5	28.4	0%	4%	-2%	28.7	-1%
Pre-tax result	8.6	4.2	8.5	8.5	1%	101%	-1%	8.5	0%
Net result	5.9	2.9	5.8	5.8	0%	103%	-1%	5.9	-2%
No. of trades (m)	1.38	1.14	1.23	1.25	-2%	8%	-11%	1.16	6%

Source: Company data, HSBC estimates, VARA consensus

Looking at the P+L details, the net financial income as the sum of all balance sheet-related revenues was better than we had estimated. The first driver was improving net interest income due to better treasury management as well as lower interest expenses in B2B segment. Furthermore, the results from trading and investment were also better as the negative impact from peripheral exposure was a one-off in Q4 and did not recur.

Only net commission income was below our forecast, partly due to a lower number of trades (-2%) as well as lower margin per trade (-1%). Operating costs were exactly in line with expectations despite slightly higher personnel costs, IT costs and depreciation. The lower marketing expenses compensated for this. Overall, pre-tax and net profit were exactly in line with our but slightly below market expectations.

Changes in forecasts for DAB bank

EURm	New 2012e	Old 2012e	Diff.	New 2013e	Old 2013e	Diff.	New 2014e	Old 2014e	Diff.
Net interest income	58.0	56.0	4%	61.0	59.0	3%	64.0	62.0	3%
Net commission income	88.4	90.5	-2%	93.2	98.6	-6%	98.0	107.0	-8%
Results from trading and investments	4.0	2.0	100%	5.0	2.5	100%	6.0	3.0	100%
Operating earnings	150.1	148.3	1%	158.8	159.9	-1%	167.5	171.7	-2%
Administrative expenses	116.6	116.3	0%	120.7	120.8	0%	124.8	125.2	0%
Net other operating result	0.6	1.0	-40%	0.5	1.2	-58%	0.4	1.4	-71%
Pre-tax result	34.1	33.0	3%	38.5	40.3	-4%	43.1	47.9	-10%
Net result	23.5	22.8	3%	26.6	27.8	-4%	29.8	33.1	-10%
EPS (EUR)	0.28	0.28	3%	0.32	0.34	-4%	0.36	0.40	-10%
Transactions (m)	5.20	5.40	-4%	5.40	5.80	-7%	5.60	6.20	-10%

Source: HSBC estimates

As usual, management will only provide a FY2012 guidance with the Q2 results in July. As a first reaction to the results, we increase our net interest income forecasts as the company thinks that this level of net interest income could be sustainable for the next few quarters. However, we lower our net commission income forecasts, driven by lower our expectation for the number of trades, as CFO Niklas Dieterich indicated that April trading activity was in line with Q1 2012. We now expect only a minor increase (2% y-o-y) in number of trades for FY2012e and 4% for FY2013e and FY2014e.

Last but not least, we see higher IT expenses but lower marketing costs. Consequently, our 2012e EPS forecast goes up but FY2013e and FY2104e go down.

Valuation and risks for DAB bank

We use our equity value model to calculate our unchanged target price of EUR4.1, which is based on our equal-weighted 2012 and 2013 forecasts. First, we divide our reduced ROE forecast of 12.2% (was 12.4%) by our unchanged cost of equity (COE) of 9.8% (was 9.9%), calculated by using the CAPM (capital asset pricing model) approach, which includes a risk-free rate of 3.0%, a 6.0% risk premium and a beta of 1.15. We multiply this factor by the estimated tangible book value of EUR2.57 (was EUR2.54). Finally, we add the 2011 dividend proposal of EUR0.22 and the estimated add-on value for existing customer relationships to arrive at our target price of EUR4.1.

DAB bank valuation model

	2011e	2012e	Mix 12/13e	2013e	2014e
RoE	9.8%	11.9%	12.2%	12.5%	13.6%
CoE	9.8%	9.8%	9.8%	9.8%	9.8%
Multiplier	1.00	1.22	1.25	1.28	1.39
Equity capital per share (EUR)	2.24	2.54	2.57	2.59	2.68
Business value (EUR)	2.24	3.09	3.20	3.32	3.74
Add-on for customers (EUR)	0.68	0.71	0.71	0.72	0.74
Dividend 2011e (EUR)	0.22	0.22	0.22	0.22	0.22
Fair value per share (EUR)	3.1	4.0	4.1	4.3	4.7
Potential return	-18%	5%	7%	11%	22%

Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.
 Source: Company data, HSBC estimates

Under our research model for stocks without a volatility indicator, the Neutral band is five percentage points above and below the hurdle rate for Europe ex-UK stocks of 9.0%. Our 12-month target price of EUR4.1 implies a potential return of 7%, which is within the Neutral band; therefore we reiterate our Neutral rating. Potential return equals the percentage difference between the current share price and the target price including the forecast dividend yield when indicated.

Key downside risks to our Neutral stance are: a significant decline in trading activity, which would harm revenue development. A further cut in interest rates could have an additional negative impact on the bank's treasury operations. The treasury operations can also be burdened by further impairments needed for the bank's peripheral sovereign holdings. A failure of the bank's IT platform could undermine client satisfaction and damage its business model. Finally, the low liquidity of DAB bank's own shares remains an investment risk.

Key upside risks include better development in trading activity over the next few months and higher than currently expected interest rates by the European Central Bank, which would boost net interest income.

Financials & valuation: Baader Bank

Overweight (V)

Financial statements

Year to	12/2011a	12/2012e	12/2013e	12/2014e
P&L summary (EURm)				
Net interest income	6.9	8.0	9.2	10.4
Net fees/commissions	31.2	37.0	43.0	48.0
Trading profits	46.3	54.0	62.0	70.0
Other income	1.5	5.9	8.2	10.5
Total income	85.9	104.9	122.4	138.9
Operating expense	-90.6	-98.1	-102.6	-107.1
Bad debt charge	5.7	7.0	-1.5	-2.0
Other	0.0	0.0	0.0	0.0
HSBC PBT	1.0	13.8	18.3	29.8
Exceptionals	0.0	0.0	0.0	0.0
PBT	1.0	13.8	18.3	29.8
Taxation	-0.1	-1.7	-2.2	-3.6
Minorities + preferences	-0.2	-0.3	-0.4	-0.5
Attributable profit	0.7	11.8	15.7	25.7
HSBC attributable profit	0.7	11.8	15.7	25.7

Balance sheet summary (EURm)

Ordinary equity	103.2	113.6	125.4	151.1
HSBC ordinary equity	103.2	113.6	125.4	151.1
Customer loans	21.1	29.0	33.0	33.0
Debt securities holdings	213.6	225.0	240.0	240.0
Customer deposits	316.6	330.0	340.0	340.0
Interest earning assets	391.7	336.9	368.5	383.0
Total assets	535.8	605.0	650.0	650.0

Capital (%)

RWA (EURm)	275.4	288.8	307.6	308.1
Total tier 1	33.1	35.2	36.9	45.2
Total capital	33.1	35.2	36.9	45.2

Ratio, growth & per share analysis

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Year-on-year % change				
Total income	-20.2	22.1	16.7	13.5
Operating expense	2.3	8.3	4.6	4.4
Pre-provision profit	-124.9	-243.8	191.2	60.6
EPS	-95.9	1682.9	32.6	63.8
HSBC EPS	-95.9	1682.9	32.6	63.8
DPS	-74.6	186.6	32.6	572.4
NAV (including goodwill)	-39.9	10.1	10.3	20.5

Ratios (%)

Cost/income ratio	105.5	93.5	83.8	77.1
Bad debt charge	-20.6	-27.9	4.8	6.1
Customer loans/deposits	6.7	8.8	9.7	9.7
NPL/loan	0.0	0.0	0.0	0.0
NPL/RWA	0.0	0.0	0.0	0.0
Provision to risk assets/RWA	0.0	0.0	0.0	0.0
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	0.0	0.0	0.0	0.0
ROE (including goodwill)	0.5	10.7	12.9	18.4

Per share data (EUR)

EPS reported (fully diluted)	0.01	0.26	0.34	0.56
HSBC EPS (fully diluted)	0.01	0.26	0.34	0.56
DPS	0.03	0.09	0.11	0.77
NAV	1.33	1.56	1.81	3.29
NAV (including goodwill)	2.25	2.48	2.73	3.29

Valuation data

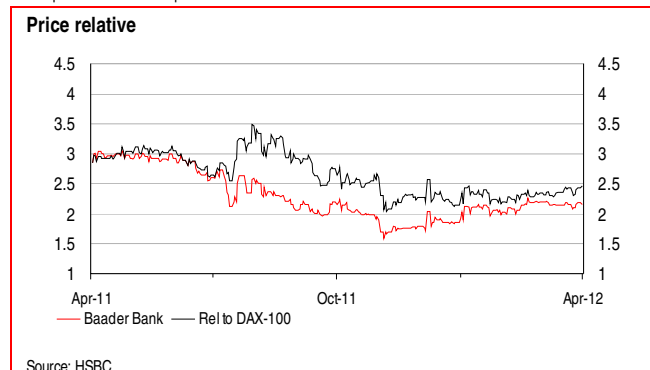
Year to	12/2011a	12/2012e	12/2013e	12/2014e
PE*	146.5	8.2	6.2	3.8
Pre-provision multiple		14.3	4.9	3.1
P/NAV	1.6	1.4	1.2	0.6
Equity cash flow yield (%)	4.2	11.2	14.8	26.4
Dividend yield (%)	1.4	4.1	5.4	36.2

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EUR)	2.12	Target price (EUR)	2.60
Reuters (Equity)	BLMG.DE	Bloomberg (Equity)	BWB GR
Market cap (USDm)	128.3	Market cap (EURm)	97.3
Free float (%)	33		
Country	Germany	Sector	Diversified Financial Services
Analyst	Johannes Thormann	Contact	+49 211 910 3017

Notes: price at close of 25 Apr 2012



Note: price at close of 25 Apr 2012

Financials & valuation: DAB bank

Neutral

Financial statements

Year to	12/2011a	12/2012e	12/2013e	12/2014e
P&L summary (EURm)				
Net interest income	53.2	58.0	61.0	64.0
Net fees/commissions	85.6	88.4	93.2	98.0
Trading profits	0.1	4.0	5.0	6.0
Other income	0.7	0.6	0.5	0.4
Total income	139.6	151.0	159.7	168.4
Operating expense	-113.1	-116.6	-120.7	-124.8
Bad debt charge	0.0	-0.3	-0.4	-0.5
Other	0.0	0.0	0.0	0.0
HSBC PBT	26.5	34.1	38.5	43.1
Exceptionals	-0.7	0.0	0.0	0.0
PBT	25.7	34.1	38.5	43.1
Taxation	-8.0	-10.6	-11.9	-13.4
Minorities + preferences	-0.5	0.0	0.0	0.0
Attributable profit	17.3	23.5	26.6	29.8
HSBC attributable profit	18.0	23.5	26.6	29.8

Balance sheet summary (EURm)

Ordinary equity	185.4	210.1	214.4	221.8
HSBC ordinary equity	185.4	210.1	214.4	221.8
Customer loans	267.3	290.0	310.0	330.0
Debt securities holdings	2483.0	2820.0	2980.0	3140.0
Customer deposits	3061.3	3400.0	3600.0	3800.0
Interest earning assets	0.0	0.0	0.0	0.0
Total assets	3406.2	3750.0	4000.0	4250.0

Capital (%)

RWA (EURm)	786.5	931.5	989.0	1046.5
Core tier 1	15.2	15.0	14.1	13.3
Total tier 1	15.2	15.0	14.1	13.3
Total capital	15.2	15.0	14.1	13.3

Ratio, growth & per share analysis

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Year-on-year % change				
Total income	-7.9	8.2	5.7	5.5
Operating expense	-5.0	3.1	3.6	3.3
Pre-provision profit	-18.6	29.8	13.0	12.1
EPS	5.0	36.4	12.9	11.9
HSBC EPS	9.5	30.7	12.9	11.9
DPS	10.0	22.7	22.2	15.2
NAV (including goodwill)	10.5	13.3	2.0	3.5

Ratios (%)

Cost/income ratio	81.0	77.2	75.6	74.1
Bad debt charge	0.0	0.1	0.1	0.2
Customer loans/deposits	8.7	8.5	8.6	8.7
NPL/loan	0.0	0.1	0.1	0.2
NPL/RWA	0.0	0.0	0.0	0.0
Provision to risk assets/RWA	0.0	0.0	0.0	0.0
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	0.0	0.0	0.0	0.0
ROE (including goodwill)	10.2	11.9	12.5	13.6

Per share data (EUR)

EPS reported (fully diluted)	0.21	0.28	0.32	0.36
HSBC EPS (fully diluted)	0.22	0.28	0.32	0.36
DPS	0.22	0.27	0.33	0.38
NAV	1.93	2.23	2.28	2.68
NAV (including goodwill)	2.24	2.54	2.59	2.68

Core profitability (% RWAs) and leverage

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Net interest income	6.8	6.8	6.4	6.3
Trading profits	0.0	0.5	0.5	0.6
Other income	0.1	0.1	0.1	0.0
Operating expense	-14.5	-13.6	-12.6	-12.3
Pre-provision profit	3.4	4.0	4.1	4.3
Bad debt charge	0.0	0.0	0.0	0.0
HSBC attributable profit	2.3	2.7	2.8	2.9
Leverage (x)	4.4	4.3	4.5	4.7
Return on average tier 1	15.1	16.9	19.0	21.3

Valuation data

Year to	12/2011a	12/2012e	12/2013e	12/2014e
PE*	17.6	13.5	11.9	10.7
Pre-provision multiple	12.0	9.2	8.2	7.3
P/NAV	2.0	1.7	1.7	1.4
Equity cash flow yield (%)	5.4	4.2	7.1	8.1
Dividend yield (%)	5.7	7.0	8.6	9.9

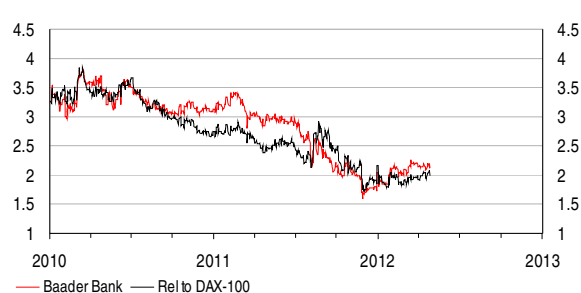
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EUR)	3.84	Target price (EUR)	4.10
Reuters (Equity)	DRNG.DE	Bloomberg (Equity)	DRN GR
Market cap (USDm)	418.7	Market cap (EURm)	317.6
Free float (%)	24		
Country	Germany	Sector	Commercial Banks
Analyst	Johannes Thormann	Contact	+49 211 910 3017

Notes: price at close of 25 Apr 2012

Price relative



Source: HSBC

Note: price at close of 25 Apr 2012

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Johannes Thormann

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

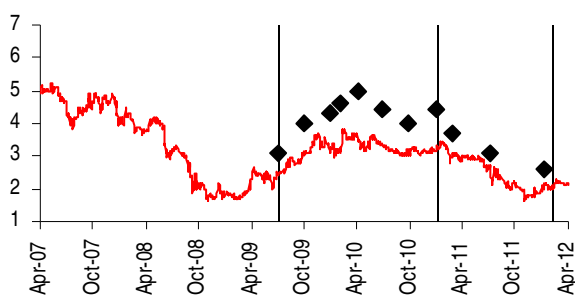
Rating distribution for long-term investment opportunities

As of 26 April 2012, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(25% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(24% of these provided with Investment Banking Services)
Underweight (Sell)	15%	(16% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Baader Bank (BLMG.DE) Share Price performance EUR Vs HSBC rating history



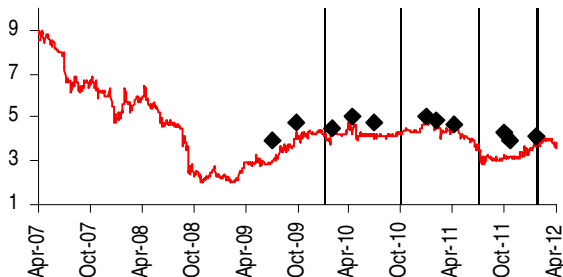
Source: HSBC

Recommendation & price target history

From	To	Date
Neutral (V)	Overweight (V)	29 July 2009
Overweight (V)	Overweight	25 January 2011
Overweight	Overweight (V)	02 March 2012
Target Price	Value	Date
Price 1	3.10	29 July 2009
Price 2	4.00	23 October 2009
Price 3	4.30	26 January 2010
Price 4	4.60	26 February 2010
Price 5	5.00	28 April 2010
Price 6	4.40	22 July 2010
Price 7	4.00	20 October 2010
Price 8	4.40	25 January 2011
Price 9	3.70	24 March 2011
Price 10	3.10	03 August 2011
Price 11	2.60	31 January 2012

Source: HSBC

DAB Bank (DRNG.DE) Share Price performance EUR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Neutral (V)	26 January 2010
Neutral (V)	Neutral	26 October 2010
Neutral	Overweight	26 July 2011
Overweight	Neutral	14 February 2012
Target Price	Value	Date
Price 1	3.90	29 July 2009
Price 2	4.80	20 October 2009
Price 3	4.50	23 February 2010
Price 4	5.00	05 May 2010
Price 5	4.80	27 July 2010
Price 6	5.00	26 January 2011
Price 7	4.90	02 March 2011
Price 8	4.70	04 May 2011
Price 9	4.30	26 October 2011
Price 10	3.90	18 November 2011
Price 11	4.10	14 February 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BAADER BANK	BLMG.DE	2.12	25-Apr-2012	6,11
DAB BANK	DRNG.DE	3.84	25-Apr-2012	7,11

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 31 March 2012 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 29 February 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 29 February 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
- 7 As of 29 February 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

* HSBC Legal Entities are listed in the Disclaimer below.

Additional disclosures

- 1 This report is dated as at 27 April 2012.
- 2 All market data included in this report are dated as at close 25 April 2012, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 HSBC Trinkaus & Burkhart acts as a designated sponsor to the following companies, and as such has an agreement with such companies to engage in market making activities and/or to publish research in connection with the securities of the following company(ies): BAADER BANK, DAB BANK

Disclaimer

** Legal entities as at 04 March 2011*

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Securities SA, Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiple; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

Issuer of report

HSBC Trinkaus and Burkhardt AG

Königsallee 21/23

D-40212 Düsseldorf

Germany

Telephone: +49 211 910-0

Fax: +49 211 910 33 20

Website: www.research.hsbc.com

This document has been issued by HSBC Trinkaus and Burkhardt AG ("HSBC") for the information of its customers only. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. The information and opinions contained within the research reports are based upon publicly available information at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed for the information of its Clients (as defined in the Rules of FSA) and those of its affiliates only. It is not intended for Retail Clients in the UK. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. It may not be further distributed in whole or in part for any purpose. HSBC Trinkaus and Burkhardt AG is regulated by the Federal Financial Supervisory Authority ("BaFin").

© Copyright 2012, HSBC Trinkaus and Burkhardt AG, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Trinkaus and Burkhardt AG. MICA (P) 038/04/2012, MICA (P) 040/04/2011 and MICA (P) 206/01/2012