Mid Cap
Diversified Financial Services
Equity – Germany

Baader Bank (BWB GR)

Overweight (V)

Target price (EUR)	**2.80**
Share price (EUR)	**2.00**
Potential return (%)	**40**

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	**1M**	**3M**	**12M**
Absolute (%)	-2.4	6.4	-2.4
Relative^ (%)	-1.9	-3.9	-10.7

Index^	DAX-100
RIC	BLMG.DE
Bloomberg	BWB GR
Market cap (USDm)	122.6
Market cap (EURm)	91.8
Free float (%)	33

Note: (V) = volatile (please see disclosure appendix)

20 February 2013

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

OW(V): Improving outlook not only due to Helvea deal

- **Baader Bank should show decent FY2012 although Q4 likely to be barely profitable – we expect a dividend yield of 3%**
- **We change our EPS forecasts to reflect prevailing weak trading activity into our numbers – we have not factored in any profit contribution from Helvea deal so far**
- **We raise our target price from EUR2.5 to EUR2.8 as we shift the time horizon to 2014e and reiterate our OW(V) rating**

The outlook for Baader Bank is improving despite a difficult market environment due to prevailing low trading volumes, largely reflecting the diversification of the business which continues to improve. The company is shifting trading activity from order book trading towards customer trading business. Furthermore, the recent Helvea acquisition strengthens the equities franchise. Although 95% of Helvea shareholders have approved the deal according to CFO Brichmann, Baader still needs regulatory approval. We have not included this deal into our model yet as financial disclosure remains low and closing is expected at end-March 2013.

We are still cautious however, and reduce our forecasts to factor in the difficult market environment. We expect the Q4 2012 results on 4 March to show a small net profit of EUR0.9m (down 67% q-o-q and down 82% y-o-y) and FY2012 profit of EUR8.9m, translating into EPS of EUR0.19 and DPS of EUR0.06. The later is in line with dividend policy to pay-out roughly one third of earnings.

Valuation: We increase our target price to EUR2.8 from EUR2.5 as we shift the period towards our reduced 2014 forecasts. Our new target price implies a 40% potential return and we maintain our Overweight (V) rating.

Catalysts and risks: Any significant change in equity and bond trading volumes often has some effect on the stock price. Furthermore, quarterly results can often surprise as the stock is not 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 impact the company's treasury operations. Furthermore, a failure of the bank's IT platform could lead to client concerns and damage its business model as this is one of its critical success factors (also for the success of Helvea deal). The low liquidity of Baader Bank's own shares is also a risk. Transparency has been reduced with the shift in reporting standard from IFRS to German GAAP (HGB). Lastly, the high degree of control by, as well dependence on, the management family (CEO Uto Baader and his son and fellow board member Nico Baader) remains an investment risk.

Financials & valuation

Financial statements

Year to	12/2011a	12/2012e	12/2013e	12/2014e
P&L summary (EURm)				
Net interest income	6.9	6.8	7.6	8.4
Net fees/commissions	31.2	37.2	42.8	48.4
Trading profits	46.3	36.0	46.0	56.0
Other income	1.5	0.0	0.0	0.0
Total income	85.9	80.0	96.4	112.8
Operating expense	-90.6	-93.2	-97.6	-103.0
Bad debt charge	5.7	24.0	12.0	6.0
Other	0.0	0.0	0.0	0.0
HSBC PBT	1.0	10.8	10.8	15.8
Exceptionals	0.0	0.0	0.0	0.0
PBT	1.0	10.8	10.8	15.8
Taxation	-0.1	-1.6	-1.3	-1.9
Minorities + preferences	-0.2	-0.3	-0.4	-0.5
Attributable profit	0.7	8.9	9.1	13.4
HSBC attributable profit	0.7	8.9	9.1	13.4
Balance sheet summary (EURm)				
Ordinary equity	103.2	110.7	117.0	130.4
HSBC ordinary equity	103.2	110.7	117.0	130.4
Customer loans	21.1	21.0	26.0	31.0
Debt securities holdings	213.6	250.0	265.0	280.0
Customer deposits	316.6	320.0	340.0	360.0
Interest earning assets	391.7	320.4	336.0	366.0
Total assets	535.8	525.0	570.0	615.0
Capital (%)				
RWA (EURm)	275.4	302.7	323.9	345.2
Total capital	33.1	33.6	33.3	35.1

Ratio, growth & per share analysis

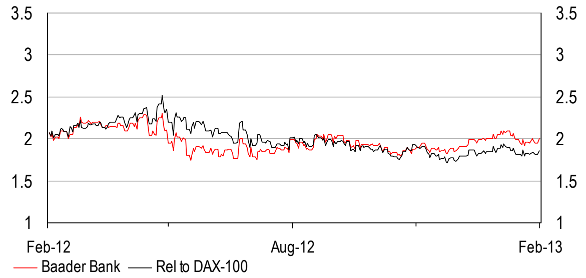
Year to	12/2011a	12/2012e	12/2013e	12/2014e
Year-on-year % change				
Total income	-20.2	-6.8	20.5	17.0
Operating expense	2.3	2.9	4.7	5.5
Pre-provision profit	-124.9	179.1	-90.9	-916.7
EPS	-95.9	1236.7	2.5	47.2
HSBC EPS	-95.9	1236.7	2.5	47.2
DPS	-74.6	100.0	0.0	50.0
NAV (including goodwill)	-39.9	7.3	5.7	11.5
Ratios (%)				
Cost/income ratio	105.5	116.5	101.2	91.3
Bad debt charge	-20.6	-114.0	-51.1	-21.1
Customer loans/deposits	6.7	6.6	7.6	8.6
ROE (including goodwill)	0.5	8.2	7.9	10.7
Per share data (EUR)				
EPS reported (fully diluted)	0.01	0.19	0.20	0.29
HSBC EPS (fully diluted)	0.01	0.19	0.20	0.29
DPS	0.03	0.06	0.06	0.09
NAV	1.33	1.56	1.70	1.99
NAV (including goodwill)	2.25	2.41	2.55	2.84

Valuation data

Year to	12/2011a	12/2012e	12/2013e	12/2014e
PE*	138.2	10.3	10.1	6.8
Pre-provision multiple				9.4
P/NAV	1.5	1.3	1.2	1.0
Equity cash flow yield (%)	4.4	7.6	8.3	13.0
Dividend yield (%)	1.5	3.0	3.0	4.5

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

Price relative



Source: HSBC

Note: price at close of 18 Feb 2013

Good outlook not only due to Helvea deal

The Helvea acquisition seems a good deal for Baader because it combines two complementary cash equity businesses with very little overlap in terms of customer reach and stock coverage. Furthermore, there seem to be good synergies. First of all, the company expects significant synergies from transferring the Helvea back office activities away from their previous service provider onto Baader's own and currently not fully utilised systems. Secondly and probably even more important but more difficult to measure is that it saves Baader the expense of internationalising its own business and applying for respective regulatory licences in the UK, US and Canada. Although 2013 could see some integration expense, Baader's management expects positive earnings contribution from 2014 on. We estimate that this deal could add at least EUR5m or more to pre-tax profit in two or three years. However, we have not included this deal into our yet as financial disclosure remains low and closing is expected at end-March 2013.

Changes to our forecasts for Baader

EURm	New 12e	Old 12e	diff.	New 13e	Old 13e	diff.	New 14e	Old 14e	diff.
Net interest income	6.8	7.6	-11%	7.6	8.4	-10%	8.4	9.2	-9%
Risk provisions	24.0	21.6	11%	12.0	13.2	-9%	6.0	7.0	-14%
Net fees/commissions	37.2	37.2	0%	42.8	43.2	-1%	48.4	49.0	-1%
Trading profits	36.0	39.0	-8%	46.0	48.0	-4%	56.0	59.0	-5%
Total income	104.0	105.4	-1%	108.4	112.8	-4%	118.8	124.2	-4%
Operating expenses	-93.2	-92.8	0%	-97.6	-98.6	-1%	-103.0	-105.0	-2%
PBT	**10.8**	**12.6**	**-14%**	**10.8**	**14.2**	**-24%**	**15.8**	**19.2**	**-18%**
Net profit	**8.9**	**10.8**	**-18%**	**9.1**	**12.1**	**-25%**	**13.4**	**16.4**	**-18%**
EPS (EUR)	**0.19**	**0.23**	**-18%**	**0.20**	**0.26**	**-25%**	**0.29**	**0.36**	**-18%**
DPS (EUR)	0.06	0.08	-25%	0.06	0.09	-33%	0.09	0.12	-25%

Source: Company data, HSBC estimates

CFO Brichmann stated that December was weak due to low activity levels but January started well. We reduce our trading result forecasts due to lower market making activities. Nevertheless, we lift our risk provisions forecasts as gains from the sale of previously impaired bonds are booked in this P+L line under German HGB accounting standards. According to CFO Brichmann, all new business lines remain profitable and in line with business plan. Nevertheless, we are changing our forecasts to reflect ongoing low market volumes. But we still expect an uplift in profitability over the next two years as well as higher dividend payments, driven by dividend policy.

Valuation

We use an equity value model to compute our target price of EUR2.8 (versus EUR2.5 before), which is now based on our 2014 instead of the 2013 forecasts. We divide our ROE estimate of 10.8% (was 10.5%) by our slightly lower cost of equity (COE) of 11.3% (11.7% 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 1.39 (versus 1.45 before) owing to the changing risk profile. We multiply this factor by the estimated book value of EUR2.84 per share and add the 2012e dividend estimate of EUR0.06 to arrive at our rounded target price of EUR2.8. Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for eurozone stocks of 9.0%. Our 12-month target price of EUR2.8 implies a potential return of 40% 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.

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

Equities: 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.

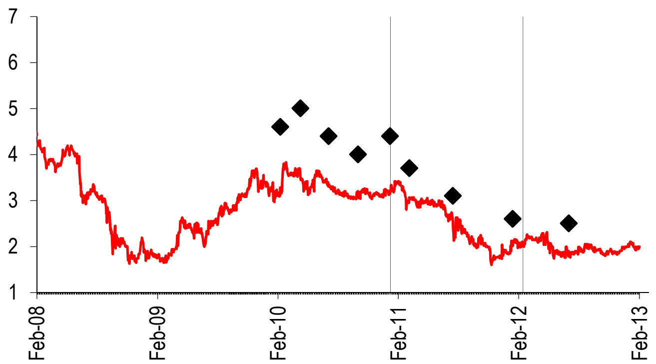
Rating distribution for long-term investment opportunities

As of 19 February 2013, the distribution of all ratings published is as follows:

Overweight (Buy)	44%	(29% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(27% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(23% 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
Overweight (V)	Overweight	25 January 2011
Overweight	Overweight (V)	02 March 2012
Target Price	**Value**	**Date**
Price 1	4.60	26 February 2010
Price 2	5.00	28 April 2010
Price 3	4.40	22 July 2010
Price 4	4.00	20 October 2010
Price 5	4.40	25 January 2011
Price 6	3.70	24 March 2011
Price 7	3.10	03 August 2011
Price 8	2.60	31 January 2012
Price 9	2.50	19 July 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BAADER BANK	BLMG.DE	2.00	18-Feb-2013	6, 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 January 2013 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 December 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 31 December 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 31 December 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 20 February 2013.
2 All market data included in this report are dated as at close 18 February 2013, 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 & Burkhardt 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

HSBC

Disclaimer

** Legal entities as at 8 August 2012*
'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 Bank Canada, 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; 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 Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR

Issuer of report
HSBC Trinkaus and Burkhardt AG
Königsallee 21/23
D-40212 Düsseldorf
Germany
Telephone: +49 211 910-0
Fax: +49 211 910-98091
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 incorporated in Hong Kong SAR.

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").

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).