

Knight Vinke Asset Management LLC

489 Fifth Avenue
New York, NY 10017
Tel: 212 660 5720
Fax: 212 660 5721
www.knightvinke.com

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Statement by Knight Vinke regarding HSBC's rights issue

Today shareholders were asked to vote to increase HSBC's share capital in order to strengthen the balance sheet which has been weakened after two years in which there have been horrendous losses in Household, its US sub-prime businesses. Credit losses in Household in 2007 and 2008, which have been realised, amount to over \$23 billion and losses which have not yet been realised - i.e. the difference between the fair value and carrying value of Household's assets - amount to \$34 billion, giving a figure for total losses in 2007 and 2008 relating just to Household alone of some \$57 billion.

These losses could have been avoided.

In early 2007, Knight Vinke suggested that HSBC should sell or spin off Household, a few days after Mike Geoghegan told investors that HSBC had received many offers for the business. HSBC's management rejected that request on the grounds that it liked the business and could see tremendous upside in it and the Board went on to reject Knight Vinke's call for an independent strategic review, which we hoped would focus on the realities of the Household situation rather than on saving the face of the senior managers. Since then, Knight Vinke has made numerous other suggestions about how to deal with Household. The Board and management, however, have rejected all of these.

Inevitably, the Board's ineffectiveness has been exposed, as reality has caught up with it and shareholders are being asked to pay for its failures. It is now time for the Board to take its responsibilities seriously and ensure that the resulting mess is properly dealt with. Management should now set out for investors their plans for minimising the impact on profits of the potential \$34 billion of losses in Household which have not been yet realised.

In addition, HSBC has disclosed a further \$22 billion of unrealised losses in other parts of the Group (i.e. the difference between the fair value and carrying value of other assets) and as if this were not enough yet another \$22 billion of losses sit in the portfolio of available-for-sale securities.

In other words, HSBC has a total of \$78 billion of identified losses - none of which have yet gone through the income statement.

Press Contact details:

David Trenchard, Tulchan Communications: +44 207 353 4200

John Sunnucks