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Knight Vinke notes today's announcement by HSBC that it plans to relocate the principal office of the Group Chief Executive to Hong Kong and that the Group Chief Executive will also assume responsibility for developing strategy.

We welcome this move, as this is something we have been calling on the Group to do since the commencement of our public engagement in 2007. We have also been seeking a separation between the person responsible for setting strategy and the person responsible for challenging that strategy.

We would like to remind fellow shareholders of the background to this and other recent decisions taken by HSBC.

Background

HSBC has a unique and very valuable retail and commercial banking franchise in Asia. Despite this, HSBC's strategy has been to diversify its business, both geographically and by product line, so as to create a more stable platform off which to leverage its balance sheet. This strategy was driven by the use of flawed metrics to measure performance, risk and the cost of capital. The use of ROE (instead of ROA) to measure performance obscured the extent to which increasing profits result from increasing leverage rather than underlying growth. Obsessive reliance on the Tier 1 ratio to measure capital adequacy resulted in the bank's true leverage being obscured and its capital strength exaggerated. The use of too low a cost of capital resulted in investments being made which do not properly take risk into account.

Nowhere was this more apparent than in HSBC's decision to continue owning and supporting Household, one of the largest sub-prime lenders in the United States. Household's ROA has never been high enough to exceed its true risk-adjusted cost of capital. The decision to keep Household, taken after a strategic review conducted by HSBC's Chairman and former Group CEO in early 2007, has resulted in a huge diversion of capital, funding and management time away from HSBC's core emerging market franchise towards a U.S. business which has no future.

Overview of Knight Vinke's Campaign

In September 2007, Knight Vinke wrote to the Board of HSBC asking for an independent non-executive Chairman, a fundamental strategic review and incentive arrangements that better align the interests of

shareholders and management. The letter also highlighted serious concerns over HSBC's continuing exposure to Household and its lack of focus. This was followed in January 2008 by a letter signed by Knight Vinke and six of the world's largest institutional investors, reiterating these concerns and asking for a more independent Board.

HSBC's public response was that shareholders had accepted the principle of a non-independent Chairman and that a strategic review had already taken place. Nevertheless, steps were taken in 2008 to amend some of the more offensive features of the HSBC management incentive plan and almost a third of the non-executive Board members were replaced. The Group also sold part of its French banking network, which was deemed to be non-core.

In January 2009, Knight Vinke wrote to HSBC's shareholders warning that horrendous losses at Household would most likely force HSBC to seek additional capital. This was strongly refuted by HSBC's management but in March 2009 HSBC was obliged to raise \$ 17 billion of new capital from its shareholders by way of a deeply discounted rights issue. Furthermore, the entire investment in Household has been written off and most of the business has been placed in run-off mode.

We continue to monitor the situation.

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