

HSBC Holdings plc

Still dancing?

November 2007

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Knight Vinke is an institutional shareholder of HSBC Holdings plc.

This document is dated as of 20 November, 2007.

Knight Vinke's six key points




1. Perennial stock market underperformance compared to peers
2. Pursuit of geographic diversification instead of comparative advantage
3. Lack of scale in key markets – UK, USA and France
4. Good position in Hong Kong – but franchise at risk due to lack of credible China strategy
5. Lack of credible CIBM strategy – trading assets now tie up a third of the Group's balance sheet
6. Strategy unchallenged due to poor Board structure and lack of economic incentives for senior management

Process of engagement – next few months/ years

1. Discuss underperformance and issues

-  with management/ Board Jun/ Sept meetings
-  with shareholders Sept/ Oct presentations
-  with analysts, press, other market participants “Open Letter” 16th Oct

2. Discuss valuation and strategic options

-  with management/ Board date not yet fixed
-  with shareholders
-  with analysts, press, other market participants

3. Detailed critique of each business/ acquisition/ results Q3 results 14th Nov

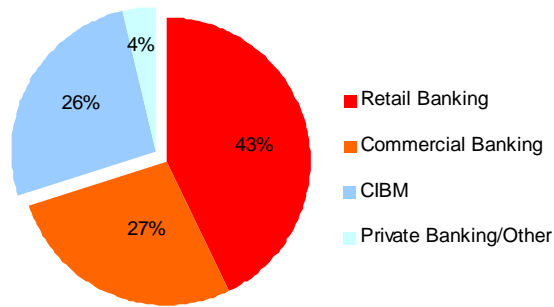
4. Participation at 2008 AGM (governance issues)

5. Collective action, other options

The world's largest and most profitable international emerging markets bank?

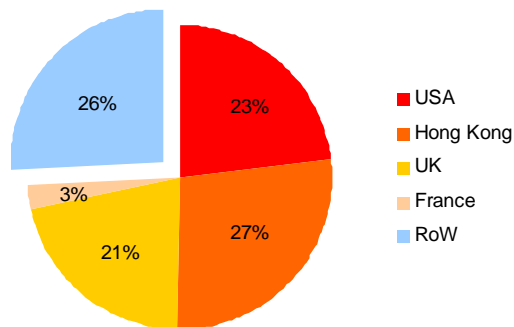
Retail and commercial banking in HK, USA and UK... plus a huge, growing and highly leveraged trading book (80% Europe/ North America)

HSBC 2006 PBT



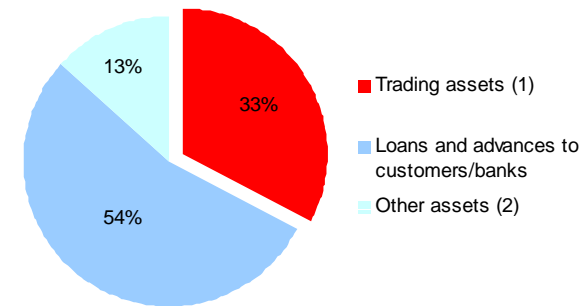
- Retail and commercial banking account for two-thirds of Group's PBT
- Private Banking: significant unexploited potential?

Geographical breakdown of retail and commercial banking PBT

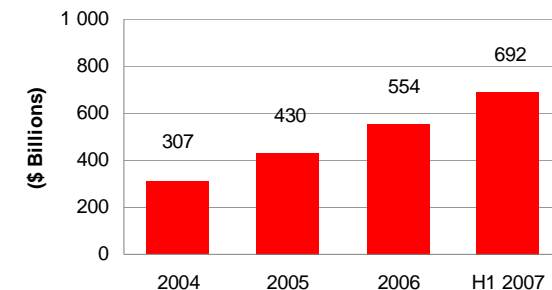


- HK, USA, UK and France account for 75% of PBT in 2006
- Mexico, Brazil, Canada and Turkey make up most of the balance

HSBC Total Assets (30 June 2007)



Evolution of Trading Assets



- Trading book more than doubled over three years
- Highly leveraged

(1) Include trading assets, financial assets held at fair value and financial investments

(2) Include all other assets except those mentioned above

SECTION 1

PERENNIAL STOCK MARKET UNDERPERFORMANCE 1994 – 2007

HSBC share price performance since 1994

- Despite claims to the contrary, HSBC has underperformed its peers over the past 14 years in term of Total Shareholder Return (TSR)
- **Generally 3rd quartile vs. selected group of 28 mostly Western banks and 4th quartile vs. 23 emerging markets peers ⁽¹⁾**
- Better performance in year to date (2nd quartile to 16 Nov 2007). Peer group analysis suggests this is due to HSBC's emerging markets exposure, not its diversification or size
- Dividend growth, which is HSBC's preferred performance metric, is only one part of Total Shareholder Return; one must also consider movement in the share price

(1) All would have been part of HSBC's selected peer group until this was changed in 2005.

HSBC's selected peer group Used for benchmarking performance

	Market Capitalisation USD billion
G HSBC	233.8
G BANK OF AMERICA	214.2
G CITIGROUP	208.4
G JPMORGAN CHASE	157.9
BANCO SANTANDER	135.7
UNICREDITO ITALIANO	114.0
WELLS FARGO	113.7
G UBS	110.8
MITSUBISHI UFJ FINANCIAL	107.4
G ROYAL BANK OF SCOTLAND	107.1
G ABN AMRO HOLDING	103.1
BNP PARIBAS	99.6
BANCO BILBAO VIZCAYA ARGENTA	94.2
WACHOVIA	90.4
G BARCLAYS	83.7
G CREDIT SUISSE	81.7
G SOCIETE GENERALE	78.1
ROYAL BANK OF CANADA	75.3
MORGAN STANLEY	71.4
G DEUTSCHE BANK	70.7
HBOS	67.7
CREDIT AGRICOLE	65.0
NATIONAL AUSTRALIA BANK	64.9
LLOYDS TSB GROUP	64.9
MIZUHO FINANCIAL GROUP	63.6
US BANCORP	57.2
BANK OF NEW YORK MELLON	55.6
STANDARD CHARTERED	54.6
WESTPAC BANKING	52.8

Source: Bloomberg data, November 16, 2007

HSBC's emerging market peers All peer group candidates (until 2005)

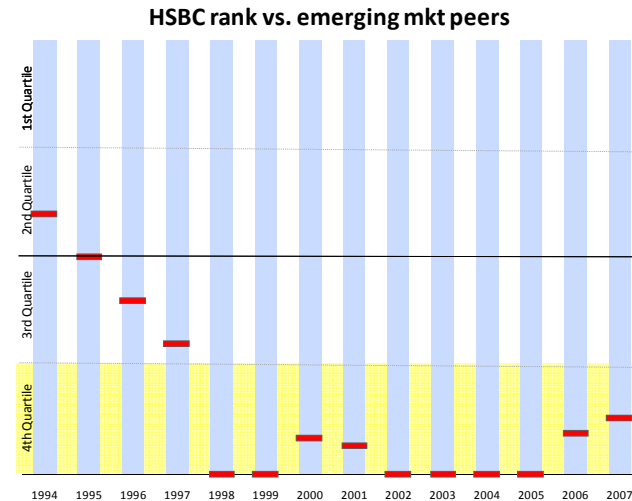
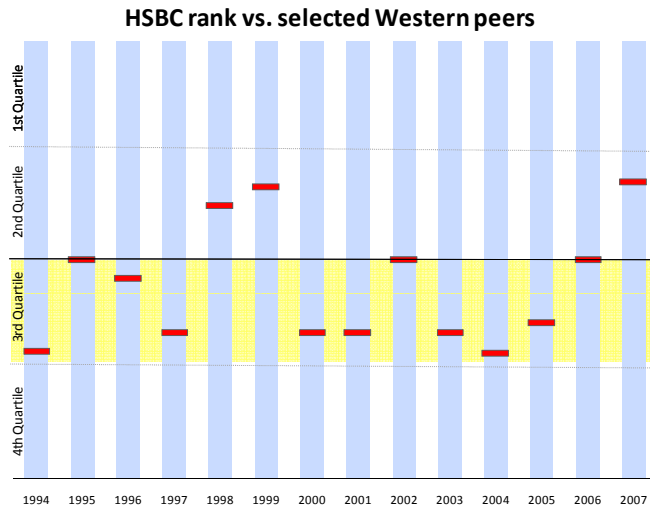
	Market Capitalisation USD billion
IND & COMM BK OF CHINA	343.3
CHINA CONSTRUCTION BANK	227.9
BANK OF CHINA	211.9
HSBC	204.8
BANK OF COMMUNICATIONS	88.5
CHINA MERCHANTS BANK	77.0
BANCO BRADESCO	63.5
BANCO ITAU HOLDING FIN	62.7
CITIC SECURITIES	44.5
BANCO DO BRASIL	40.1
AL RAJHI BANK	38.6
UNIBANCO	36.2
HANG SENG BANK	35.7
ICICI BANK	33.9
CHINA MINSHENG BANKING	31.8
STATE BANK OF INDIA	31.1
SHANGHAI PUDONG DEVEL BANK	31.0
BOC HONG KONG HOLDINGS	26.6
KOOKMIN BANK	25.9
SHINHAN FINANCIAL GROUP	23.0
STANDARD BANK GROUP	22.8
FIRSTRAND	21.2
UNITED OVERSEAS BANK	20.6

Source: Bloomberg data, November 16, 2007

We have marked with “G” those banks which are pursuing a diversified global strategy to test the hypothesis that such banks outperform in times of market turmoil.

Systematic underperformance since 1994

TSR rank since 1 January each year



Charts show HSBC's relative performance over the past 1 year, 2 years, 3 years, 4 years, 5 years etc ... going back to when HSBC moved from HK to London

- HSBC generally a 3rd quartile performer vs. its selected peers
- HSBC generally a 4th quartile performer vs. emerging market peers

2007 year to date (as of November 16)

No evidence of outperformance by global diversified banks

	USD	GBP	Rank
G ABN AMRO	70.8	62.9	1
WESTPAC	39.4	32.9	2
NATIONAL AUSTRALIA	25.4	19.6	3
BANCO SANTANDER	20.9	15.3	4
STANDARD CHARTERED	20.3	14.8	5
BANK OF NEW YORK MELLON	14.5	9.2	6
ROYAL BANK OF CANADA	14.1	8.8	7
BANCO BILBAO VIZCAYA ARGENTA	5.5	0.6	8
BNP PARIBAS	-0.5	-5.1	9
G HSBC HOLDINGS	-0.7	-5.3	10
G DEUTSCHE BANK	-4.5	-8.9	11
UNICREDITO ITALIANO	-4.6	-9.0	12
LLOYDS TSB GROUP	-5.4	-9.8	13
G JPMORGAN CHASE	-8.1	-12.3	14
G SOCIETE GENERALE	-8.5	-12.7	15
WELLS FARGO	-9.4	-13.6	16
US BANCORP	-10.0	-14.2	17
G CREDIT SUISSE	-11.5	-15.6	18
G BANK OF AMERICA	-14.0	-17.9	19
CREDIT AGRICOLE	-14.4	-18.3	20
G UBS AG	-19.6	-23.3	21
MORGAN STANLEY	-20.6	-24.3	22
G BARCLAYS	-23.0	-26.6	23
HBOS	-26.1	-29.5	24
G ROYAL BANK OF SCOTLAND	-28.9	-32.2	25
WACHOVIA	-29.0	-32.2	26
MITSUBISHI UFJ FINANCIAL	-31.0	-34.2	27
MIZUHO FINANCIAL GROUP	-32.1	-35.3	28
G CITIGROUP	-36.1	-39.1	29

HSBC RANK 10/29 2nd QUARTILE

	USD	GBP	Rank
CITIC SECURITIES	291.8	273.6	01
SHANGHAI PUDONG DEVEL BANK	161.8	149.7	02
CHINA MERCHANTS BANK	161.3	149.2	03
STATE BANK OF INDIA	112.4	102.5	04
CHINA MINSHENG BANKING	99.8	90.5	05
BANCO DO BRASIL	66.4	59.3	06
UNIBANCO-UNITS	59.9	53.0	07
BANCO BRADESCO	59.8	53.0	08
CHINA CONSTRUCTION BANK	56.3	49.0	09
ICICI BANK	55.8	48.6	10
BANCO ITAU HOLDING FIN	51.6	45.1	11
HANG SENG BANK	41.8	35.3	12
IND & COMM BK OF CHINA	40.1	33.6	13
BANK OF COMMUNICATIONS	29.2	23.2	14
STANDARD BANK GROUP	27.1	21.2	15
FIRSTRAND	22.8	17.1	16
SHINHAN FINANCIAL GROUP	13.5	8.6	17
UNITED OVERSEAS BANK	11.4	6.2	18
AL RAJHI BANK	10.5	5.0	19
BANK OF CHINA	2.7	-2.1	20
HSBC	-0.7	-5.3	21
BOC HONG KONG HOLDINGS	-2.8	-7.3	22
KOOKMIN BANK	-4.5	-8.6	23

HSBC RANK 21/23 4th QUARTILE

- Most of HSBC's emerging market peers have positive returns; own peers have negative returns.
- HSBC's 2007 performance mainly reflects the fact that 50% of its income is derived from HK and emerging markets.

SECTION 2

PURSUIT OF GEOGRAPHIC DIVERSIFICATION INSTEAD OF COMPARATIVE ADVANTAGE

What is left of “Managing for Growth (2003-2008)”?

New strategy introduced in 2007

1. Aim for capital markets and M&A leadership worldwide. **Strategy has failed/ “emerging market focus” introduced as default strategy**
2. Household’s (consumer finance) model to be applied to retail banking network worldwide. **Strategy has failed/ HSBC left with sub-prime mortgage fiasco instead**
3. 50/ 50 split between OECD and emerging markets (geographic diversification). **Objective apparently still intact**

Two of three pillars now missing and geographic diversification (beyond what is optimal) for its own sake as a strategic objective

Diversification as a strategic objective

Acquisitions/ Greenfield projects announced in 2007

Date		Announcements
12-Nov	Korea	HSBC buys 50% of Hana Life for \$58.4m
08-Oct	Peru	HSBC announces plan to open branch network in Peru
02-Oct	Vietnam	Increases its stake in Vietnamese Techcombank from 10% to 15%
30-Sep	UAE	Gets license to start share broking in the UAE
27-Sep	Taiwan	Launches life insurance in Taiwan
	Czech Republic	Announces the opening of a retail service in Czech Republic
20-Sep	Japan	HSBC announces plan to open 35 branches in Japan
	Georgia	Expects to begin Georgia banking services early in 2008
13-Sep	Vietnam	Agrees to buy a 10% stake in Bao Viet, Vietnam
10-Sep	Italy	Buys 2.7% of Banca Popolare di Milano
03-Sep	Korea	Agrees to buy 51% of Korea Exchange Bank for \$6.3bn
29-May	Algeria	Receives regulatory approval to open a branch in Algeria
24-May	Guatemala	Plans to open an office in Guatemala
02-May	Paraguay	Completes the purchase of Lloyds TSB Bank Paraguay SA
30-Mar	El Salvador	Buys out most of the remaining shares in two units in El Salvador
16-Mar	India	Seeks permission to enter India's pension fund business
15-Feb	Greece	HSBC announces decision to further expand its activities in Greece
12-Feb	Russia	Applies for a license to start retail banking services in Russia

- HSBC systematically confuses OPPORTUNITY with COMPARATIVE ADVANTAGE
- Where is the comparative advantage from spreading capital so thinly?

Diversification (and a strong capital base) in times of crisis

Does this make any sense at all?

- Q3/07: additional \$4.3 bn sub-prime and trading write-offs (YTD total over \$10 bn). Commenting on these results, Mr Geoghegan, HSBC's CEO, said in an interview on 14 November 2007:

"I think first you should take away that global diversification works. This is a broad-based set of results; strong in Asia, strong in the Middle East, relatively strong in Europe, strong in Latin America, offset by difficult situations in North America. But overall, a very strong set of results.....I think our strategy's been totally vindicated"

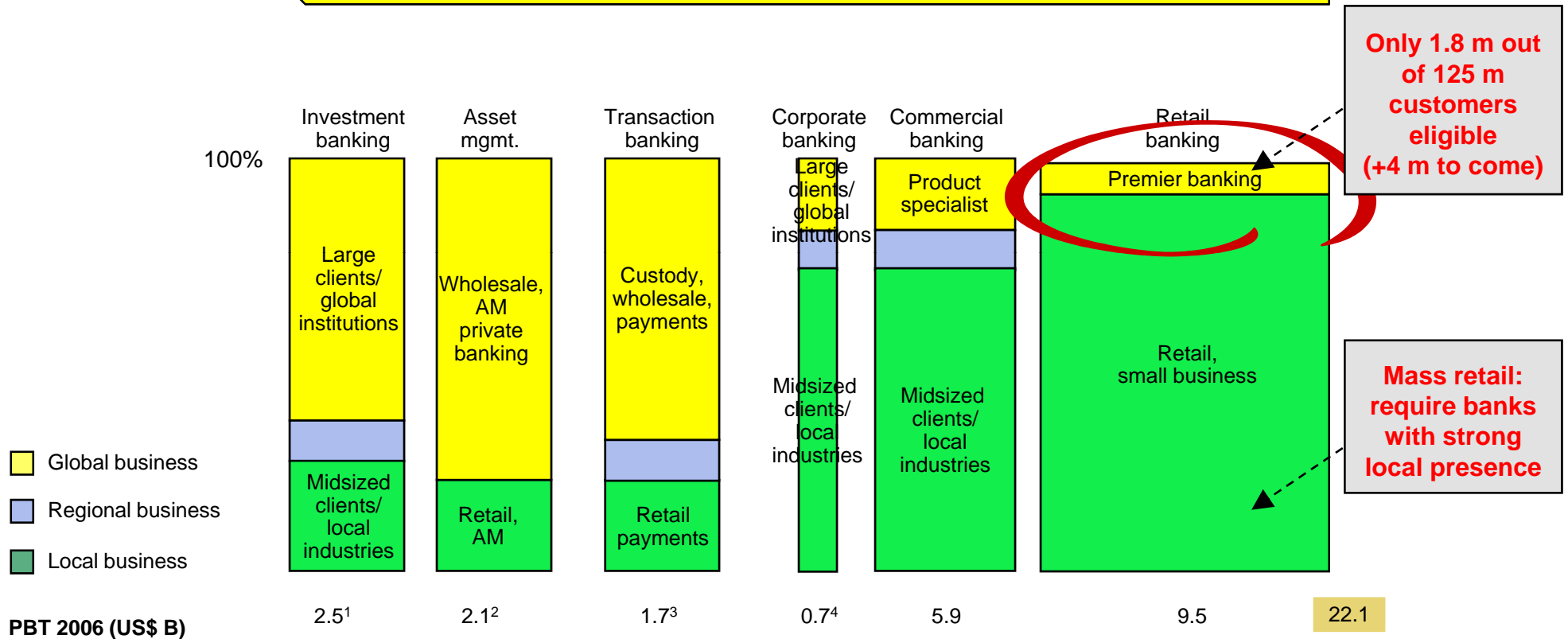
- **What this means in practice is**
 - o 2007 YTD results only match 2006 because of \$1.1 billion one-off gains on dilution in China and \$1.3 billion gains on revaluation of HSBC's own debt.
 - o HSBC has had to inject additional capital into Household and is now owed \$43 bn by Household, with further deterioration expected. At time like this, a "strong capital base" may lead to lack of discipline in capital allocation.

Diversification means that HSBC is taking highly-rated and low-risk cash-flows from HK to invest in a lower-rated and high-risk business that would normally not be able to fund itself in the market: how does this reduce risk or add value?

Mass market retail banking requires strong local presence

Global brand adds very little to comparative advantage in retail mass market

Advantage from HSBC global scale/ brand



Advantage from local scale

1. Investment banking includes CIBM elements (IB, credit and rates, structured derivatives and equities) 2. Asset mgmt includes PB, private equity and group investment
 3. Transaction banking includes CIBM elements (FX, payments and cash mgmt and other transaction services) 4. Corporate banking includes CIBM lending
 Note: Value synergies of 1 – 8% from revenues and associated expense varies with different business units from consultants' experience
 Source: HSBC 2006 annual report; consultants' experience and analysis

ROE compared with peers

- HSBC is the only bank to be pursuing global strategy in retail banking...
- If this strategy generated synergies one would expect HSBC's ROE to rise relative to that of its 28 peers
- In fact, HSBC's ranking in terms of ROE (adjusted for goodwill) against its own peer group fell from
 - o 2nd out of 13 in 1993
 - o 21st out of 29 in 2006

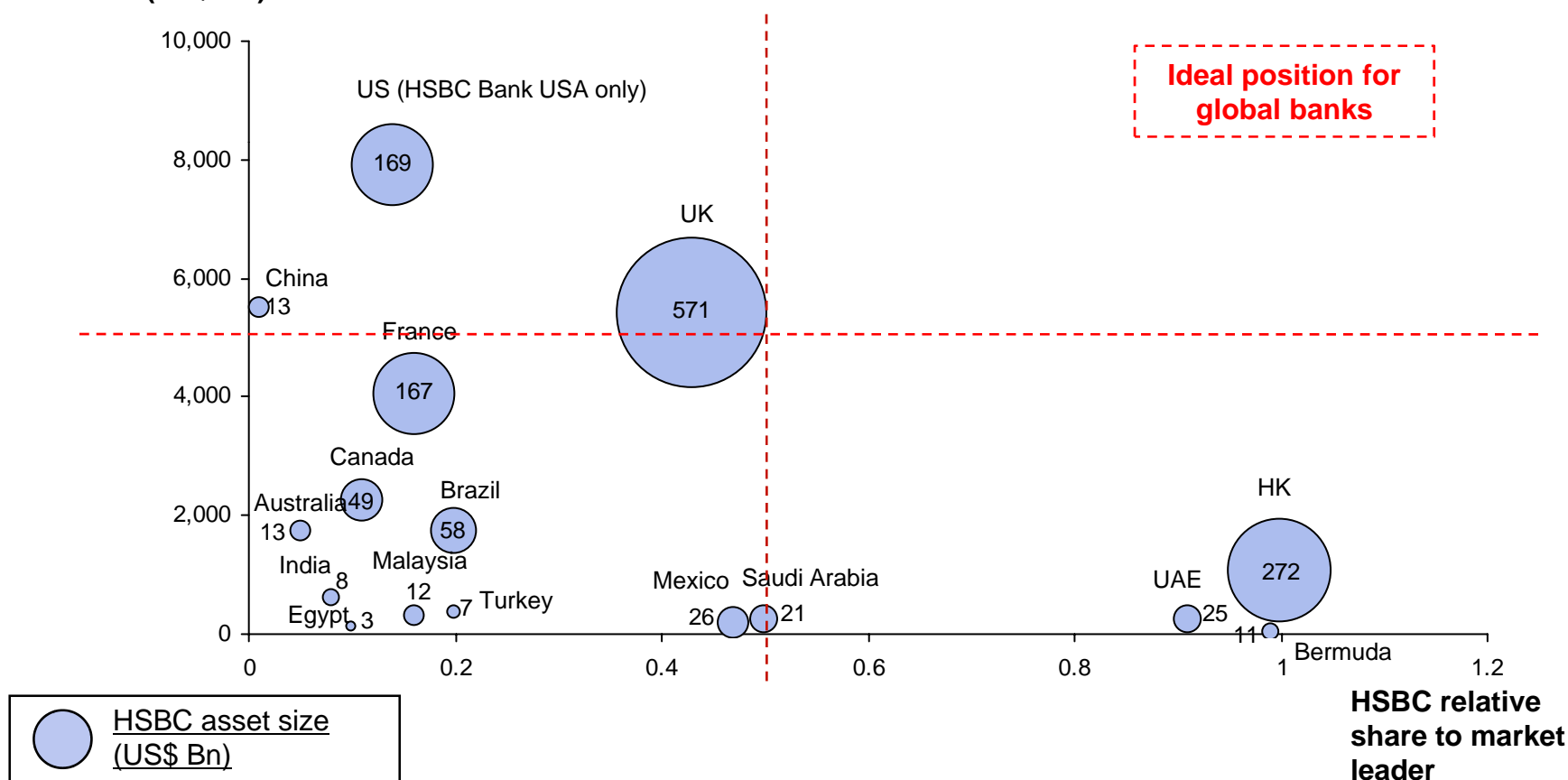
SECTION 3

LACK OF SCALE IN KEY MARKETS

HSBC not a leading player in its key markets (ex Hong Kong)

Asset size, relative market share and total market asset size in key markets

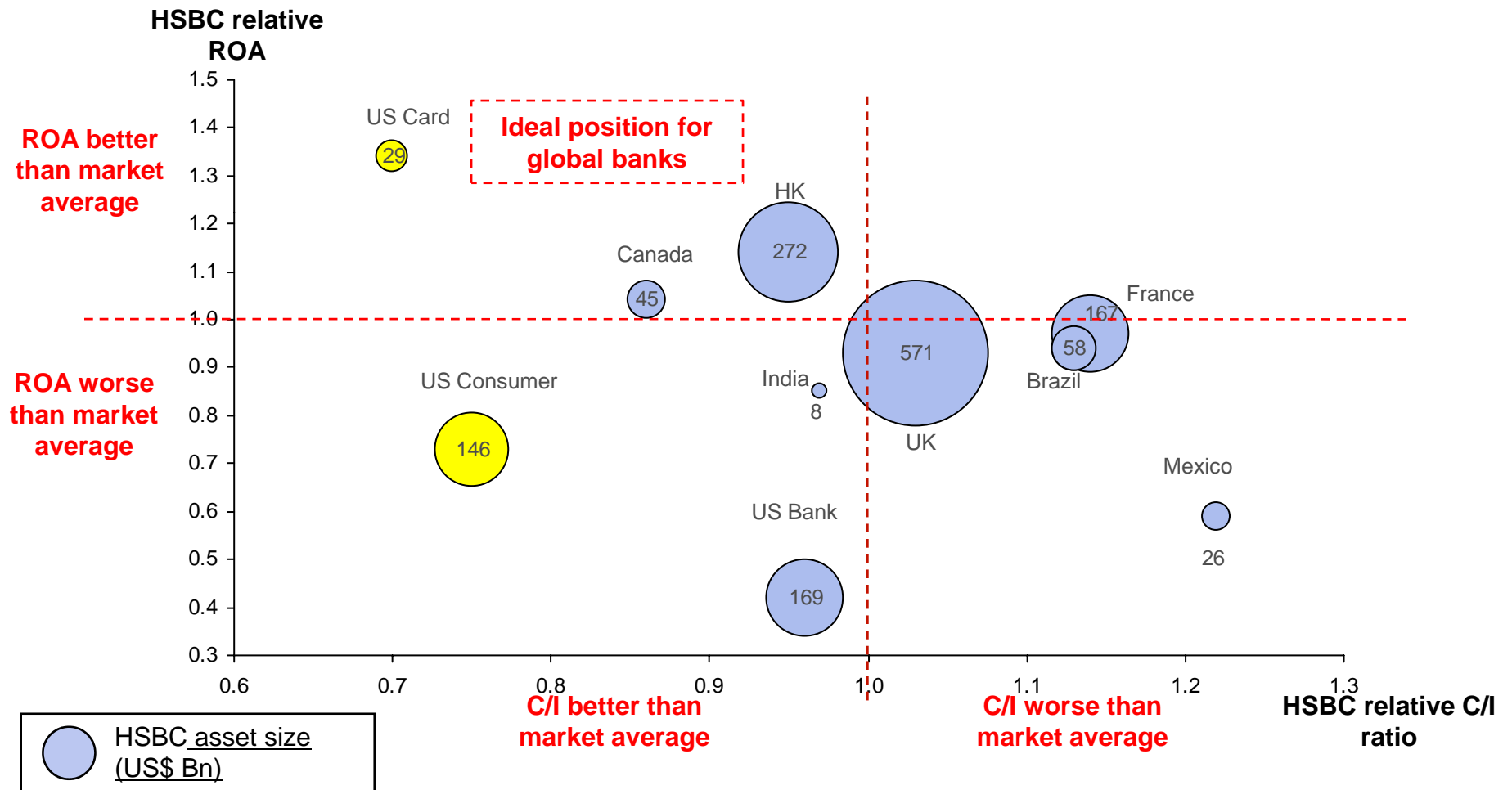
Market size of banking assets (US\$ Bn)



Note: Data shown include total assets (divisional data not available in most cases)
Source: Company reports; analyst reports; central banks; EIU; External analysis

No evidence of comparative advantage

Lower returns than local peers in most markets (except Hong Kong)



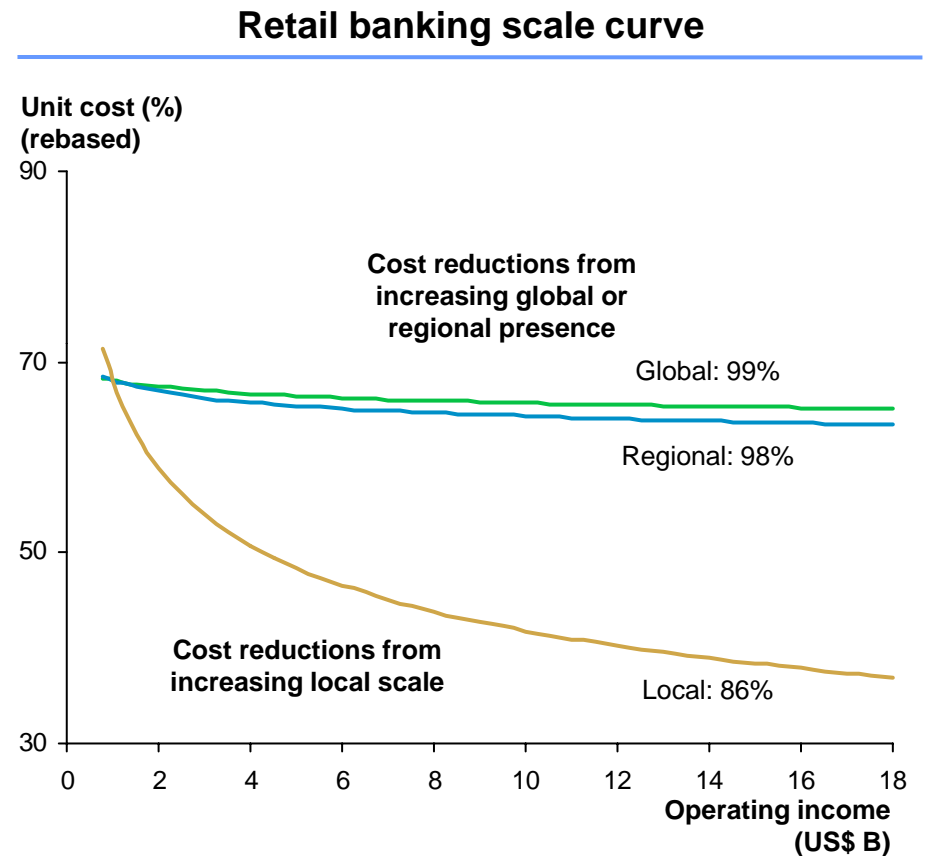
Note: Data shown include total assets (divisional data not available in most cases); yellow bubbles for HSBC Finance Corp (formally Household)
 Source: Company reports; analyst reports; central banks; External analysis

Cost reductions from increases in scale in retail banking

Based on our consultants' experience, **global scale effect generates only 1% cost reduction when business volume doubles**

Different geographical scale effects

- Global scale effects hindered by complexity of systems and processes, different information capture, regulations and legacy infrastructure
- Regional scale effects involve sharing of systems and processes, regional processing centers and distribution practices
- Local scale effects provide domestic advantages of similar systems, data capture, streamlining of processing, procurement and distribution channels



*Note: a slope of 85% means that the unit cost (eg, staff cost per operating cost) will decrease by 15% when double the total operating income; Regional and local scale effects on IT/Operations costs per product are differentiated for Europe, North America, Latin America and Asia
Source: HSBC group and country annual reports; consultants' IT benchmarking and experience*

SECTION 4

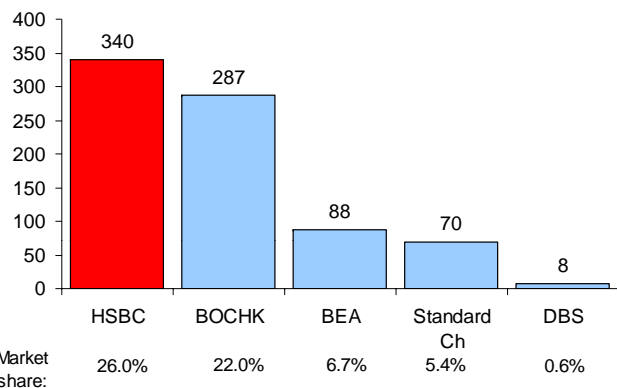
GOOD POSITION IN HONG KONG

**Franchise at risk due to lack of credible China
strategy**

HSBC market share and operating performance in Hong Kong

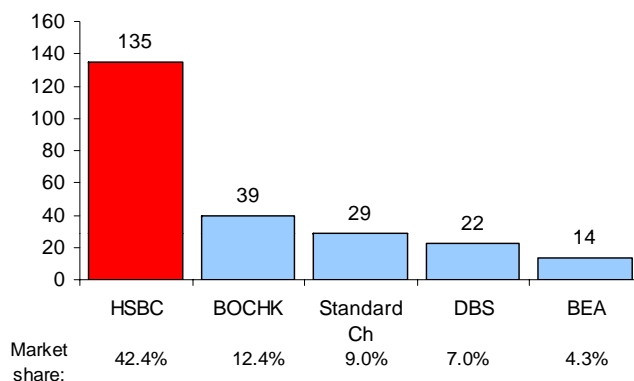
Branches

Total number of branches: 1,307



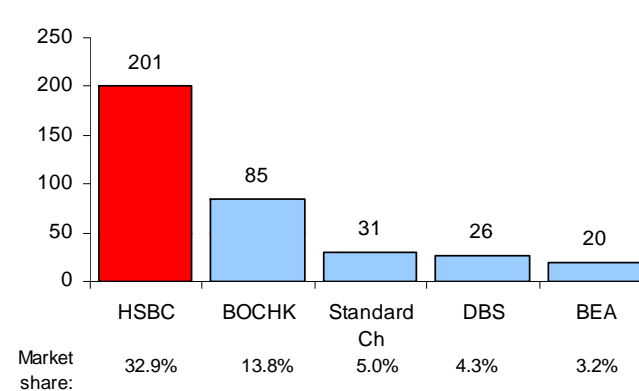
Loans

Loans (\$ Billions)

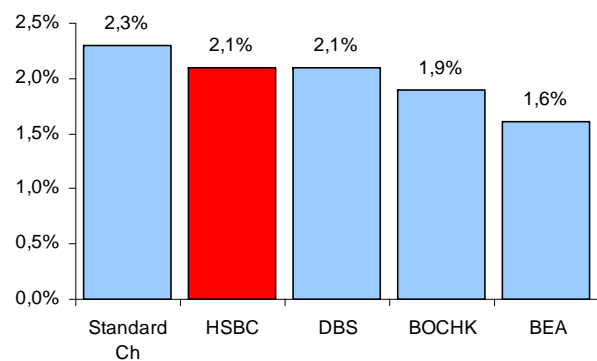


Deposits

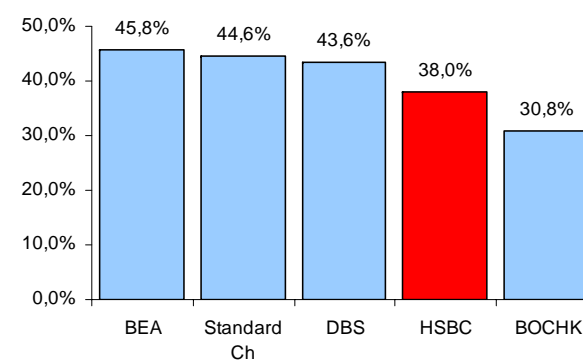
Deposits (\$ Billions)



Net Interest Margin¹ (%)



Cost-to-income ratio² (%)



1) Net Interest Margin = Net interest Income / Interest-earning Assets; 2) Cost-to-income = Total Operating Expenses / Total Operating Income
Sources: KVAM Analysis, Companies Annual Reports, Bloomberg exchange rates, HSBC data includes Hang Seng

Whose management is producing the results in China?

Most profits in China come from non-HSBC managed businesses

Latest 12 months PBT excluding one-off gains on dilution of Chinese interests

US \$ million	Retail	Commercial	CIBM	Private banking	Other	Total
China- HSBC managed business	(43)	(1)	(5)	0	(34)	(83)
China- associates¹	394	307	225	0	61	986
Total China	351	306	220	0	27	903
HK ²	3,358	1,494	1,175	239	(408)	5,858

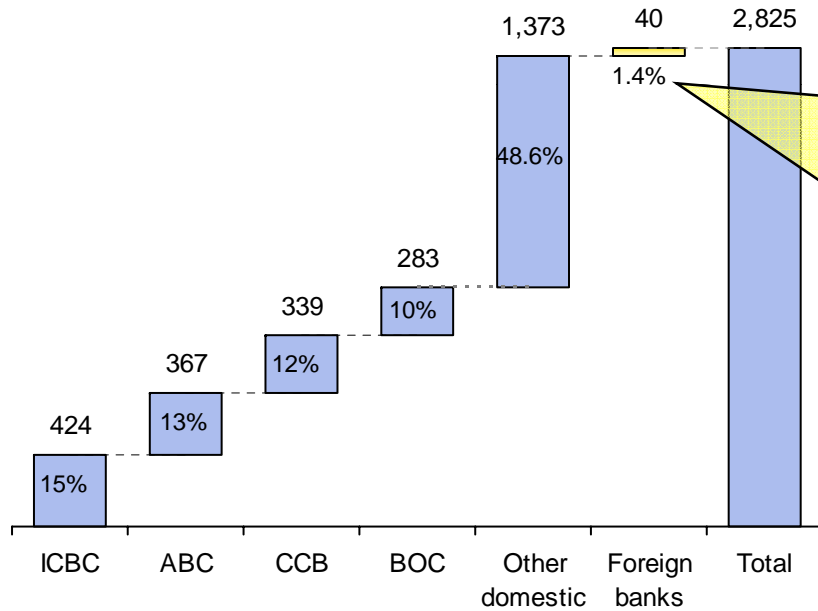
¹ Ping An, Bocom, Industrial Bank and Bank of Shanghai

² Note that HK profits include 100% of results of Hang Seng which is 62% owned by HSBC

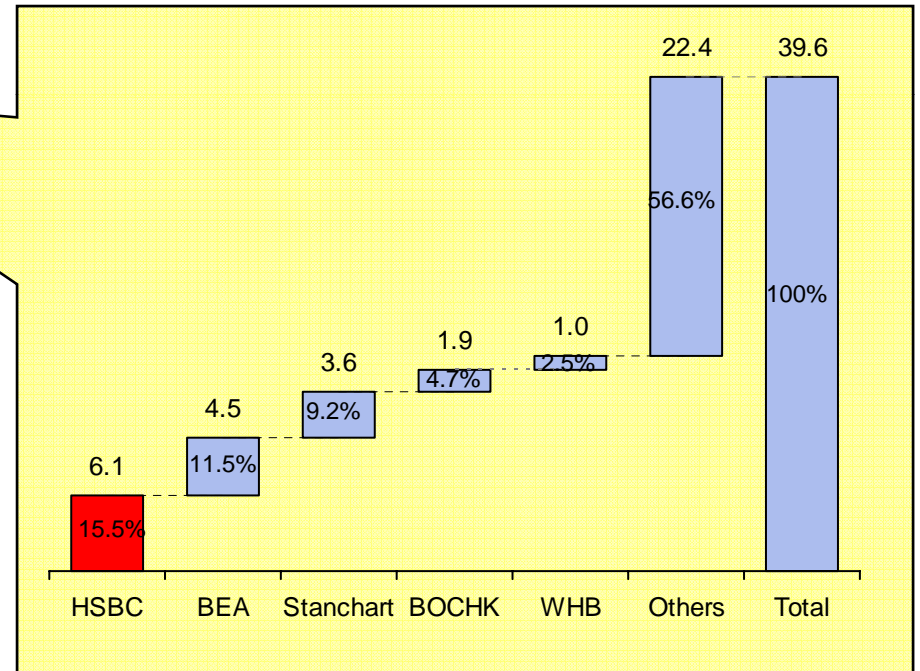
In retail banking, HSBC's true competitors are the large domestic banks

They benefit from scale, regulatory protection and political sponsorship

China loans breakdown 2006 (US\$ Bn)

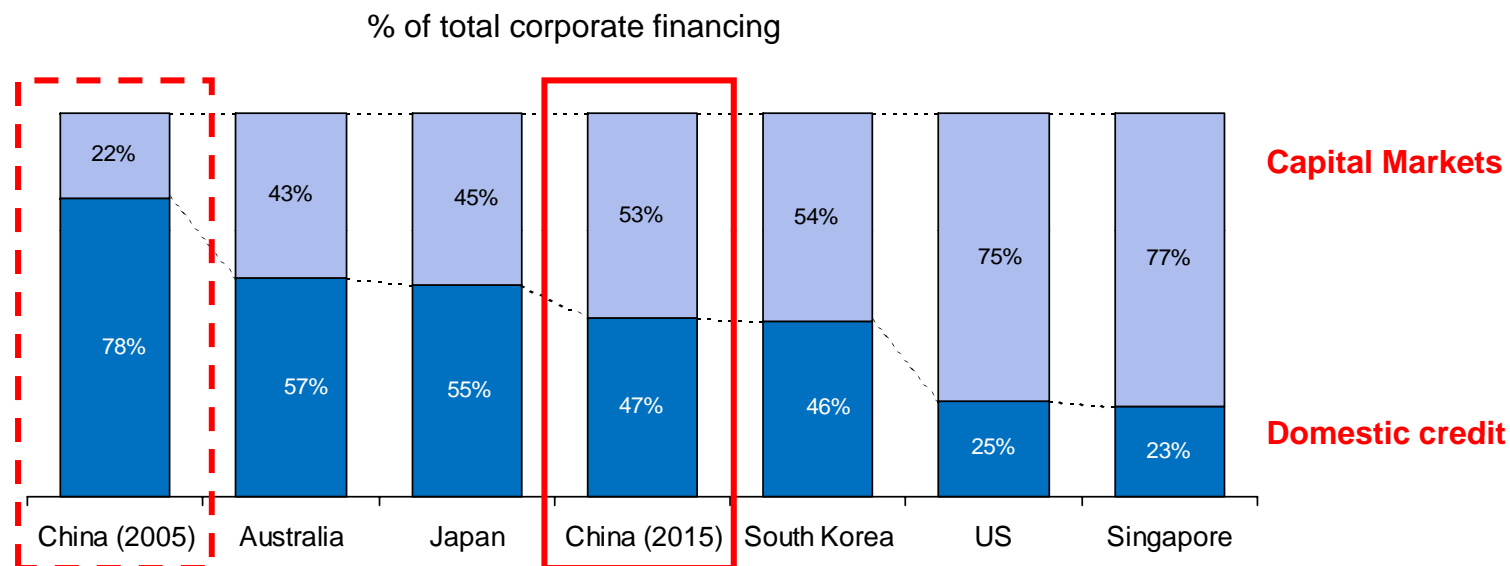


Selected foreign bank loans breakdown 2006 (US\$ Bn)



The major opportunity for foreign banks in China is in the capital markets

These are less restricted than retail banking and growing faster



Source: Bank annual reports and audited financial statements; External analysis and estimates

- **HSBC's true international competitors in China are the world's leading investment banks.**
- **Most are already larger than HSBC in China in terms of profits (even including profits booked in Hong Kong).**

Major investment banks well positioned in capital markets

HSBC less than 3 pct market share in equity and debt

	2002		2004		2006		2007ytd	
Debt issuance	Rk Bank	m/s (%)	Rk Bank	m/s (%)	Rk Bank	m/s (%)	Rk Bank	m/s (%)
	1 CITIC Securities Corp	34.1	1 China International Capital Corp	19.1	1 China Construction Bank	11.0	1 ICBC	11.3
	2 China Development Bank	25.1	2 China Galaxy Securities Co Ltd	11.0	2 China Everbright	9.9	2 China Everbright	9.4
	3 China International Capital Corp	9.6	3 China Construction Bank	10.3	3 CITIC Securities Corp	9.5	3 China Construction Bank	8.9
	4 China Finance Power Co Ltd	9.6	4 HSBC	5.4	4 Bank of China	9.0	4 CITIC Securities Corp	8.4
	5 China Citic Bank	5.4	5 BNP Paribas Group	5.2	5 ICBC	8.9	5 China Galaxy Securities Co Ltd	6.8
				HSBC (20th)	1.0	HSBC (23rd)	0.8	
	Total: \$5.1bn		Total: \$11.7bn		Total: \$59.6bn		Total: \$71.5bn (as of 20-Nov-07)	
IPOs	Rk Bank	m/s (%)	Rk Bank	m/s (%)	Rk Bank	m/s (%)	Rk Bank	m/s (%)
	1 China International Capital Corp	19.5	1 China International Capital Corp	13.4	1 Bank of China	8.9	1 Bank of China	7.8
	2 CITIC Securities Corp	10.8	2 Goldman Sachs & Co	6.1	2 China International Capital Corp	7.7	2 CITIC Securities Corp	7.1
	3 China Development Bank	6.7	3 Morgan Stanley	6.1	3 CITIC Securities Corp	5.9	3 ICBC	6.2
	4 Bank of China	6.6	4 Citi	5.1	4 China Construction Bank	5.4	4 UBS	5.9
	5 Goldman Sachs & Co	4.6	5 Deutsche Bank AG	4.9	5 UBS	4.8	5 Morgan Stanley	5.7
	HSBC (8th)	1.3	HSBC (7th)	4.5	HSBC (19th)	1.6	HSBC (11st)	2.9
	Total: \$19.0bn		Total: \$33.5bn		Total: \$129.5bn		Total: \$140.4bn (as of 20-Nov-07)	

Source: Bloomberg, 20-Nov-07

What is HSBC's China strategy?

Relies on taking control of Bocom, which has a 4% market share... at some point in the future... and organic growth starting from a very low base (a two-pronged approach)

- In retail banking, HSBC's true competitors are the large domestic banks which benefit from scale, regulatory protection and political sponsorship
- Restrictions on foreign investment unlikely to be lifted until domestic banks are able to compete on an equal footing (as regulators have done in other countries).
- If HSBC waits for this to happen, it risks completely missing the boat and its Hong Kong business will also be at risk.
- When the market finally opens, the local Chinese banks will, by virtue of their size, have an unassailable competitive advantage.
- Moreover, given the multiples at which their shares trade, they will be able to pay a massive price for control of Bocom – more so than HSBC will be able to pay.

What are HSBC's true strategic options?

Buying a minority stake in Bocom is not the only one

Viable strategy for China needed in order to protect franchise in Hong Kong.

Investment restrictions apply to domestic credit market only. This leads to three alternatives

1. Finding some way of competing in capital markets on an equal footing with the major investment banks (which raises issues of its own); and/or
2. Moving HSBC's legal headquarters back to Hong Kong (or Shanghai); and/or
3. Spinning off all or part of HSBC's Asian business in order to allow HSBC's Asian business to merge with (or be absorbed by) Bocom without restrictions.

Maintaining a London listing should be possible in each case.

A listed Asian/ Chinese business should be worth substantially more to HSBC's shareholders than the valuation which is given today.

Options for Hang Seng Bank

HSBC has hinted at the possibility of swapping its 62% stake in Hang Seng Bank for additional positions in the Chinese market

- Under the control of a mainland Chinese bank, Hang Seng could become a formidable competitor for HSBC in Hong Kong.
- HSBC needs to protect its position in Hong Kong, not weaken it.
- We do not believe that the authorities would allow HSBC to acquire control of Bocom in the near future (even via a swap of HSBC's stake in Hang Seng).

We have suggested that HSBC buy out the minorities in Hang Seng.

- HSBC would then have two separate brands with which to segment mass market retailing and Premier/ private banking in China and Hong Kong.
- The dilution to HSBC shareholders could be avoided by selling an equivalent business (at a premium) elsewhere.

SECTION 5

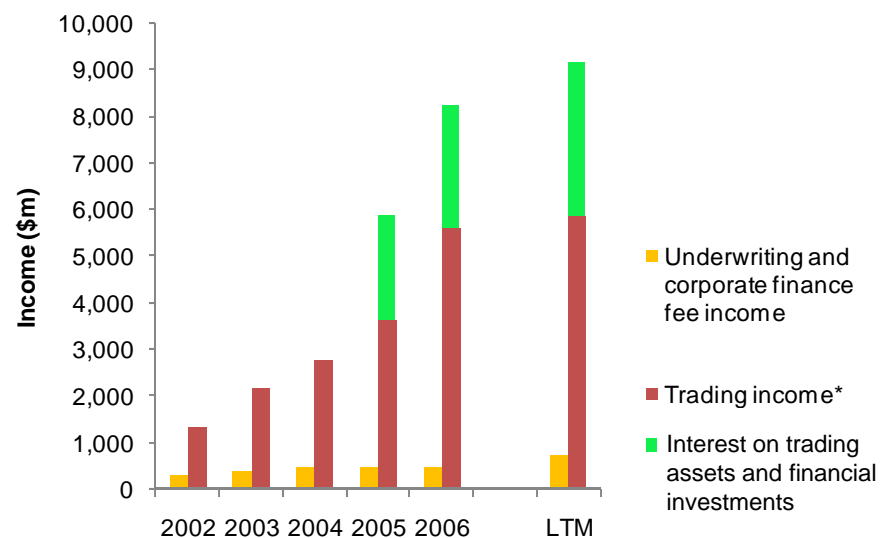
IS CIBM LITTLE MORE THAN A HUGE TRADING OPERATION?

**Trading assets now tie up a third of the
Group's balance sheet**

Investment banking and capital markets

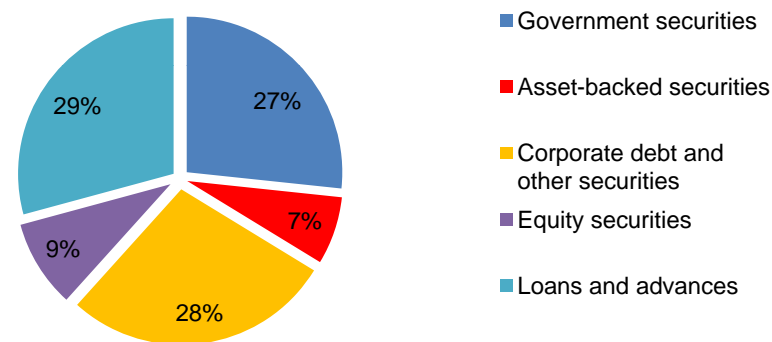
Growth in CIBM driven by trading not investment banking

Underwriting and corporate finance fee income vs trading income, 2002-2007



* Excludes net interest income on trading activities
 NB: 2002 and 2003 figures under UK GAAP; 2004-2006 figures under IFRS; in 2002-2004, net interest income on fixed income securities not disclosed
 Source: Annual reports and Interim Accounts

Composition of trading book as of 30-Jun-07

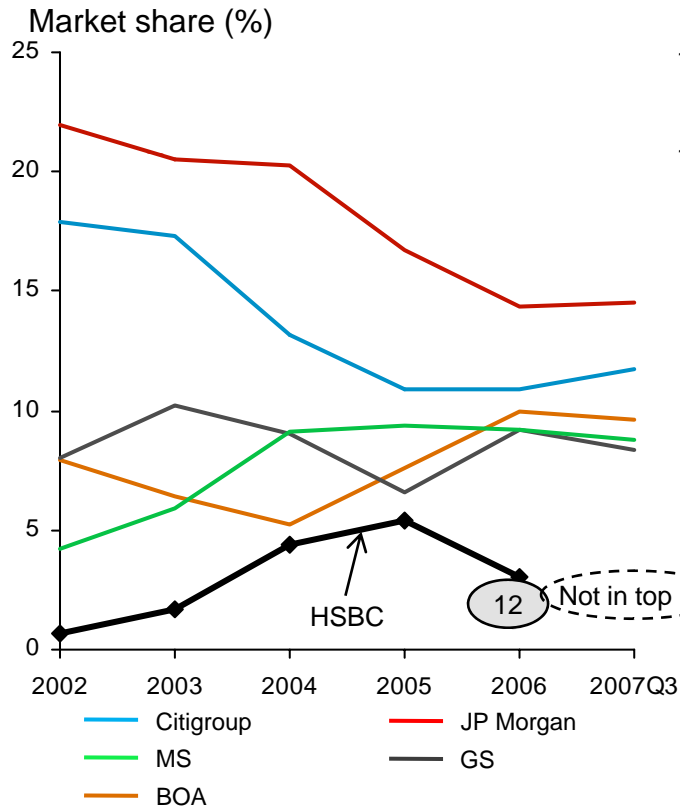


NB: trading book includes trading assets, financial investments and financial assets designated at fair value
 Source: Interim Accounts

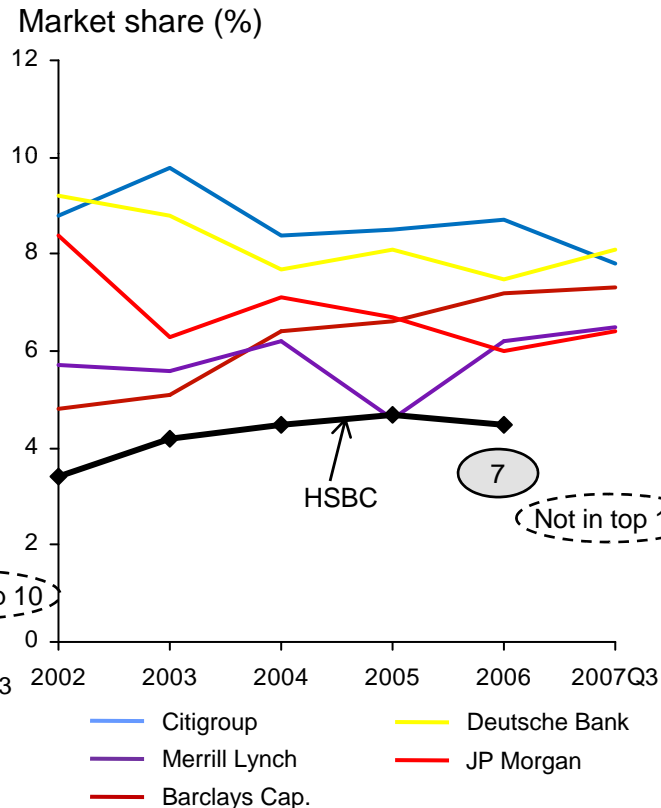
Weak position in debt capital markets globally

Declining market share positions

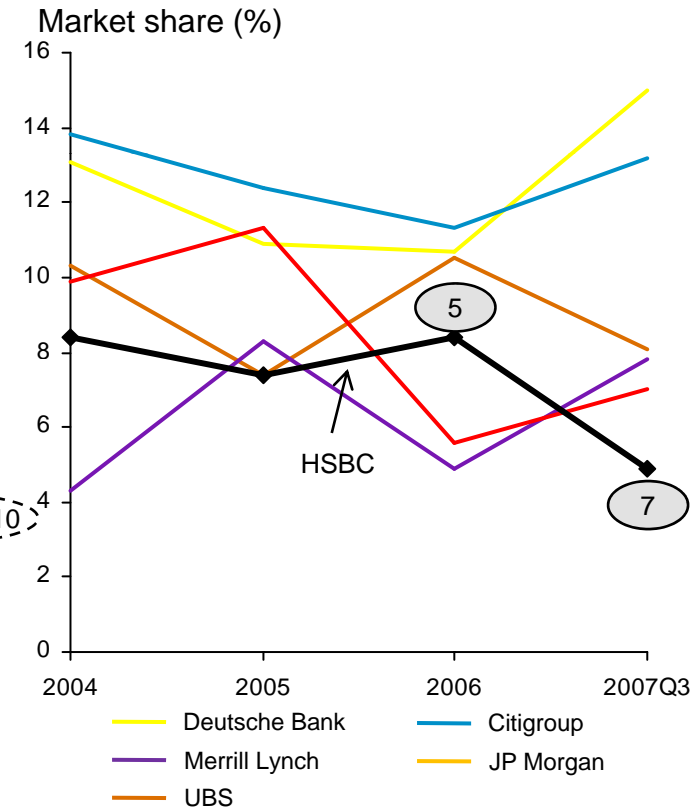
US investment grade corporate debt



All international bonds



Asia Debt (ex-Japan, ex-Australia)



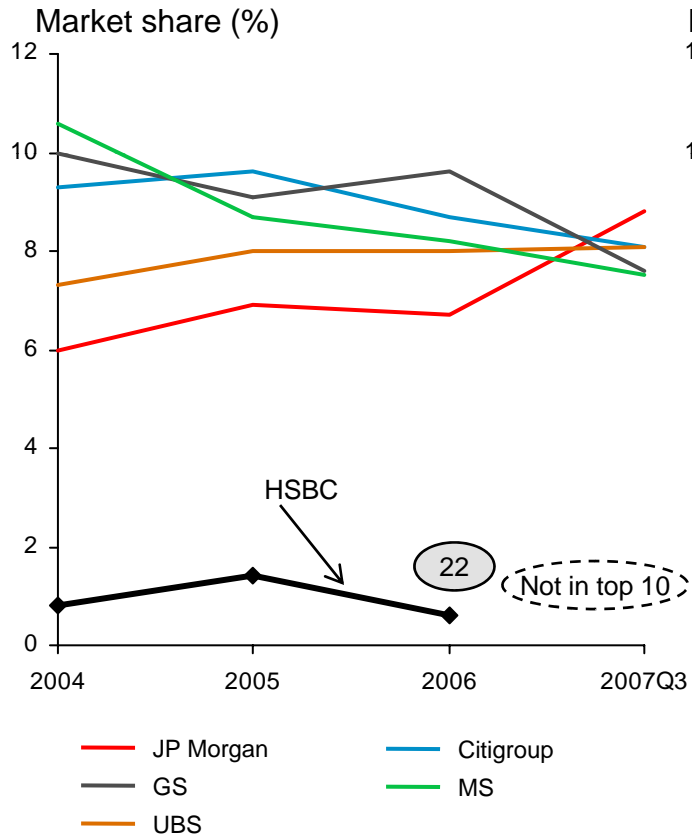
Source: Thomson Financials; External analysis

xx HSBC rank

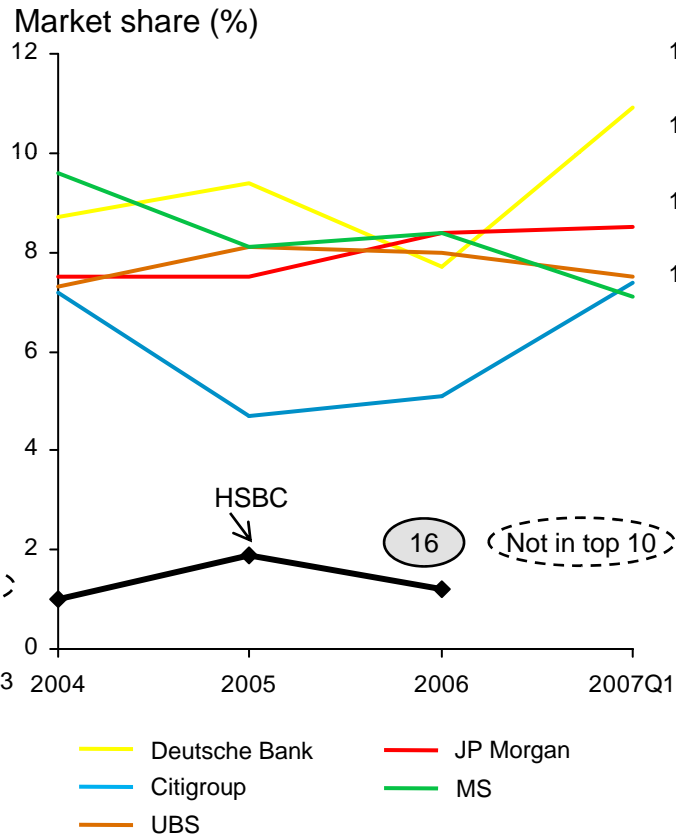
Weak position in equity capital market

Outside of top 15 across different segments

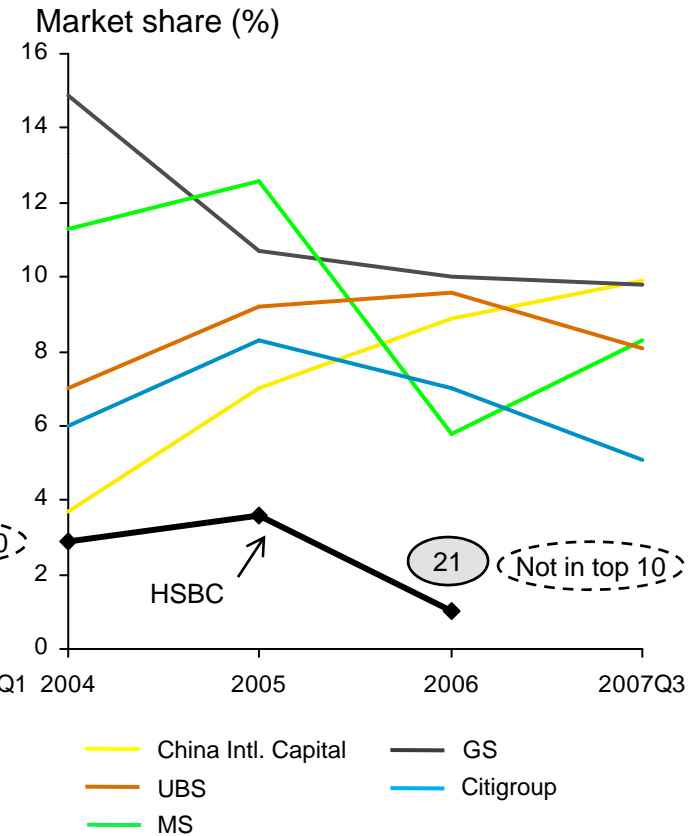
Global equity and equity-related



EMEA equity and equity-related



APAC¹ common stocks



1. Excluding Japan and Australia
Source: Thomson Financials; External analysis

xx HSBC rank

SECTION 6
POOR GOVERNANCE

HSBC's governance

Inadequate framework for promoting change

In most major UK companies a strategy that fails to produce results can be challenged by the Chairman, by the non-executives or by senior management

- The independence of the Chairman is fundamental to the proper oversight by a board over management.
- In the case of HSBC the Chairman (who is responsible for strategy and governance and is former CEO) is **not independent**.
- When strategy fails, HSBC's Chairman has a conflict of interest.
- Management compensation arrangements (as embodied in the 2005 Share Plan) **do not create economic incentives for executives to challenge strategies they think are failing**.

This places HSBC's non-executive directors in an unusually difficult position and places a greater onus on them to act independently

The HSBC 2005 Share Plan

Does not properly align interests of shareholders and management

- The HSBC long term incentive plan is split into two independent pots (50% each) subject to separate vesting conditions over three year period
 - 50% starts vesting on achieving median relative TSR target
 - 50% starts vesting on achieving 24% “absolute” EPS target
- Relative TSR element starts vesting when median performance is achieved – which HSBC has achieved on only a few occasions in past 14 years, so EPS element is critically important
- Detailed review of the way in which the EPS element of the scheme works suggests poor alignment of compensation and performance

Vesting Conditions - EPS Portion

As described in 2005 and 2006 Annual Reports

- EPS element starts to vest when “incremental EPS” over three years reaches at least 24%; it all vests when “incremental EPS” reaches 52%
- Definition of “incremental EPS” is **very unusual**: Sum of A + B + C
 - A = increase in EPS from base year to end of year 1
 - B = increase in EPS from base year to end of year 2 (i.e. over years 1 and 2)
 - C = increase in EPS from base year to end of year 3 (i.e. over years 1, 2 and 3)

NB: This point no longer being contested by HSBC

What this means in practice

“trader’s moral hazard”

IFRS	2004	2005	2006	2007E	
	(Base Year)				
EPS (US\$)	1.184	1.364	1.400	1.400	
% Change					18.2%
A =		15.2%			
B =			18.2%		
C =				18.2%	
“Incremental EPS” A + B + C as per HSBC definition					51.6%

Normal definition of EPS growth over three years gives 18.2% - shareholders would assume no vesting at all.

HSBC definition of incremental EPS growth gives 51.6% almost 100% vesting!!

- In effect 2005 growth is triple counted, 2006 double counted and 2007 growth single counted!
- **No incentive for management to challenge poor strategies under the circumstances**

Was the description of the HSBC executive compensation plan used to obtain shareholder approval not misleading?

- **No mention of the unusual definition of “incremental” EPS being used by HSBC in the Chairman’s Letter of May 2005 and other documents sent to shareholders to seek their approval (prior to shareholder vote).**
- This definition was first disclosed to the market in HSBC’s 2005 accounts which were published AFTER the shareholder resolution was passed. HSBC attributes this to a problem of “communication”.
- HSBC also claims that its EPS calculation is “an accepted method”.
- Towers Perrin, consultants to HSBC’s remuneration committee recently described the structure as being as “reasonably unusual” and employing “an odd bit of maths” (*Daily Telegraph 11 Sept 2007*).
- We believe that HSBC’s 2005 proxy materials may have been misleading and that the compensation plan as implemented in effect has lower vesting targets than those communicated to and approved by shareholders.

Final word to HSBC

Questioning HSBC's synergies

*“Despite much talk of the synergies and efficiencies that a larger organisation can achieve ... we have to concede that there is a **distinct lack of empirical evidence** that size equals efficiency...”*

Questioning HSBC's competitive advantage

*“...The decision to build a global banking platform needs to be a hard-headed one; it needs to be based on a **realistic analysis of competitive advantage**”*

*“**Being a domestic player does not make a bank uncompetitive**”*

Questioning the global banking model

*“In seeking a global base, many banks have come severely unstuck. ... **while global banking can be a successful model, it is not the only one**”*

David Hodgkinson, HSBC Chief Operating Officer, 17 May 2007