

Mr. Simon Robertson
Senior Independent Director
HSBC Holdings plc
c/o Simon Robertson Associates
2 St. James' Place
London SW1A 1NP

New York, 25 March 2008

Dear Simon,

HSBC Holdings plc

Thank you for your quick response to my letter dated 15 March.

I am prepared to accept your assurances that the Board listens carefully to shareholders' concerns but cannot square this with your letter, which (once again) fails to address the substantive questions we raise.

With respect to HSBC Finance ("HFC"), at the risk of repeating myself, the questions we ask of the Board, and which are being asked by many analysts and shareholders, are the following:

1. How does the Board expect HFC to refinance the \$80 billion of debt that is due to be repaid over the next three years in light of what is happening in the U.S. sub-prime market? Does the Board not see that, without substantial (and as yet unquantifiable) further support from the HSBC Group, the \$150 billion of debt now on HFC's balance sheet cannot be supported by HFC's current and future cash flow? Is the Board not aware that, by its own admission, the market value of HFC's consumer loan portfolio is US\$27 billion less than the value at which these assets are carried on its balance sheet -- and that this (rapidly deteriorating) situation restricts HFC's already limited scope for selling assets without needing a massive recapitalisation?
2. If the Board agrees with us that HFC has an unsustainable level of debt, then does the Board have any idea how much further support will be required to keep this unviable

business afloat, even after the U.S. property market finally recovers? Is the US\$60 billion in cash that HSBC has expended on acquiring this business, recapitalising it, lending to it and buying assets from it, not enough? Given that HFC's debt is not guaranteed by HSBC, is the Board not placing the interests of HFC's bondholders above those of its own shareholders? Or indeed above the interests of its depositors?

HSBC's shareholders are entitled to a clear and unambiguous answer from the Board on each of these points.

You say that "the interests of [HSBC's] shareholders are substantially dependent on lenders' continuing confidence and trust in the Group." A moment's reflection suggests that this is nonsense. HSBC's strength comes from its vast customer deposits and abundant equity capital, not from its access to the bond markets. As of the end of 2007, HSBC had approximately US\$ 1,100 billion in customer deposits and only US\$270 billion in bonds and notes outstanding. Of this, US\$150 billion sits in HFC, and is not guaranteed by HSBC, and the remainder finances HSBC's trading book (which can be reduced), not its banking book.

What I believe you should have said is that HSBC needs to preserve the confidence and trust of its customers and shareholders, who finance the vast majority of its retail and commercial banking business. HSBC is far less dependent on the debt markets than your comments would imply and if there is a lesson to be learned from Northern Rock, it is that banks should not rely on wholesale debt to finance their business.

Contrary to what you seem to believe, we do not recommend walking away from HFC and its bondholders as the only option. In fact, we have tabled three other options that we think the Board should also consider, with the help of independent financial advisers. The magnitude of the risks faced by HSBC with respect to HFC is such that the decision to hire an independent adviser is surely not a routine matter for the Audit Committee, as you imply in your letter. The Board faces some difficult questions with respect to HFC and we firmly believe that it would benefit from having an independent financial adviser to assist it in understanding and evaluating the alternatives, including some that the management may feel are "unthinkable".

In this context, may I remind you that you told us yourself, when we met in September, that *Simon Robertson Associates* was built on the idea that an independent perspective from what you called a "conflict free" adviser could be very valuable, even to a well informed and knowledgeable Board?

Before leaving this point, I would recommend to you that asking Goldman Sachs, HSBC's corporate broker, to lobby investors in Knight Vinke's managed funds to withdraw their support for what we are doing, without giving them any arguments, evidence or analysis, is surely not the way forward. In so doing, Goldman Sachs risks its credibility, and HSBC's, and it is not surprising that it has been given short shrift by investors in our funds. Hiring an independent adviser and being prepared to argue HSBC's case on its merits would have been a better strategy.

With respect to HSBC's 2005 Share Plan, your response entirely misses the point.

We have no issue at all with the practice of consulting major shareholders for their views on compensation arrangements, and have said so explicitly.

HSBC's shareholders are entitled to be treated fairly and the issue we have is that in 2005 certain shareholders were given information concerning the performance targets that was not subsequently given to all other shareholders when they were asked to vote on the scheme. The description of HSBC's 2005 Share Plan contained in the 2004 Accounts, the 2005 Accounts and the 2005 Chairman's Letter is plainly different from that which was given in private to its top 50 shareholders (and was subsequently included in the 2006 Accounts). We believe, therefore, that the vast majority of HSBC's shareholders were misled and have been advised by Lord Grabiner, QC that the resolution adopted by the shareholders may be void since the information provided was insufficient for shareholders to take a properly informed decision.

You do not address this point in your letter and I believe that greater transparency is required before shareholders are asked to vote on the next Share Plan.

Why are we so concerned about this? As I explained to you in my previous letter, we believe that the failure to align management pay with performance is at the root of the current financial crisis and has led to serious value destruction by many financial institutions including HSBC. A transparent and informed discussion about the next Share Plan will protect shareholder interests better in the future.

Once again we repeat our invitation to meet with any members of the Board who may wish to discuss these matters directly with us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Eric Knight".

Eric Knight
Chief Executive

cc: Board of Directors