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Sir Callum McCarthy  
Chairman  
Financial Services Authority  
25 North Colonnade  
Canary Wharf  
London E14 5HS

New York, 2 April, 2008

Dear Sir Callum,

I enclose herewith some recent correspondence with HSBC's Board of Directors, which I believe will be of interest to you.

As you will see, we believe that HSBC's public commitment to support the bondholders of HSBC Finance ("HFC"), come what may, could be construed as subordinating the interests of the Group's depositors and shareholders to HFC's creditors, despite the fact that the latter have no formal guarantee from HSBC. It also appears to subvert the principle that HFC should not benefit from the Group's FDIC-insured deposits or the capital that supports these.

HSBC has already expended approximately US\$60 billion on acquiring and supporting HFC (through a combination of capital injections, loans and asset sales) and, according to HFC's latest 10-K, HFC has US\$80 billion of debt which comes up for repayment over the next three years. Our concern is that, even if the U.S. property market recovers during this period, a large part of this debt will have to be refinanced by HSBC. The 10-K also reveals that as of 31/12/07 the market value of HFC's loan portfolio was US\$27 billion less than the value at which these assets are carried on its books and we believe that this situation has probably deteriorated since then.

HFC's CDS's recently traded at 300 basis points over HSBC's, which reflects, in our view, the very high probability of default.

Please feel free to call Glen Suarez, our Director of Investments, or myself on +377 93 30 40 70/75 if you require further information.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Eric Knight". The signature is fluid and cursive, with the first name "Eric" and the last name "Knight" clearly distinguishable.

Eric Knight  
Chief Executive