



HSBC Capital Funding (Dollar 1) L.P.

(Established in Jersey as a limited partnership under the Limited Partnerships (Jersey) Law 1994)

US\$1,350,000,000

**9.547% Non-cumulative Step-up Perpetual Preferred Securities,
Series 1**

and

US\$900,000,000

**10.176% Non-cumulative Step-up Perpetual Preferred Securities,
Series 2**

each having the benefit of a subordinated guarantee of

HSBC Holdings plc

(incorporated with limited liability under the laws of England and Wales with registered number 617987)

Issue Price: US\$1,000 per Series 1 Preferred Security

Issue Price: US\$1,000 per Series 2 Preferred Security

The US\$1,350,000,000 9.547% Non-cumulative Step-up Perpetual Preferred Securities, Series 1 (the "Series 1 Preferred Securities") and the US\$900,000,000 10.176% Non-cumulative Step-up Perpetual Preferred Securities, Series 2 (the "Series 2 Preferred Securities") and, together with the Series 1 Preferred Securities, the "Preferred Securities") each issued for a capital contribution of US\$1,000 (referred to herein as the "nominal amount"), representing limited partnership interests in HSBC Capital Funding (Dollar 1) L.P. (the "Issuer"), will be issued on 17 April 2000 (the "Issue Date"). The Preferred Securities will entitle investors subject to certain conditions described herein to receive non-cumulative cash distributions ("Distributions") semi-annually in arrear on 30 June and 31 December in each year. The first Distribution, in the case of both the Series 1 Preferred Securities and the Series 2 Preferred Securities will, if payable, be paid on 31 December 2000, and will be calculated in respect of the period from (and including) 17 April 2000, to (but excluding) 31 December 2000. Distributions shall accrue from (and including) the Issue Date to (but excluding) 30 June 2010 in the case of the Series 1 Preferred Securities, and 30 June 2030 in the case of the Series 2 Preferred Securities, at a fixed rate per annum of 9.547% in the case of the Series 1 Preferred Securities, or 10.176% in the case of the Series 2 Preferred Securities and quarterly in arrear from (and including) 30 June 2010 in the case of the Series 1 Preferred Securities, or 30 June 2030 in the case of the Series 2 Preferred Securities, at a floating rate per annum of 4.06% and 4.98% respectively, each above three month LIBOR for the relevant Distribution Period. See "Description of the Preferred Securities – Distributions".

The Issuer is a Jersey limited partnership and is not a legal entity separate from its partners. All obligations of the Issuer to make payments in respect of the Preferred Securities are guaranteed on a subordinated basis pursuant to a guarantee dated 17 April 2000 (the "Guarantee") given by HSBC Holdings plc ("HSBC"). See "Description of the Subordinated Guarantee".

The Preferred Securities are perpetual securities and not subject to any mandatory redemption provisions. The Preferred Securities may be redeemed, at the option of HSBC (General Partner) Limited, a wholly owned Jersey incorporated subsidiary of HSBC, as general partner of the Issuer (the "General Partner"), on 30 June 2010 or on each Distribution Date thereafter in the case of the Series 1 Preferred Securities, and on 30 June 2030 or on any Distribution Date thereafter in the case of the Series 2 Preferred Securities, in whole but not in part, at an amount equal to the respective Optional Redemption Price, subject to satisfaction of the Redemption Conditions (each as defined herein). The Preferred Securities are also redeemable, subject to satisfaction of certain conditions, in whole but not in part, at any time following the occurrence of a Withholding Tax Event or a Special Event (each as defined herein). Under existing regulations, neither the Issuer nor HSBC nor any of its subsidiaries may redeem or purchase any Preferred Securities unless the Financial Services Authority, or any successor organisation thereto in the United Kingdom (the "FSA"), has given its prior written consent. See "Description of the Preferred Securities – Redemption and Purchase".

In the event of the dissolution or winding-up of the Issuer, holders of Preferred Securities will be entitled, subject to satisfaction of certain conditions, to receive a Liquidating Distribution (as defined herein). See "Description of the Preferred Securities – Liquidating Distributions". Upon the occurrence of a Substitution Event (as defined herein) or, subject to certain conditions, at the option of the General Partner following a Withholding Tax Event or Special Event, the Preferred Securities may be substituted by the Substitute Preference Shares (as defined herein). See "Description of the Preferred Securities – Substitution by Substitute Preference Shares".

The Preferred Securities are expected to be assigned on issue a rating of A- by Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc. and a1 by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Contemporaneously with the issue of the Preferred Securities, HSBC Capital Funding (Sterling 1) L.P. and HSBC Capital Funding (Euro 1) L.P. intend to issue Sterling and Euro non-cumulative step-up perpetual preferred securities, respectively.

Application has been made to list the Series 1 Preferred Securities and Series 2 Preferred Securities on the Luxembourg Stock Exchange (the "Luxembourg Stock Exchange").

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.

The Preferred Securities have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act") or any U.S. State securities laws and, subject to certain exceptions, may not be offered or sold within the United States except to qualified institutional buyers in accordance with Rule 144A under the Securities Act ("Rule 144A"). For a description of restrictions on resales or transfers, see "Notice to Investors".

The Preferred Securities sold in the United States pursuant to Rule 144A will be represented by a single global certificate for each class in registered form (the "Restricted Global Certificate"). The Preferred Securities sold outside the United States pursuant to Regulation S under the Securities Act ("Regulation S") will be represented by a single global certificate for each class in registered form (the "Regulation S Global Certificate" and, together with the Restricted Global Certificate, the "Global Certificates"). The Global Certificates will be registered in the name of a nominee of, and will be deposited with a custodian for, The Depositary Trust Company, New York ("DTC") on the Issue Date.

It is expected that delivery of the Preferred Securities will be made only in book-entry form through the facilities of DTC on 17 April 2000.

HSBC

Global Co-ordinator, Joint Lead Manager and Joint Bookrunner

Lehman Brothers

Morgan Stanley Dean Witter

Goldman, Sachs & Co.

Joint Lead Manager and Joint Bookrunner

Merrill Lynch & Co.

Dated: 14 April 2000

\$

The General Partner, acting on behalf of the Issuer, accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the General Partner (which has taken all reasonable care to ensure that such is the case) the information contained in this document is true and accurate in all material respects and is not misleading; the opinions and intentions expressed in this document are honestly held and there are no other facts the omission of which makes this document as a whole or any such information or the expression of any such opinion or intention misleading. In addition, HSBC accepts responsibility for all information contained in this document set out under the sections entitled "Annex A-1 – Press Release: Announcement of Recommended Offer for Crédit Commercial de France ("CCF")", "Annex A-2 – Description of HSBC Holdings plc", "Annex B – Description of the Subordinated Notes" and "Annex C – Description of the Preference Shares" (together, the "HSBC Group Information"). To the best of the knowledge and belief of HSBC (which has taken all reasonable care to ensure that such is the case), the HSBC Group Information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The term "HSBC Group" has the meaning given in "Description of the Preferred Securities".

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for or of the acquisition, holding or disposal by them of Preferred Securities and any foreign exchange restrictions that might be relevant to them. This Offering Circular does not constitute an offer of or an invitation by or on behalf of the Issuer or any of its partners, or the Managers (as defined in "Subscription and Sale" below) to subscribe for or purchase any of the Preferred Securities.

Investors should satisfy themselves that they understand all the risks associated with making investments in the Preferred Securities. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Preferred Securities, he should consult his professional advisers. This Offering Circular does not constitute investment advice or a recommendation to buy, subscribe for or underwrite any Preferred Securities by the Issuer or any of its partners, HSBC or the Managers.

EACH PURCHASER OF THE PREFERRED SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE PREFERRED SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE PREFERRED SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE GENERAL PARTNER, THE ISSUER, HSBC OR THE MANAGERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.

Investors in the Preferred Securities will be deemed to have represented that they do not own, directly or indirectly, 10% or more of the ordinary shares of HSBC. If at any time an investor in the Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC, the Issuer will have the right to suspend payment of Distributions in respect of such investor's Preferred Securities. Investors in the Preferred Securities are required to provide written notice to the General Partner on behalf of the Issuer if at any time any such holder of Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC.

The distribution of this document and the offering of the Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the General Partner, the Issuer, HSBC and the Managers to inform themselves about, and to observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular, and the offer and sale of the Preferred Securities, in the United States and the United Kingdom. See "Notice to Investors" and "Subscription and Sale".

No action has been taken to permit a public offering of the Preferred Securities in any jurisdiction where action would be required for such purpose. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly, and this Offering Circular may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Preferred Securities have not been, and will not be,

registered under the Securities Act. Subject to certain exceptions, the Preferred Securities may not be offered, sold or delivered within the United States or to U.S. persons. A further description of certain restrictions of the offering and sale of the Preferred Securities and on the distribution of this document is given under "Subscription and Sale".

The Jersey Financial Services Commission has given and has not withdrawn its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the creation by the Issuer of the Preferred Securities. The Jersey Financial Services Commission is protected by the Borrowing (Control) (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.

An investment in the Preferred Securities is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such an investment.

NO EMPLOYEE BENEFIT PLAN SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), AND NO PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH, A "BENEFIT PLAN"), NO ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY BENEFIT PLAN'S INVESTMENT IN THE ENTITY (A "PLAN ASSET ENTITY"), AND NO PERSON INVESTING "PLAN ASSETS" OF ANY PLAN (COLLECTIVELY "PLANS"), MAY ACQUIRE OR HOLD THE PREFERRED SECURITIES OR ANY INTEREST THEREIN UNLESS SUCH PURCHASE HOLDING AND SUBSEQUENT DISPOSITION IS EXEMPT BY REASON OF U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION ("PTCE") 96-23, 95-60, 91-38, 90-1 OR 84-14. ANY PURCHASER OR HOLDER OF THE PREFERRED SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND/OR HOLDING THEREOF THAT EITHER (A) THE PURCHASER AND HOLDER ARE NOT PLANS AND ARE NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR WITH "PLAN ASSETS" OF ANY PLAN OR (B) THE PURCHASE, HOLDING AND SUBSEQUENT DISPOSITION OF THE PREFERRED SECURITIES ARE EXEMPT BY REASON OF PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14. A GOVERNMENTAL PLAN SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW SUBSTANTIALLY SIMILAR TO SECTION 400 OF ERISA OR SECTION 4975 OF THE CODE WILL BE DEEMED TO REPRESENT, BY ITS PURCHASE AND HOLDING OF THE PREFERRED SECURITIES OR ANY INTEREST THEREIN THAT THE PURCHASE, HOLDING AND SUBSEQUENT DISPOSITION IS EXEMPT BY REASON OF AN EXEMPTION APPLICABLE TO THE TRANSACTION.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

This Offering Circular and the documents incorporated by reference herein contain various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of HSBC or the HSBC Group to differ materially from the information presented herein or from the documents

incorporated by reference herein. When used in this Offering Circular or in the documents incorporated by reference herein, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they are related to the HSBC Group and its management, are intended to identify such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date hereof. The HSBC Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL INFORMATION

The Financial Statements of the HSBC Group are prepared in accordance with generally accepted accounting principles in the United Kingdom ("U.K. GAAP"). U.K. GAAP relevant to the HSBC Group differs from generally accepted accounting principles in the United States ("U.S. GAAP") in certain significant aspects. For a discussion of significant differences between U.K. GAAP and U.S. GAAP relevant to the Financial Statements, see *"Differences Between U.K. GAAP and U.S. GAAP"* in Annex A-2.

In this Offering Circular, references to "£", "sterling" and "pounds sterling" are to the lawful currency of the United Kingdom, references to "€" and "euro" are to the single currency adopted by those states participating in European Monetary Union from time to time and references to "US\$", "\$" and "US dollars" are to the lawful currency of the United States.

Unless otherwise indicated, any reference in this Offering Circular to the "Financial Statements" is to the audited consolidated Financial Statements (including the notes thereto) of the HSBC Group. Any reference to the "Interim Consolidated Financial Statements" is to the unaudited interim Consolidated Financial Statements of the HSBC Group (including the notes thereto).

IN CONNECTION WITH THE OFFERING, HSBC SECURITIES (USA) INC. MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE PREFERRED SECURITIES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. SUCH TRANSACTIONS MAY INCLUDE OVER-ALLOTMENT, STABILISING AND SHORT COVERING TRANSACTIONS IN SUCH SECURITIES AND THE IMPOSITION OF PENALTY BIDS IN CONNECTION WITH THE OFFERING.

AVAILABLE INFORMATION

HSBC's announcement of the Recommended Offer for Crédit Commercial de France ("CCF") dated 1 April 2000, the results announcement for the year ended 31 December 1999, the results announcement for the 6 months ended 30 June 1999 filed on Form 6-K and the registration statement on Form 20-F which was filed with the Securities and Exchange Commission on 18 June 1999 are attached hereto as Annex A-1 and Annex A-2 and form an integral part of this Offering Circular.

All documents filed by HSBC with the U.S. Securities and Exchange Commission pursuant to Sections 13(a), 13(c) or 15(d) of the Securities Exchange Act of 1934 and, to the extent expressly stated therein, certain Reports on Form 6-K furnished by HSBC after the date of this Offering Circular and prior to the termination of the offering of the Preferred Securities shall also be deemed to be incorporated by reference in this Offering Circular from the date of filing of such documents. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular and to be a part hereof from the date of filing of such document.

HSBC will provide without charge to each person to whom this Offering Circular is delivered, upon written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are specifically

incorporated by reference in such documents). Written requests should be directed to the attention of The Company Secretary at HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE.

Copies of the documents referred to above will be available without charge at the offices of Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Preferred Securities.

The Preferred Securities have not been registered under the Securities Act and may not be offered or sold in the United States, or to or for the account or benefit of U.S. persons, except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. Accordingly, the Preferred Securities are being offered and sold only (i) to QIBs in compliance with Rule 144A and (ii) outside the United States to foreign purchasers, in reliance upon Regulation S under the Securities Act.

Each purchaser of Preferred Securities offered hereby will be deemed to have represented and agreed as set out below. Terms used in this section have meanings as defined in Rule 144A or in Regulation S.

- (1) (a) It is a qualified institutional buyer (a "QIB") within the meaning of Rule 144A and it is acquiring such Preferred Securities for its own account or for the account of another QIB, and it is aware, and each beneficial owner of such Preferred Securities has been advised, that the sale of such Preferred Securities to it is being made in reliance on Rule 144A or (b) it is acquiring the Preferred Securities in an offshore transaction within the meaning of Regulation S and it is not a U.S. person (and is not acquiring the Preferred Securities for the account or benefit of a U.S. person) within the meaning of Regulation S.
- (2) It understands that the Preferred Securities have not been, and will not be, registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (i) to a purchaser that the holder reasonably believes is a QIB within the meaning of Rule 144A purchasing for its own account or for the account of another QIB, in a transaction meeting the requirements of Rule 144A; (ii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (iii) pursuant to an exemption under the Securities Act provided by Rule 144 thereunder (if available) and, in each case, in accordance with the applicable securities laws of any State of the United States. **No representation can be made as to the availability of the exemption provided by Rule 144 for resales of Preferred Securities.**
- (3) It understands that the Preferred Securities will bear the legends as described below, unless HSBC determines otherwise in compliance with applicable law.

Each Preferred Security sold pursuant to Rule 144A will bear a legend to the following effect:

"THE PREFERRED SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION OF PREFERRED SECURITIES OFFERED HEREBY OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

- (A) REPRESENTS THAT (i) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE ACT) (A "QIB") OR (ii) IT IS NOT A U.S. PERSON AND HAS ACQUIRED THE PREFERRED SECURITIES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE ACT,
- (B) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144(k) UNDER THE ACT, RESELL OR OTHERWISE TRANSFER THE PREFERRED SECURITIES EXCEPT (i) TO THE ISSUER, HSBC OR ANY OF ITS SUBSIDIARIES, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A,

(iii) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 904 OF THE ACT, (iv) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE ACT, (v) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER) OR (vi) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION, AND

- (C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE ACT."

The Preferred Securities sold outside the United States pursuant to Regulation S will bear a legend to the following effect:

"THE PREFERRED SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). PRIOR TO THE EXPIRATION OF A DISTRIBUTION COMPLIANCE PERIOD (DEFINED AS 40 DAYS AFTER THE DATE OF ISSUE OF THE PREFERRED SECURITIES), SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION OF PREFERRED SECURITIES OFFERED HEREBY OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

- (A) REPRESENTS THAT IT IS NOT A U.S. PERSON AND HAS ACQUIRED THE PREFERRED SECURITIES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE ACT,
- (B) AGREES THAT IT WILL NOT, WITHIN THE DISTRIBUTION COMPLIANCE PERIOD, RESELL OR OTHERWISE TRANSFER THE PREFERRED SECURITIES EXCEPT (I) TO THE ISSUER HSBC OR ANY OF ITS SUBSIDIARIES, (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 904 OF THE ACT, (IV) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE ACT, (V) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER OR (VI) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION, AND
- (C) AGREES THAT, DURING THE DISTRIBUTION COMPLIANCE PERIOD, IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF THE REGULATIONS UNDER THE ACT."

- (4) Either (a) the purchaser or other holder is not an "employee benefit plan" as defined in Section 3 (3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") subject to the fiduciary responsibility provisions of ERISA, a "plan" described in Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended (the "Code"), or an entity whose underlying assets include plan assets by reason of an employee benefit plan or plan's investment in the entity, or a governmental plan which is subject to any

federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) the purchaser's or other holder's purchase, holding and subsequent disposition of the Preferred Securities will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, a violation of any substantially similar federal, state or local law) by reason of Prohibited Transaction Class Exemption ("PTCE") 96-23, 95-60, 91-38, 90-1 or 84-14 (or in the case of any such governmental plan, any similar exemptive relief). See *"Certain ERISA Considerations"*.

- (5) It agrees that it will deliver to each person to whom it transfers any of the Preferred Securities notice of any restrictions on transfers of such Preferred Securities.
- (6) If it is a foreign purchaser outside the United States, it
 - (a) understands that the Preferred Securities will be represented by the Regulation S Global Certificates and that transfers thereof are restricted as described under *"Description of Preferred Securities – Transfer and Form"*, and
 - (b) represents and agrees that it will not, as part of the initial distribution of the Preferred Securities, sell short or otherwise sell, transfer or dispose of the economic risk of the Preferred Securities into the United States or to a U.S. person.
- (7) If it is a QIB, it understands that the Preferred Securities offered in reliance on Rule 144A will be represented by the Restricted Global Certificates.
- (8) It acknowledges that HSBC, the Managers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Preferred Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

SUMMARY OF THE OFFERING

The following is qualified in its entirety, including defined terms, by the more detailed information included elsewhere in this Offering Circular.

Issuer HSBC Capital Funding (Dollar 1) L.P., a limited partnership established in Jersey and registered under the Limited Partnerships (Jersey) Law, 1994. The Issuer will be consolidated in the group accounts of HSBC Holdings plc ("HSBC"). The general partner of the Issuer is HSBC (General Partner) Limited (the "General Partner"), a wholly owned Jersey incorporated subsidiary of HSBC.

Guarantor HSBC Holdings plc.

Issue Details US\$1,350,000,000 9.547% Non-cumulative Step-up Perpetual Preferred Securities, each with a nominal amount of US\$1,000, constituting limited partnership interests in the Issuer (the "Series 1 Preferred Securities").

US\$900,000,000 10.176% Non-cumulative Step-up Perpetual Preferred Securities, each with a nominal amount of US\$1,000, constituting limited partnership interests in the Issuer (the "Series 2 Preferred Securities", and together with the Series 1 Preferred Securities, the "Preferred Securities").

HSBC will guarantee, on a subordinated basis, all payments in respect of the Preferred Securities.

The Preferred Securities, together with the Guarantee, are intended to provide investors with rights to income and capital distributions and distributions upon liquidation of HSBC that are equivalent to the rights they would have had if they had purchased non-cumulative perpetual preference shares of HSBC.

The total nominal amount of the Preferred Securities will be included in the Tier 1 capital of HSBC on a consolidated basis.

Neither the Issuer nor any member of the HSBC Group will make or procure any payment to investors if such a payment could not lawfully have been made had investors held shares ranking *pari passu* with Substitute Preference Shares instead of the Preferred Securities.

Income Distributions Non-cumulative distributions (the "Distributions") will accrue on the nominal amount of the Series 1 Preferred Securities (i) from (and including) 17 April 2000 (the "Issue Date") to (but excluding) the Series 1 First Optional Redemption Date at a fixed rate per annum of 9.547%, and (ii) from (and including) the Series 1 First Optional Redemption Date for each consecutive three month period thereafter at a floating rate per annum of 4.06% above three month LIBOR for the relevant Distribution Period.

Non-cumulative Distributions will accrue on the nominal amount of the Series 2 Preferred Securities (i) from (and

including) the Issue Date to (but excluding) the Series 2 First Optional Redemption Date at a fixed rate per annum of 10.176%, and (ii) from (and including) the Series 2 First Optional Redemption Date for each consecutive three month period thereafter at a floating rate per annum of 4.98% above three month LIBOR for the relevant Distribution Period.

See "*Description of the Preferred Securities – Distributions*".

Distribution Dates Distributions will, if payable, be paid on 30 June and 31 December in each year beginning on 31 December 2000 up to and including 30 June 2010 in respect of the Series 1 Preferred Securities and 30 June 2030 in respect of the Series 2 Preferred Securities and in each case thereafter on 31 March, 30 June, 30 September and 31 December in each year, the first such Distribution in the case of both the Series 1 Preferred Securities and the Series 2 Preferred Securities being calculated in respect of the period from (and including) 17 April 2000 to (but excluding) 31 December 2000. The date on which a Distribution will, if payable, be paid is referred to as a "Distribution Date". The period from (and including) the Issue Date to (but excluding) the first Distribution Date and each period from (and including) a Distribution Date to (but excluding) the next succeeding Distribution Date is referred to as a "Distribution Period".

Limitations on Payment. The Issuer will pay Distributions out of, and to the extent of, its legally available resources. Distributions will not be paid on the Preferred Securities in respect of any Distribution Period on the next following Distribution Date to the extent that (i) on the relevant Distribution Date HSBC (a) is prevented by applicable U.K. banking regulations or other requirements from making payment in full (A) of dividends or other distributions on its Parity Obligations or (B) under the Guarantee or (b) is unable to make such payment of dividends or other distributions on its Parity Obligations or under the Guarantee without causing a breach of the FSA's capital adequacy requirements from time to time applicable to the HSBC Group; or (ii) the amount of such Distribution (if paid in full), together with the sum of any dividends and other distributions on HSBC's Parity Obligations due and payable on that Distribution Date or under the Guarantee, would exceed the Adjusted Distributable Reserves of HSBC. No payment will be made by, or may be claimed from, HSBC in respect of a Distribution to the extent that it is not paid by reason of the limitations described above.

See "*Description of the Preferred Securities – Distributions*".

Dividend Stopper HSBC has covenanted under the Guarantee that, if it has been prevented under certain circumstances from paying Distributions in full, it will not pay dividends or other distributions in respect of its ordinary shares or effect repurchase or redemption in respect of its ordinary

shares or any other HSBC securities or obligations ranking junior to the Guarantee or repurchase or redeem Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full.

Maturity The Preferred Securities are perpetual securities and have no maturity date. The Preferred Securities may be redeemed at the option of the General Partner in the circumstances described under "Optional Redemption", "Withholding Tax Call" and "Special Event Call" below.

Optional Redemption. The Series 1 Preferred Securities are redeemable, in whole but not in part and subject to the limitations on redemption described below, at the option of the General Partner, on 30 June 2010 (the "Series 1 First Optional Redemption Date") or on each Distribution Date thereafter at the Optional Redemption Price.

The Series 2 Preferred Securities are redeemable, in whole but not in part and subject to the limitations on redemption described below, at the option of the General Partner, on 30 June 2030 (the "Series 2 First Optional Redemption Date") or on each Distribution Date thereafter at the Optional Redemption Price.

The Optional Redemption Price of each of the Preferred Securities is an amount equal to its nominal amount.

The Series 1 Preferred Securities may be redeemed without redeeming the Series 2 Preferred Securities, and *vice versa*.

See "*Description of the Preferred Securities – Redemption and Purchase*".

Withholding Tax Call. The Preferred Securities are redeemable, in whole but not in part and subject to the limitations on redemption described below, at the option of the General Partner at any time a Withholding Tax Event has occurred and is continuing, at an amount equal to their nominal amount together with any accrued but unpaid Distribution in respect of the Distribution Period in which the redemption date falls (the "Withholding Tax Redemption Price").

See "*Description of the Preferred Securities – Redemption and Purchase*".

Withholding Tax Event "Withholding Tax Event" means that, as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in Jersey or the United Kingdom or any action taken by any appropriate authority there is more than an insubstantial risk that (i) the Issuer or the General Partner would be subject to more than a *de minimis* amount of tax (except, in the case of the General Partner only, for any such tax that would arise as a result of (a) profits arising to it as a result of payments received by it from the Issuer or (b) activities (if any) carried on by it other than those permitted or

contemplated in the Partnership Agreement) in Jersey or the United Kingdom, (ii) payments to holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation to account for any tax in Jersey or the United Kingdom or (iii) payments by HSBC in respect of the Subordinated Notes would be subject to deduction or withholding for or on account of tax in the United Kingdom.

Special Event Call The Preferred Securities are redeemable, in whole but not in part and subject to the limitations on redemption described below, at the option of the General Partner at any time a Special Event has occurred and is continuing, at the Special Event Redemption Price.

The "Special Event Redemption Price" of each of the Preferred Securities is an amount equal to, in the case of a redemption on a date which is prior to the relevant First Optional Redemption Date, the higher of its nominal amount together with any accrued but unpaid Distribution in respect of the Distribution Period in which the redemption date falls and the Make Whole Amount and, in the case of a redemption on or after the relevant First Optional Redemption Date, its nominal amount.

See "*Description of the Preferred Securities – Redemption and Purchase*".

Special Event "Special Event" means:

(1) that there is more than an insubstantial risk that HSBC would not obtain relief for the purposes of U.K. corporation tax for any payment of interest in respect of the Subordinated Notes; or

(2) that there is more than an insubstantial risk that any of the events described in paragraphs (i) to (iii) of Withholding Tax Event above will occur other than as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in Jersey or the United Kingdom or any action taken by any appropriate authority; or

(3) that for any reason, there is more than an insubstantial risk that for the purposes of the FSA's capital adequacy requirements applicable to banks in the United Kingdom at that time the total nominal amount of the Preferred Securities may not be included in the Tier 1 capital of HSBC on a consolidated basis.

Substitution after a Special

Event or a Withholding Tax Event .

If a Special Event or a Withholding Tax Event has occurred and is continuing, as an alternative to redemption and at the option of the General Partner, the Substitute Preference Shares (as defined below) may (subject to the limitations on redemption described below and provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC) be substituted for the Preferred Securities as if the Special Event or the Withholding Tax Event constituted a Substitution Event.

Limitations on Redemption

The Preferred Securities may only be redeemed if the aggregate of HSBC's Adjusted Distributable Reserves and the proceeds of issue of Replacement Capital (as defined below) made for the purpose of funding such redemption is at least equal to the amount payable on redemption and Preferred Securities will not be redeemed except with the prior written consent of the FSA, if required.

Make Whole Amount.

In respect of a Preferred Security, "Make Whole Amount" means at any time prior to the relevant First Optional Redemption Date an amount equal to the sum of (i) the present value of the nominal amount plus (ii) the present value of each remaining scheduled Distribution to and including the First Optional Redemption Date, discounted from the First Optional Redemption Date or the relevant Distribution Date, respectively, in each case to the Early Redemption Date at a rate equal to the sum of (x) 1.77% in the case of a Series 1 Preferred Security and 2.07% in the case of a Series 2 Preferred Security until the first anniversary of the Issue Date and thereafter in each case 0.50% and (y) the U.S. Treasury Yield on a semi-annual compounding basis (rounded to four decimal places) at 3.00 p.m. (London time) on the fifth Business Day prior to the Early Redemption Date.

Substitution Event.

A Substitution Event will occur if:

(i) HSBC's consolidated total capital ratio, calculated in accordance with applicable U.K. bank capital adequacy regulations, falls below the then minimum ratio required by such regulations (currently 8%); or

(ii) HSBC's board of directors in its sole discretion has notified the FSA and the Issuer that it has determined, in view of HSBC's deteriorating financial condition, that (i) above is expected to occur in the near term.

Upon the occurrence of a Substitution Event and provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC, the Preferred Securities will, as soon as reasonably practicable thereafter, be substituted by the Substitute Preference Shares.

See "Description of the Preferred Securities – Substitution by Substitute Preference Shares".

- Substitute Preference Shares The Substitute Preference Shares will be fully-paid non-cumulative redeemable perpetual preferred shares issued by HSBC having economic terms which are in all material respects equivalent to those of the Preferred Securities and the Guarantee taken together. HSBC will take all reasonable steps to procure that the Substitute Preference Shares will at the relevant time be listed on the London Stock Exchange Limited or another Recognised Stock Exchange.
- Rights upon Liquidation. In the event of the dissolution or winding up of the Issuer, each investor will, subject to certain limitations, be entitled to receive out of the assets of the Issuer available for distribution the Liquidating Distribution. The Liquidating Distribution will be made (i) before any distribution of assets is made to the General Partner or HSBC Finance (Netherlands) as holder of the Preferential Right and (ii) *pari passu* with equivalent claims under all outstanding Parity Obligations of the Issuer ranking *pari passu* with the Liquidating Distribution but (iii) after the claims of all other creditors of the Issuer, and holders of obligations of the Issuer, whose claims are not *pari passu* with or subordinated to the Preferred Securities. See "Description of the Preferred Securities – Liquidating Distributions".
- Withholding Tax and Gross Up Except in certain limited cases and subject to the limitations on payments described above, the Issuer, or HSBC pursuant to the Guarantee, will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net payments in respect of the Preferred Securities, after withholding for any taxes imposed by Jersey or the United Kingdom, as the case may be, on such payments will equal the amount which would have been received in the absence of any such withholding taxes.
- Certain Restrictions Other than the Issuer's ordinary expenses, which will be borne by HSBC and/or the General Partner, and except for fees and commissions payable in connection with the issue of the Preferred Securities, the General Partner has covenanted not to incur any indebtedness in the name of the Issuer or other obligations ranking, in respect of distributions or other payments, senior to the rights of holders.
- Parity Obligations "Parity Obligations" means (i) in relation to HSBC, any preference shares or other obligations of HSBC that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to HSBC's obligations under the Guarantee and any other guarantee or support agreement given by HSBC in respect of any preference shares, or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any subsidiary undertaking of HSBC that constitutes Tier 1 capital of HSBC on a consolidated basis and does not rank in all material respects senior or junior to the Guarantee and (ii) in relation to the Issuer,

any preferred securities (other than the Preferred Securities) issued by it or other obligations of it which are entitled to the benefit of the Guarantee or any guarantee of HSBC ranking *pari passu* with the Guarantee.

Subordinated Guarantee HSBC will guarantee, on a subordinated basis, all payments in respect of the Preferred Securities.

The Guarantee constitutes unsecured obligations of HSBC which will, in the event of the winding up of HSBC, be subordinated in right of payment to the claims of all other creditors of HSBC (including certain subordinated creditors) other than creditors whose claims rank or are expressed to rank *pari passu* with or junior to the Guarantee or other obligations of HSBC ranking *pari passu* with or junior to the Guarantee.

HSBC will not be obliged to make a payment under the Guarantee (i) unless it is able to make such payment and be Solvent immediately thereafter and (ii) if such payment would cause it to be in breach of applicable banking regulations or capital adequacy requirements.

See "*Description of the Subordinated Guarantee*".

Subordinated Notes Payments in respect of the Preferred Securities will initially be funded by payments received by the Issuer under the Subordinated Notes which will have economic terms which are in all material respects equivalent terms to those terms of the Preferred Securities, save that (i) the interest payable on the Subordinated Notes will be cumulative, and (ii) the Subordinated Notes will be due on 30 June 2040.

In the event that any of the Subordinated Notes or any Replacement Debt become due or are redeemed while any Preferred Securities remain outstanding and are not subject to a notice of redemption, the General Partner has undertaken to invest the proceeds of redemption of the Subordinated Notes or any Replacement Debt in debt securities of a member of the HSBC Group (if not HSBC, with the benefit of a guarantee from HSBC) which have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Notes (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).

Interests in the Subordinated Notes will not be delivered or otherwise made available in any form to holders of the Preferred Securities, and the rights of such holders shall be represented solely by Preferred Securities in registered form.

See "*Annex B – Description of the Subordinated Notes*".

Voting Rights Except as stated below, holders of Preferred Securities will not be entitled to receive notice of, attend or vote at any meeting of partners of the Issuer or participate in the management of the Issuer.

If for two consecutive semi-annual Distribution Periods or for four consecutive quarterly Distribution Periods the

Distributions have not been paid in full (and/or HSBC has not made the required payments under the Guarantee in respect of such Distributions), holders will be entitled by written notice to the Issuer given by the holders of a majority in nominal amount or by a resolution passed at an appropriately constituted meeting to appoint a special representative to enforce their statutory rights, including provision of information on the affairs of the Issuer. Such special representative must vacate its office if, after its appointment, a full Distribution is made by the Issuer or by HSBC under the Guarantee for a full Distribution Period or an amount equivalent to the Distribution to be paid in respect of a full Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to holders.

Variation of Rights. Any variation of the rights of holders will take effect only if approved in writing by at least one-third of holders or if approved by resolution passed by three-quarters of those present in person or by proxy at a meeting of holders at which the quorum shall be one-third by nominal amount of the holders.

Form of the Securities The Preferred Securities will be issued in registered form. The Preferred Securities sold in the United States pursuant to Rule 144A will, on issue, be represented by a Restricted Global Certificate for each class. The Preferred Securities sold to non-U.S. persons outside the United States pursuant to Regulation S will, on issue, be represented by a Regulation S Global Certificate for each class. The Global Certificates will be registered in the name of a nominee of, and deposited with a custodian for, DTC. For so long as the Preferred Securities are deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC. Preferred Securities will be issued in definitive certificated form only in limited circumstances.

See "*Description of the Preferred Securities – Transfers and Form*".

Rating The Preferred Securities are expected to be assigned on issue a rating of A- by Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc. and a1 by Moody's Investors Service, Inc.. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Governing Law The Guarantee and Subordinated Notes will be governed by English law. The Partnership Agreement and the Preferred Securities will be governed by Jersey law.

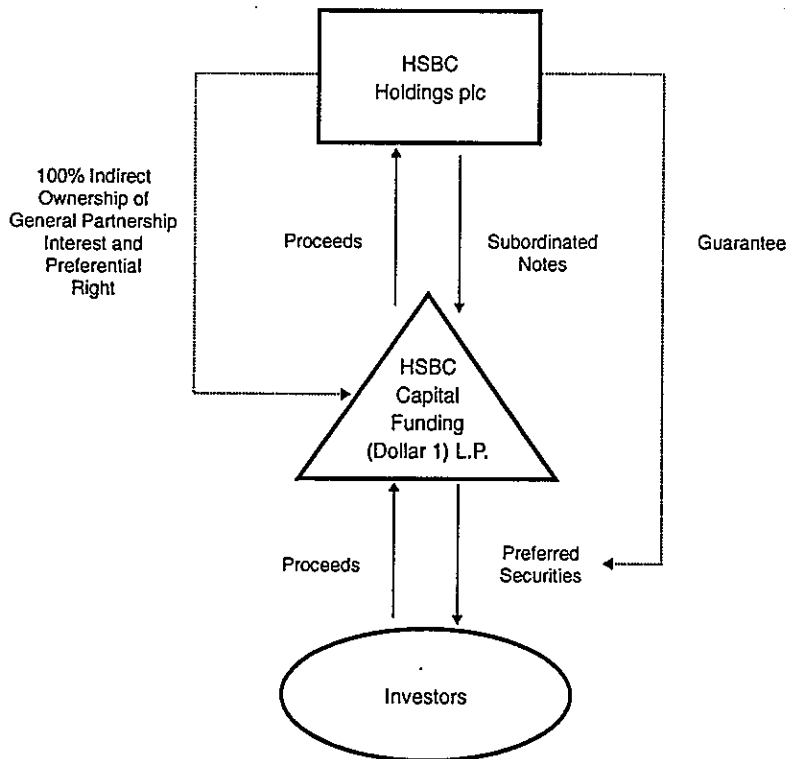
Listing Application has been made for the Preferred Securities to be listed on the Luxembourg Stock Exchange.

Use of Proceeds The net proceeds of the offering of the Preferred Securities, which are expected to amount to

approximately US\$2,227,500,000, will be used by the Issuer to subscribe for the Subordinated Notes. HSBC will use the proceeds from the issue of Subordinated Notes in connection with the financing of the purchase of Republic New York Corporation and Safra Republic Holdings and the proposed acquisition of CCF as described in Annex A-1 hereto and otherwise for general corporate purposes and augmenting the capital base of the HSBC Group. The Managers will receive fees and commissions as set out under "*Subscription and Sale*".

Other Offerings Contemporaneously with the issue of the Preferred Securities, HSBC Capital Funding (Sterling 1) L.P. and HSBC Capital Funding (Euro 1) L.P. intend to issue sterling and euro denominated non-cumulative step-up perpetual preferred securities respectively. The Guarantee in respect of the Preferred Securities will rank *pari passu* with the guarantee provided by HSBC in respect of these other securities. The closing of any offering of these other securities is not a condition to the closing of this offer of Preferred Securities. This document is not an offer to sell any securities and it is not soliciting offers to buy any securities other than the Preferred Securities to be issued by HSBC Capital Funding (Dollar 1) L.P. Any offering of these other securities will be made under separate offering materials.

Transaction Structure



INVESTMENT CONSIDERATIONS

Prospective investors should consider carefully the following information in conjunction with the other information contained in this Offering Circular before purchasing any Preferred Securities.

Distributions on the Preferred Securities are not cumulative.

Distributions on the Preferred Securities are not cumulative. As set out in "Description of the Preferred Securities – Distributions", Distributions will be paid on each Distribution Date out of interest received by the Issuer under the Subordinated Notes. Distributions may not be paid in full, or at all, if HSBC does not have sufficient distributable profits or if HSBC is limited in making payments on other obligations, including the Guarantee. If Distributions for any Distribution Period are not paid by reason of the above limitations, investors will not be entitled to receive such Distributions (or any Guaranteed Payment in respect of such Distributions) whether or not funds are or subsequently become available.

The Preferred Securities have no fixed redemption date and investors have no rights to call for redemption of the Preferred Securities.

The Preferred Securities have no fixed final redemption date and holders have no rights to call for the redemption of the Preferred Securities. Although the Preferred Securities may be redeemed in certain circumstances (including at the option of the General Partner on 30 June 2010 in the case of the Series 1 Preferred Securities, or on 30 June 2030 in the case of the Series 2 Preferred Securities, or following the occurrence of a Withholding Tax Event or a Special Event), there are limitations on redemption of the Preferred Securities, including satisfaction of the Redemption Conditions (as described herein) relating to FSA consent and the availability of sufficient funds to effect redemption.

Investors will only receive distributions on Preferred Securities if HSBC pays interest on the Subordinated Notes.

The ability of the Issuer to make payments on the Preferred Securities is solely dependent upon HSBC making the related payments on the Subordinated Notes when due. If HSBC defaults on its obligations to make payments on the Subordinated Notes, the Issuer will not have sufficient funds to make payments on the Preferred Securities. In those circumstances, investors will have to rely upon the Guarantee from HSBC for payment of these amounts.

HSBC's obligations under the Guarantee are limited to the amounts of the payments due under the Preferred Securities.

HSBC's obligation to make payments under the Guarantee is limited to the extent of the amounts due under the Preferred Securities. Distributions will not be paid under these securities if HSBC does not have available sufficient distributable profits to make payments in full on the Guarantee and all securities ranking equally to the Guarantee as to rights to dividends or, even if it has sufficient distributable profits, if, on the date of such payment HSBC is prevented by applicable U.K. banking regulations or other requirements from making payment in full under the Guarantee or of any dividends or other distributions on its obligations that rank equally to the Guarantee or is unable to make such payment of dividends or other distributions without causing a breach of the capital adequacy requirements applicable to the HSBC Group. Investors will have no right to seek payment of amounts under the Guarantee that would exceed the amount investors would have been able to receive had investors been investors in directly issued non-cumulative, non-voting preference shares of HSBC.

Under no circumstances does the Guarantee provide for acceleration of any payments on, or repayment of, the Preferred Securities.

HSBC is not required to pay investors under the Guarantee unless it first makes other required payments.

HSBC's obligations under the Guarantee will rank junior to all of its liabilities to creditors and claims of holders of senior ranking securities. In the event of the winding-up, liquidation or dissolution of HSBC, its assets would be available to pay obligations under the Guarantee only after HSBC has made all payments on such liabilities and claims. None of the Preferred Securities, the Subordinated Notes or the Guarantee limit the ability of HSBC and its affiliates to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Guarantee.

Non-payment of distributions may adversely affect the trading price of the Preferred Securities.

If in the future payments are limited on the Preferred Securities because HSBC has insufficient distributable profits, the Preferred Securities may trade at a lower price. If investors sell the Preferred Securities during such a period, investors may not receive the same price as someone else who does not sell its Preferred Securities until sufficient distributable profits are available to resume distribution payments. In addition, because HSBC's obligation to make payments under the Guarantee is limited to the extent of the underlying payment obligations on the Preferred Securities which may be limited due to insufficient distributable profits, the market price for the Preferred Securities may be more volatile than other securities that do not reflect these limitations.

Investors should not rely on distributions from the Preferred Securities – they may be redeemed at any time if certain adverse consequences occur as a result of the application of U.K. or Jersey regulations or tax law and certain conditions are satisfied.

If certain consequences occur, which are more fully described below in this Offering Circular, as a result of the application of U.K. or Jersey regulations or tax law and certain other conditions which are more fully described below are satisfied, the Preferred Securities could be redeemed by the Issuer.

Investors should not rely on the distributions from the Preferred Securities – they may be redeemed at the option of the General Partner on or after 30 June 2010 for the Series 1 Preferred Securities and 30 June 2030 for the Series 2 Preferred Securities.

The Preferred Securities may be redeemed, in whole but not in part, on 30 June 2010 for the Series 1 Preferred Securities and 30 June 2030 for the Series 2 Preferred Securities and in each case on each Distribution Date thereafter, at a redemption price equal to their nominal amount. Investors should assume that this redemption option will be exercised if HSBC is able to refinance at a lower cost of funding or it is otherwise in its interest to redeem the Preferred Securities.

There can be no assurance as to the market prices for the Preferred Securities. Therefore, investors may suffer a loss.

HSBC cannot give investors any assurance as to the market prices for the Preferred Securities or, following a Substitution Event, Substitute Preference Shares that may be distributed in exchange for the Preferred Securities. Accordingly, the Preferred Securities and Substitute Preference Shares may trade at a discount to the price at which investors purchased the Preferred Securities. In addition, because HSBC's obligation to make payments under the Guarantee is limited to the extent of the underlying payment obligations on the Preferred Securities which may in turn be limited due to insufficient distributable profits, the market price for these securities may be more volatile than other securities that do not reflect these limitations.

There can be no certainty that Substitute Preference Shares will be issued.

In certain circumstances the Preferred Securities may be substituted by directly issued preference shares of HSBC.

Although HSBC has undertaken in the Guarantee to take all reasonable steps to create and authorise, and procure a listing for, the Substitute Preference Shares, there can be no assurance that, in the event that a Substitution Event occurs, shareholders of HSBC will approve, or that a Recognised Stock Exchange will agree to list, the Substitute Preference Shares. In addition, the tax treatment for holders of Substitute Preference Shares may be different from that for holders of Preferred Securities.

There could be adverse consequences for investors if HSBC liquidates the Issuer and distributes Substitute Preference Shares to holders, resulting in possible tax and liquidity consequences for investors.

In certain circumstances the Preferred Securities may be substituted by directly issued preference shares of HSBC. If investors' Preferred Securities are substituted by Substitute Preference Shares:

- the trading value of the Substitute Preference Shares investors receive may be lower than the trading value of the Preferred Securities, and, as a result, investors may receive a lower return upon the sale of the Substitute Preference Shares; and
- investors may incur an additional tax liability in excess of what investors originally contemplated.

Under current U.S. federal income tax law, a distribution of Substitute Preference Shares to investors on the dissolution of the Issuer or on the occurrence of a Substitution Event (including for this purpose a Special Event or Withholding Tax Event) should not be a taxable event to investors. However, if the Issuer is characterised for U.S. federal income tax purposes as an association taxable as a corporation at the time it is dissolved or if there is a change in law, the distribution of Substitute Preference Shares may be a taxable event to investors.

HSBC CAPITAL FUNDING (DOLLAR 1) L.P.

Introduction

HSBC Capital Funding (Dollar 1) L.P. was registered in Jersey on 13 April 2000 under the Limited Partnerships (Jersey) Law, 1994 for an unlimited duration, by HSBC (General Partner) Limited as the general partner (the "General Partner"). The General Partner, HSBC Bank plc (the "Initial Partner") and HSBC Finance (Netherlands) (the "Preferential Limited Partner") and HSBC have entered into a partnership agreement dated the date hereof (the "Partnership Agreement") for the purpose of establishing the Issuer. The Issuer is not a legal entity separate from its partners. The Partnership Agreement is not intended to create a trust relationship between any of the partners. The Preferred Security limited partnership interests are held on investors' behalf in a name of a nominee of DTC and held as custodian for DTC by HSBC Bank USA.

Control of the Issuer

The General Partner, a wholly owned subsidiary of, and controlled by, HSBC, is the sole general partner in the Issuer and, as such, controls the Issuer.

Provided that limited partners do not become involved with the management of the Issuer other than in the circumstances provided for in the Partnership Agreement (see "*Description of the Preferred Securities – Voting Rights*"), and in accordance with applicable law the liability of the limited partners to contribute to the debts or obligations of the Issuer will be limited to the amount which they have contributed or agreed to contribute to the partnership, being US\$1,000 per Preferred Security.

Sole Activity

The Issuer was established for the sole purpose of raising finance for the HSBC Group. It has carried out no operations since its registration other than in relation to the creation of the Preferred Securities. The capital contributions to be made by the limited partners will be used by the Issuer to subscribe for the Subordinated Notes and pay fees and commissions as disclosed in this Offering Circular.

Management

The Issuer will be operated by the General Partner and its duly appointed delegates. The registered office of the Issuer is 22 Grenville Street, St Helier, Jersey JE4 8PX and the registered office of the General Partner is 1 Grenville Street, St Helier, Jersey JE4 9PF. No holder of a Preferred Security may participate in the management of the Issuer. HSBC has undertaken in the Guarantee to ensure that the General Partner will at all times be a directly or indirectly wholly owned subsidiary of HSBC.

The General Partner has agreed in the Partnership Agreement to contribute capital from time to time to the extent required for the Issuer to meet any operating expenses which it may have. The General Partner has also agreed that it will at all times maintain sole ownership of its general partner interest in the Issuer. The Partnership Agreement provides that all of the Issuer's business and affairs will be conducted by the General Partner and the General Partner will have unlimited liability for the debts and obligations of the Issuer other than its obligations in respect of the acquisition of the Subordinated Note and in respect of the Preferred Securities.

If the Issuer is dissolved or wound up, the Partnership Agreement provides that the General Partner will only be entitled to any assets of the Issuer remaining after (i) all debts and other liabilities of the Issuer have been satisfied in full and (ii) the full Liquidating Distribution to which the holders are entitled having regard to the limitations set out herein has been paid to or irrevocably set aside for the holders and any amount payable in respect of the Preferential Right has been paid.

The General Partner has undertaken that, if the Subordinated Notes become due or are redeemed while the Preferred Securities remain outstanding and are not subject to a notice of

redemption it will invest the proceeds of the Subordinated Notes or any Replacement Debt in debt securities issued by a member of the HSBC Group (where the issuer is not HSBC with the benefit of a guarantee from HSBC), which debt securities will have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Notes (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).

Capital Contribution

Save for capital contributions to be made by the General Partner from time to time to meet certain operating expenses of the partnership, the capital commitment of £1,000 which the General Partner may call from HSBC Finance (Netherlands) as the Preferential Limited Partner, and the capital contribution of US\$2,250,000,000 to be made in relation to the Preferred Securities, there are intended to be no other contributions to the Issuer.

Indebtedness

Since the date of its registration, the Issuer has not had any loan capital outstanding, has not incurred any borrowings, has had no contingent liabilities, has not granted any guarantees and does not intend to have outstanding any such loan capital, incur any such borrowings, have any such contingent liabilities or grant any such guarantees. The General Partner has undertaken not to incur any indebtedness in the name of the Issuer other than the costs and expenses incidental to maintaining the Register, paying the fees and commissions, listing, registrar and paying agency charges in respect of the Preferred Securities, holding and exercising its rights under the Subordinated Notes or any securities substituted therefor and the maintenance of a custodian thereof and the administration of the Issuer.

CAPITALISATION OF HSBC HOLDINGS PLC

The following table shows the consolidated capitalisation position of HSBC Holdings plc and its subsidiary undertakings as at 31 December 1999:

		Authorised U.S.\$m	Issued and fully paid U.S.\$m
Ordinary Share Capital:			
Ordinary shares (of nominal value U.S.\$ 0.50 each)		5,250	4,230
			Amount outstanding U.S.\$m
Consolidated Loan Capital			
Undated Subordinated Loan Capital of Subsidiary Undertakings			
U.S.\$	1200m		1,200
U.S.\$	750m		750
U.S.\$	500m		500
U.S.\$	300m		300
£	150m		243
£	150m		242
			3,235
Subordinated Loan Capital of HSBC Holdings PLC			
£	413m		668
£	250m		397
U.S.\$	250m		250
U.S.\$	1000m		999
EUR	300m		301
			2,615
Subordinated Loan Capital of Subsidiary Undertakings			
U.S.\$	500m		500
£	250m		404
U.S.\$	400m		398
HK\$	3,000m		386
U.S.\$	375m		372
U.S.\$	350m		350
£	200m		323
£	200m		319
U.S.\$	300m		300
U.S.\$	300m		300
U.S.\$	300m		298
U.S.\$	250m		249
£	150m		242
¥	24.8b		242
U.S.\$	250m		220
U.S.\$	250m		219
U.S.\$	250m		214
U.S.\$	200m		200
U.S.\$	200m		200
U.S.\$	200m		200
U.S.\$	200m		200
Other subordinated liabilities less than U.S.\$200m			3,437
			9,573
Non-equity Minority Interest			
U.S.\$ non-cumulative preference shares issued by subsidiary undertakings			1,583

Notes:

- (1) On 10 January 2000, HSBC Holdings plc issued U.S.\$250 million subordinated step-up coupon floating rate notes 2010 in connection with the acquisition of Safra Republic Holdings and, on 24 January 2000, increased the amount to U.S.\$350 million.
- (2) As at 31 December 1999, HSBC Holdings plc and its subsidiary undertakings had contingent liabilities of U.S.\$31,840 million, comprising acceptances and endorsements of U.S.\$4,482 million and guarantees, assets pledged as collateral security and other items of U.S.\$27,358 million.

Save as disclosed in the above Notes, there has been no material change in the share capital of HSBC Holdings plc or the loan capital of HSBC Holdings plc and its subsidiary undertakings since 31 December 1999.

DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities are limited partnership interests in the Issuer. The following summary should be read in conjunction with, and is subject to the terms of the Partnership Agreement, a copy of which is available as described under "General Information".

Description of the Preferred Securities

1. Definitions

In this Description of the Series 1 Preferred Securities and the Series 2 Preferred Securities (together referred to as the "Preferred Securities"), except to the extent that the context otherwise requires:

"Additional Amounts" has the meaning given to that term in paragraph 6;

"Adjusted Distributable Reserves" means at any time the lawful distributable reserves of HSBC at such time less the cumulative amount since the Issue Date of all redemptions of and payments on (a) any shares or other securities or obligations of HSBC that are accounted for under then generally accepted accounting principles in the United Kingdom as shareholders' funds in HSBC's accounts and (b) all shares, securities or other obligations of an undertaking which are accounted for under then generally accepted accounting principles in the United Kingdom as minority interest capital in HSBC's consolidated accounts, and with recourse (whether by way of guarantee, support agreement or otherwise) to HSBC that are similar in material respects to the Preferred Securities and the Guarantee, taken together, whether or not Parity Obligations, except in each case for such amounts as have been either charged to the lawful distributable reserves of HSBC or funded at that time by an issue of Replacement Capital made for the purpose of funding such redemption as described in item (ii)(b) of the definition of "Redemption Conditions";

"Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets settle payments in US dollars and are open for general business in London and New York City;

"Calculation Agent" means HSBC Bank plc or any successor calculation agent appointed under the Agency Agreement dated 17 April 2000 between, *inter alia*, HSBC, the General Partner and HSBC Bank plc;

"Day Count Fraction" means, prior to the First Optional Redemption Date in respect of such Preferred Securities, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and in the case of an incomplete month the actual number of days elapsed and, on or after the First Optional Redemption Date in respect of such Preferred Securities the actual number of days in the relevant period divided by 360;

"Distributions" means the non-cumulative cash distributions on the Preferred Securities as described in paragraph 2 and "Distribution" has a corresponding meaning;

"Distribution Date" means 30 June and 31 December in each year commencing 31 December 2000 up to and including the First Optional Redemption Date for the relevant Preferred Securities and thereafter 31 March, 30 June, 30 September and 31 December in each year;

"Distribution Determination Date" means the day five Business Days prior to a Distribution Date;

"Distribution Period" means the period from (and including) the Issue Date to (but excluding) the first Distribution Date and each period thereafter from (and including) one Distribution Date to (but excluding) the next following Distribution Date;

"Distribution Rate" means:

- (a) in respect of the Series 1 Preferred Securities, (i) for each Distribution Period until 30 June 2010, 9.547% per annum; and (ii) for each Distribution Period thereafter a floating rate per annum of 4.06% above three month LIBOR for that Distribution Period; and
- (b) in respect of the Series 2 Preferred Securities, (i) for each Distribution Period until 30 June 2030, 10.176% per annum; and (ii) for each Distribution Period thereafter a floating rate per annum of 4.98% above three month LIBOR for that Distribution Period;

"DTC" means The Depository Trust Company, New York;

"Early Redemption Date" means any date designated for redemption of the Preferred Securities for tax or regulatory reasons as described under paragraphs 4.3 and 4.4;

"First Optional Redemption Date" means, in respect of the Series 1 Preferred Securities, 30 June 2010 and, in respect of the Series 2 Preferred Securities, 30 June 2030;

"FSA" means the Financial Services Authority in the United Kingdom and shall include any successor organisation responsible for the supervision of banks in the United Kingdom;

"General Partner" means HSBC (General Partner) Limited;

"Guarantee" means the subordinated guarantee in respect of the Preferred Securities to be executed by HSBC on 17 April 2000 as a deed poll;

"Guaranteed Payments" means collectively (i) all Distributions due on the Preferred Securities, (ii) any Distributions on the Preferred Securities which would have been due had the Issuer had sufficient legally available resources but only if, and to the extent that, the Issuer did not have such legally available resources solely due to a failure by HSBC to pay interest on the Subordinated Notes or the Replacement Debt as and when due and payable under the terms thereof, (iii) any Liquidating Distribution to which the Holders of the Preferred Securities are entitled, (iv) any cash amounts to which the Holders are entitled in respect of redemption of the Preferred Securities and (v) any Additional Amounts, payment of which is in each case guaranteed by HSBC under the Guarantee;

"Holder" means, in respect of each Preferred Security, each person registered on the Register as the limited partner holding such Preferred Security at the relevant time;

"HSBC" means HSBC Holdings plc;

"HSBC Group" means HSBC together with its Subsidiaries;

"Issue Date" means 17 April 2000;

"Issuer" means HSBC Capital Funding (Dollar 1) L.P. acting by the General Partner;

"Jersey" means the Island of Jersey;

"Law" means the Limited Partnerships (Jersey) Law, 1994;

"Limited Partnerships Registrar" means the person appointed as Registrar of Limited Partnerships pursuant to the Law;

"Liquidating Distribution" in respect of any Preferred Security upon a dissolution or winding up of the Issuer, means the nominal amount together with any accrued but unpaid Distribution from and including the commencement of the Distribution Period in which the date of the dissolution or winding up falls (less any interim Liquidating Distribution that may have been paid);

"Make Whole Amount" in respect of a Preferred Security means, at any time prior to the First Optional Redemption Date for such Preferred Security, an amount equal to the sum of:

- (i) the present value of the nominal amount plus
- (ii) the present value of each remaining scheduled Distribution to and including the First Optional Redemption Date

discounted from (i) in relation to the nominal amount, the First Optional Redemption Date and (ii) in relation to each such remaining scheduled Distribution, the relevant Distribution Date in each case to the Early Redemption Date at a rate equal to the sum of (x) 1.77% in the case of a Series 1 Preferred Security and 2.07% in the case of a Series 2 Preferred Security until the first anniversary of the Issue Date and thereafter in each case 0.50% and (y) the U.S. Treasury Yield on a semi-annual compounding basis (rounded to four decimal places) at 3.00 p.m. (London time) on the fifth Business Day prior to the Early Redemption Date;

"Margin" means 4.06% in relation to the Series 1 Preferred Securities and 4.98% in relation to the Series 2 Preferred Securities;

"Optional Redemption Date" means the First Optional Redemption Date and each Distribution Date thereafter;

"Optional Redemption Price" in respect of a Preferred Security means an amount equal to the nominal amount;

"Parity Obligations" means (i) in relation to HSBC, any preference shares or other obligations of HSBC that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to HSBC's obligations under the Guarantee and any other guarantee given or support agreement entered into by HSBC in respect of any preference shares, or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any Subsidiary, that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to the Guarantee and (ii) in relation to the Issuer, any preferred securities (other than the Preferred Securities) issued by it or other obligations of it which are entitled to the benefit of the Guarantee or any guarantee of HSBC ranking *pari passu* with the Guarantee;

"Partnership Agreement" means the limited partnership agreement dated 14 April 2000 between the General Partner, HSBC Bank plc as the initial limited partner, HSBC Finance (Netherlands) as the holder of the Preferential Right and HSBC pursuant to which the Issuer was established, as the same may be amended from time to time;

"Paying Agent" means each of HSBC Bank USA and Kredietbank S.A. Luxembourgise or such other entity as is appointed by the General Partner on behalf of the Issuer and notified to the Holders in the manner described in paragraph 10;

"Permitted Reorganisation" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking and assets of HSBC are transferred to a successor entity which assumes all the obligations under the Guarantee;

"Preferential Right" means the preferential limited partnership interest in the Issuer initially held by HSBC Finance (Netherlands) and entitling it to receive in preference to the rights of the General Partner all amounts received by the Issuer in excess of those required to make payments of any Distribution (and, if relevant, Additional Amounts) on any Distribution Date or any Liquidating Distribution or relevant proportion thereof (and, if relevant, Additional Amounts) to Holders in accordance with paragraphs 2 or 3 below;

"Preferred Capital Contribution" means, in relation to the Preferred Securities, the aggregate contribution to the assets of the Issuer (being a whole multiple of US\$1,000) paid in cash to or to the order of the Issuer in respect of the Preferred Securities;

"Preferred Securities" means (a) the US\$1,350,000,000 9.547% Non-cumulative Step-up Perpetual Preferred Securities, Series 1 and (b) the US\$900,000,000 10.176% Non-cumulative Perpetual Step-up Preferred Securities, Series 2, in each case ranking *pari*

passu amongst themselves and representing the interest of a Holder in the Issuer attributable to the relevant proportion of the Preferred Capital Contribution (being a whole multiple of US\$1,000);

"QIB" means a qualified institutional buyer within the meaning of Rule 144A under the Securities Act;

"Recognised Stock Exchange" has the meaning given to that term in section 841 of the Income and Corporation Taxes Act 1988 of the United Kingdom;

"Redemption Conditions" means (i) that the consent of the FSA to the redemption, if then required, has been obtained and (ii) that the aggregate of (a) the Adjusted Distributable Reserves of HSBC as at the date proposed for redemption and (b) the proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the redemption, is at least equal to the aggregate of the full amount payable on the redemption (including any Distribution payable on redemption);

"Redemption Date" means an Early Redemption Date or an Optional Redemption Date, as applicable;

"Register" means the register of Holders maintained outside the United Kingdom on behalf of the Issuer under the Law;

"Registrar" means, in relation to the Preferred Securities, HSBC Bank USA or such other entity appointed by the Issuer having its office outside the United Kingdom and notified to the Holders in the manner described in paragraph 10;

"Relevant Proportion" means (a) in relation to any partial payment of a Distribution, the amount of Adjusted Distributable Reserves as of the Distribution Determination Date divided by the sum of (i) the total amount originally scheduled to be paid by way of Distribution on the Preferred Securities on the relevant Distribution Date and (ii) the sum of any dividends or other distributions or payments in respect of HSBC's Parity Obligations due and payable on that Distribution Date, converted where necessary into the same currency in which Adjusted Distributable Reserves are reported by HSBC; and (b) in relation to any partial payment of any Liquidating Distribution, the total amount available for any such payment and for making any Liquidating Distribution on any Parity Obligations divided by the sum of (i) the full Liquidating Distribution before any reduction or abatement hereunder and (ii) the amount (before any reduction or abatement hereunder) of the full liquidating distribution on any Parity Obligations of HSBC, converted where necessary into the same currency in which liquidation payments are made to creditors of HSBC;

"Replacement Capital" means shares, securities or other obligations as are mentioned in (a) or (b) in the definition of Adjusted Distributable Reserves;

"Replacement Debt" has the meaning given to that term in paragraph 9.2;

"Securities Act" means the U.S. Securities Act of 1933, as amended;

"Special Event" means any one of (a) that there is a more than an insubstantial risk that HSBC would not obtain relief for the purposes of United Kingdom corporation tax for any payment of interest in respect of the Subordinated Notes; (b) that, other than as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in the United Kingdom or Jersey there is a more than an insubstantial risk that any of the events listed in (i) to (iii) in the definition of Withholding Tax Event may occur; and (c) for any reason there is more than an insubstantial risk that for the purposes of the FSA's capital adequacy requirements applicable to banks in the United Kingdom at that time the Preferred Securities may not be included in the Tier 1 capital of HSBC on a consolidated basis;

"Special Event Redemption Price" in relation to a redemption prior to the First Optional Redemption Date of a Preferred Security, means an amount equal to the higher of (i) its nominal amount (together with any accrued but unpaid Distribution in respect of the Distribution Period in which the relevant redemption falls) and (ii) the Make Whole Amount and, in relation to any other redemption of a Preferred Security, means its nominal amount (together with any accrued but unpaid distribution in respect of the Distribution Period in which the relevant redemption falls);

"Special Representative" has the meaning given to that term in paragraph 8;

"Stock Exchange" means the Luxembourg Stock Exchange (or any successor organisation) or the London Stock Exchange Limited or such other Recognised Stock Exchange approved by the General Partner on which the Preferred Securities (or any Substitute Preference Shares) may be listed from time to time;

"Subordinated Notes" means the US\$1,350,000,000 9.547% Subordinated Step-up Cumulative Notes in bearer form due on 30 June 2040 and the US\$900,000,000 10.176% Subordinated Step-up Cumulative Notes in bearer form due on 30 June 2040 each issued by HSBC on the Issue Date and subscribed by the Issuer using the proceeds of the issue of the Preferred Securities;

"Subsidiary" means any entity which is for the time being a subsidiary undertaking of HSBC (within the meaning given to this term in the United Kingdom Companies Act 1989);

"Substitute Preference Shares" has the meaning given to that term in paragraph 5.1;

"Substitution Event" means that either (i) HSBC's consolidated total capital ratio, calculated in accordance with applicable UK bank capital adequacy regulations, has fallen below the then applicable minimum ratio required by such regulations (currently 8%); or (ii) HSBC's board of directors in its sole discretion has notified the FSA and the Issuer that it has determined, in view of HSBC's deteriorating financial condition, that (i) above is expected to occur in the near term;

"three month LIBOR" in respect of any period means the three month rate for deposits in US dollars determined by the Calculation Agent which appears on page 3750 of Telerate as of approximately 11 a.m., London time, on the fifth Business Day prior to the first day of the relevant period provided that, if, at such time, no such rate appears or the relevant Telerate page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean of the rates at which deposits in U.S. dollars are offered by three major banks (or, if fewer than three rates are so quoted, two major banks, or, if fewer than two rates are so quoted, one major bank) in the London interbank market, selected by the Calculation Agent, at approximately 11 a.m. London time on the fifth Business Day prior to the first day of the relevant period to prime banks in the London interbank market for a period of three months and in an amount that is representative for a single transaction in the relevant market at the relevant time;

"UK" and the "United Kingdom" means the United Kingdom of Great Britain and Northern Ireland;

"US Treasury Yield" means the yield calculated by the Calculation Agent, under the heading which represents the average for the immediately prior week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity most closely corresponding to 30 June 2010 in the case of Series 1 Preferred Securities and 30 June 2030 in the case of Series 2 Preferred Securities;

"Withholding Tax Event" means (a) that, as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or

Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in the United Kingdom or Jersey there is a more than insubstantial risk that (i) the Issuer or the General Partner would be subject to more than a *de minimis* amount of tax (except, in the case of the General Partner only, for any such tax that would arise as a result of (a) profits arising to it as a result of payments received by it from the Issuer or (b) activities (if any) carried on by it other than those permitted or contemplated in the Partnership Agreement) in Jersey or the United Kingdom, or (ii) payments to Holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation to account for any tax in Jersey or the United Kingdom, or (iii) payments by HSBC in respect of the Subordinated Notes would be subject to deduction or withholding for or on account of tax in the United Kingdom; and

"Withholding Tax Redemption Price" in respect of a Preferred Security, means the Optional Redemption Price together with any accrued but unpaid Distribution in respect of the Distribution Period in which the relevant Preferred Security is redeemed.

2. Distributions

2.1 Subject as provided by the Law and in paragraphs 2.3, 2.9 and 7.3, non-cumulative cash distributions on the Preferred Securities ("Distributions") shall accrue from the Issue Date and shall be payable in arrear on each Distribution Date.

2.2 Subject to the Law, Distributions in respect of any Distribution Period will be payable at the applicable Distribution Rate on the nominal amount of the Preferred Security.

The Calculation Agent will at or as soon as practicable after each time at which the Distribution Rate is to be determined, determine the Distribution for the relevant Distribution Period. Each such determination will be notified to the Issuer, the Registrar, the Stock Exchange and the Holders before the commencement of the Distribution Period.

2.3 Distributions will be non-cumulative and will accrue on a day by day basis in accordance with the Day Count Fraction. Distributions will be payable out of the Issuer's own legally available resources on the relevant Distribution Date. Notwithstanding receipt of any interest due under the Subordinated Notes or any other resources legally available for distribution by the Issuer, neither the Issuer nor HSBC will, save to the extent provided in paragraph 2.4, pay a Distribution or make any payment in respect of a Distribution under the Preferred Securities or the Guarantee if, on the relevant Distribution Date:

2.3.1 HSBC is prevented by applicable U.K. banking regulations or other requirements from making payment in full (a) of dividends or other distributions on its Parity Obligations or (b) under the Guarantee; or

2.3.2 the amount of such Distribution (if paid in full), together with the sum of any dividends and other distributions on HSBC's Parity Obligations due and payable on that Distribution Date or under the Guarantee, would exceed the Adjusted Distributable Reserves of HSBC as of the Distribution Determination Date immediately preceding the relevant Distribution Date.

2.4 If, whether by reason of the provisions of paragraph 2.3 or any equivalent article or term of a Parity Obligation, on any Distribution Date Distributions are not paid in full on the Preferred Securities or dividends or other distributions are not paid in full on any Parity Obligations, but Adjusted Distributable Reserves are sufficient so as to allow payment of part of any Distribution, then each Holder will be entitled to receive the Relevant Proportion of any such Distribution. No Holder shall have any claim in respect of any Distribution or part thereof not payable as a result of the limitations set out in paragraph 2.3. Accordingly, such amount will not accumulate for the benefit of the Holders or entitle the Holders to any claim in respect thereof against the Issuer or HSBC under the Guarantee.

- 2.5 HSBC has covenanted in the Guarantee in favour of Holders that, in the event that for two consecutive Distribution Periods ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods the Distribution is not paid in full as a result of paragraph 2.3, it will not (a) declare or pay any dividends or other distributions in respect of its ordinary shares or (if permitted) effect any repurchase or redemption of its ordinary shares or any other security of HSBC ranking junior to the Guarantee (or contribute any moneys to a sinking fund for the redemption of any such shares or securities) until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) (if permitted) repurchase or redeem Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).
- 2.6 HSBC will determine whether as of each Distribution Determination Date sufficient Adjusted Distributable Reserves exist to allow a payment of some or all of the relevant Distribution. In the event that any Distribution cannot be paid in full, HSBC will notify or procure notification to the Stock Exchange, the General Partner, the Registrar and the Paying Agent, and to Holders in accordance with paragraph 10, of the fact and of the amount, if any, to be paid in respect of that Distribution.
- 2.7 Save as described above, Holders will have no right to participate in the profits of the Issuer or HSBC and, in particular, will have no rights to receive from the Issuer amounts paid under the Subordinated Notes in excess of Distributions due and payable under the Preferred Securities. In the event that any amounts paid in respect of the Subordinated Notes exceed the amount (if any) then due by way of Distribution under the Preferred Securities, the amount of such excess will be paid to the holder of the Preferential Right and Holders will have no rights in respect thereof.
- 2.8 The liability of a Holder to contribute to the debts or obligations of the Issuer (if any) shall not (subject to the Law) exceed the amount of that Holder's Preferred Capital Contribution.
- 2.9 If at any time the General Partner becomes aware that an investor in the Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC, the General Partner on behalf of the Issuer will have the right to suspend payment of Distributions in respect of Preferred Securities held for such investor. Investors are required to provide written notice to the General Partner on behalf of the Issuer if at any time any such investor owns, directly or indirectly, 10% or more of the ordinary shares of HSBC. Any amounts so suspended will be forfeited and may not be subsequently claimed.

3. Liquidating Distributions

- 3.1 In the event of the commencement of any dissolution or winding up of the Issuer before any redemption of the Preferred Securities or any substitution of the Preferred Securities by Substitute Preference Shares under paragraph 5, the Holders at that time will be entitled to receive the Liquidating Distribution, in respect of each Preferred Security held, out of the assets of the Issuer available for distribution to such Holders under the Law. Such entitlement will arise (i) before any distribution of assets is made to the General Partner or to the holder of the Preferential Right and (ii) *pari passu* with the equivalent claims under all outstanding Parity Obligations of the Issuer but (iii) after the claims of all other creditors of the Issuer and holders of obligations of the Issuer which are not Parity Obligations nor subordinated to the Preferred Securities.

Notwithstanding the availability of sufficient assets of the Issuer to pay the Liquidating Distribution, if, at the time the Liquidating Distribution is to be paid, proceedings have been commenced for the winding-up of HSBC other than pursuant to a Permitted Reorganisation, the Liquidating Distribution paid to Holders shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of HSBC had the Preferred Securities been directly issued preference shares issued by HSBC with equivalent rights of participation in the capital of HSBC (whether or not HSBC could in fact have issued such securities) and ranked (i) junior to depositors and all other creditors (including the holders of subordinated debt) of HSBC, (ii) *pari passu* with all Parity Obligations of HSBC and (iii) senior to the holders of HSBC's ordinary shares and any other securities or obligations of HSBC which are subordinated to the Guarantee.

- 3.2 If the Liquidating Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in paragraph 3.1. or any equivalent article or term of a Parity Obligation, but there are funds available for payment so as to allow payment of part of the Liquidating Distribution then each Holder will be entitled to receive the Relevant Proportion of the Liquidating Distribution. After payment of the Liquidating Distribution, or the Relevant Proportion thereof, if applicable, Holders will have no right or claim to any of the remaining assets of the Issuer or against HSBC under the Guarantee and the holder of the Preferential Right shall be entitled to receive any remaining assets of the Issuer.
- 3.3 In the event that proceedings are commenced for the winding-up of HSBC other than pursuant to a Permitted Reorganisation, the General Partner shall file a statement of dissolution of the Issuer with the Limited Partnerships Registrar and the amount to which Holders shall be entitled as a Liquidating Distribution will be as set out in paragraphs 3.1 and 3.2.
- 3.4 Subject to paragraph 3.3, unless (i) the FSA has given its consent, if then required, and (ii) the aggregate of (a) the Adjusted Distributable Reserves of HSBC as at the date of such winding up and (b) the proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the Liquidating Distribution is at least equal to the aggregate Liquidating Distribution, the General Partner will not permit, or take any action that would or might cause, the dissolution or winding up of the Issuer. Notwithstanding the foregoing restriction imposed on the General Partner, if for any other reason the Issuer is dissolved or wound up in circumstances where proceedings have not been commenced for the winding up of HSBC, the Liquidating Distribution shall only be payable up to an amount equal to the aggregate of (ii)(a) and (b) above. No Holder shall have any claim (whether against the Issuer or under the Guarantee) in respect of any Liquidating Distribution or part thereof not paid when it would, but for the operation of this paragraph 3.4, otherwise have become due.
- 3.5 Paragraph 3.4 will not apply in circumstances where a Substitution Event has occurred and the Substitute Preference Shares have been issued.

4. Redemption and Purchase

- 4.1 The Preferred Securities have no fixed final redemption date and Holders have no rights at any time to call for the redemption of the Preferred Securities.
- 4.2 The Series 1 Preferred Securities and the Series 2 Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to the satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, on any Optional Redemption Date for the Series 1 Preferred Securities or Series 2 Preferred Securities, as the case may be, upon not less than 30 nor more than 60 days' notice to the Holders of the relevant Preferred Securities specifying the Optional Redemption Date (which notice shall be irrevocable) at the Optional Redemption Price. Upon the expiry of such notice, the relevant Preferred Securities shall be redeemed by payment of the Optional Redemption Price to the Holders.

- 4.3 If at any time a Withholding Tax Event has occurred and is continuing then either (i) the General Partner may (provided that proceedings have not been commenced for the winding up of HSBC) elect to substitute the Substitute Preference Shares for the Series 1 Preferred Securities and/or the Series 2 Preferred Securities in the manner provided in paragraph 5 as if such event were a Substitution Event; or (ii) the Series 1 Preferred Securities and/or the Series 2 Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to the satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders of the relevant Preferred Securities specifying the Early Redemption Date (which notice shall be irrevocable), at the Withholding Tax Redemption Price. Where a notice of redemption has been given in accordance with the foregoing sentence, the General Partner shall also notify the Holders of the relevant Preferred Securities of the Withholding Tax Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the Early Redemption Date). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar a certificate signed by two Directors of HSBC stating that the Issuer is entitled to effect such redemption and an opinion of counsel to HSBC experienced in such matters to the effect that a Withholding Tax Event has occurred (and specifying which of clauses (i) to (iii) as set out in the definition of "Withholding Tax Event" is applicable). The delivery of such opinion shall constitute conclusive evidence of the occurrence of a "Withholding Tax Event" for all purposes of the Partnership Agreement and Preferred Securities. Upon the expiry of such notice, the relevant Preferred Securities shall be redeemed by the payment of the Withholding Tax Redemption Price to Holders.
- 4.4 If at any time a Special Event has occurred and is continuing, either (i) the General Partner may (provided that proceedings have not been commenced for winding up of HSBC) elect to substitute the Substitute Preference Shares for the Series 1 Preferred Securities and/or the Series 2 Preferred Securities in the manner provided in paragraph 5 as if such event were a Substitution Event or (ii) the Series 1 Preferred Securities and/or the Series 2 Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders of the relevant Preferred Securities specifying the relevant Early Redemption Date (which notice shall be irrevocable), at the Special Event Redemption Price. Where a notice of redemption has been given in accordance with the foregoing sentence, the General Partner shall also notify the Holders of the relevant Preferred Securities of the Special Event Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the relevant Early Redemption Date). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar a certificate signed by two Directors of HSBC stating that the General Partner is entitled to effect such redemption and an opinion of counsel to HSBC experienced in such matters to the effect that a Special Event has occurred. Upon the expiry of such notice, the relevant Preferred Securities shall be redeemed by the payment of the Special Event Redemption Price to Holders.
- 4.5 Under FSA requirements at the date hereof, the Issuer may not redeem, and neither the Issuer nor HSBC nor any of its Subsidiaries may purchase, any Preferred Securities unless the FSA gives its prior written consent, and the FSA may impose conditions on any such redemption or purchase.
- 4.6 Once a notice to redeem the Preferred Securities has been given under any of paragraphs 4.2, 4.3 or 4.4, no similar notice may be given under either of the other paragraphs. If at any time the Preferred Securities may be redeemed under more than one such paragraph, the General Partner may elect under which paragraph the notice of redemption is to be given.

- 4.7 The Series 1 Preferred Securities may be redeemed under paragraph 4.2, 4.3 or 4.4 without redeeming the Series 2 Preferred Securities, and vice versa.

5. Substitution by Substitute Preference Shares

- 5.1 As soon as reasonably practicable following the occurrence of a Substitution Event (provided that proceedings have not been commenced for the winding up of HSBC), the Issuer shall take all reasonable steps to cause the substitution for the Preferred Securities of fully-paid non-cumulative redeemable perpetual preferred shares issued directly by HSBC having economic terms which are in all material respects equivalent (as more fully set out in the following paragraph) to those of the Preferred Securities and the Guarantee taken together (the "Substitute Preference Shares").

The Substitute Preference Shares shall, among other things, provide economic terms that are equivalent to those of the Preferred Securities in respect of the non-cumulative nature of the distributions thereon, the status of the securities and the rights attaching to the securities in respect of rights on a winding up of HSBC. The Substitute Preference Shares shall be redeemable or effectively redeemable and will contain provisions similar to those contained in paragraphs 2.2 and 4.2.

- 5.2 Prior to the issue of any Substitute Preference Shares, application will be made by HSBC for admission of such Substitute Preference Shares to listing on the London Stock Exchange Limited or another Recognised Stock Exchange. As soon as practicable after the occurrence of a Substitution Event (provided that proceedings have not been commenced for the winding up of HSBC), HSBC will give written notice to the Holders enclosing a substitution confirmation which each Holder will be required to complete. To receive Substitute Preference Shares, each Holder must deliver to the Paying Agent the duly completed substitution confirmation together with the certificate representing its holding of Preferred Securities. Any such substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Following such substitution, the Substitute Preference Shares allotted will rank for any dividend from the Distribution Date immediately preceding the allotment of the Substitute Preference Shares and the Holder will no longer be a limited partner and will have no entitlement to any accrued Distribution or any other payment on, or right in respect of, the Preferred Securities. On allotment in full of each Substitute Preference Share and the removal of such Holder (a "Former Holder") from the Register, all rights of the Former Holder to participate in the assets of the Issuer or to be returned any amount in respect of the Preferred Securities (including the Preferred Capital Contribution made by or on behalf of the Former Holder) will be extinguished and each Former Holder shall thereupon cease to be a limited partner of the Issuer. If (i) Substitute Preference Shares are issued upon a Substitution Event, HSBC will confer upon Holders the option (A) to receive such Substitute Preference Shares in certificated form or (B) subject to such Holders agreeing to pay any U.K. stamp duty or stamp duty reserve tax ("SDRT") which would arise on the issue of the Substitute Preference Shares and providing appropriate indemnities against any such stamp duty or SDRT, to require HSBC to issue such Substitute Preference Shares to a depositary (or a nominee or agent for such depositary) which will issue depositary receipts representing such Substitute Preference Shares to a clearing system (or a nominee for such clearing system) or if (ii) Substitute Preference Shares are issued other than upon a Substitution Event, HSBC will (A) issue such Substitute Preference Shares to a depositary (or a nominee or agent for such depositary) which will issue depositary receipts representing such Preference Shares to a clearing system (or a nominee for such clearing system) and (B) pay any U.K. stamp duty or SDRT payable on the issue of Substitute Preference Shares.
- 5.3 Certificates (if any) for Substitute Preference Shares issued on substitution will be despatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month after receipt of a duly completed substitution confirmation. If Substitute Preference Shares are required to be issued, Holders will continue to be entitled to receive Distributions and/or a Liquidating Distribution in respect of the

Preferred Securities until such time as notice is given by HSBC in accordance with paragraph 10 that Substitute Preference Shares are available for issue upon substitution and that the Former Holder has been registered as a holder of the Substitute Preference Shares. Thereafter the Former Holders will have no further rights, title or interest in or to their Preferred Securities. Upon an involuntary dissolution of the Issuer occurring after the occurrence of a Substitution Event but prior to the substitution being effected, Holders will have no further rights, title or interest in or to Preferred Securities except the right to have their respective Preferred Securities substituted in the manner described above.

6. Additional Amounts

All payments in respect of the Preferred Securities by the Issuer will be made without withholding or deduction for, or on account of, any tax imposed by the United Kingdom or Jersey, unless the withholding or deduction of such tax is required by law. In the event of such withholding or deduction, each Holder will, if permitted by the FSA, be entitled to receive, as a further Distribution, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preferred Securities in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder (or to a third party on his or her behalf) with respect to any Preferred Security:

- 6.1 where the Holder is liable to such tax, duty or charge by reason of such Holder having some connection with the United Kingdom or Jersey other than the mere holding of such Preferred Security; or
 - 6.2 to, or to a third party on behalf of, a Holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom or Jersey, provided that the Issuer or its agent has provided the Holder with at least 60 days' prior written notice of the opportunity to make such declaration or claim, unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
 - 6.3 to, or to a third party on behalf of, a Holder that is a partnership, or a Holder that is not the sole beneficial owner of the Preferred Security, or which holds the Preferred Security in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
 - 6.4 presented for payment in the United Kingdom, where presentation is required; or
 - 6.5 presented for payment more than 30 days after the relevant Distribution Date, except to the extent that the Holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days,
- provided that the Issuer's obligation to make any such payments is subject to the Law and to the limitations provided in paragraphs 2.3, 3.1 and 3.4.

7. Payments

- 7.1 Distributions will be payable subject to the Law on the relevant Distribution Date (or, where any Distribution Date is not a Business Day, on the next Business Day immediately following the Distribution Date, without interest in respect of such delay) to the holders of record of the Preferred Securities as they appear on the Register on the relevant record date, which will be five Business Days prior to the relevant Distribution Date. If the General Partner gives a notice of redemption pursuant to paragraph 4.2, 4.3 or 4.4 in respect of the Preferred Securities, then, on the Redemption Date, the General

Partner shall procure that the Optional Redemption Price, the Withholding Tax Redemption Price or the Special Event Redemption Price, as the case may be, will be paid by the Registrar or by the Paying Agents on behalf of the Issuer to the Holders. Upon such payment, all rights of Holders to participate in the assets of the Issuer or to be returned any amount in respect of the Preferred Securities (including the Preferred Capital Contribution made by or on behalf of the Holders) will be extinguished and each Holder shall thereupon cease to be a limited partner of the Issuer provided its holding of Preferred Securities is redeemed in accordance with the foregoing and the Preferred Capital Contribution will, on payment of the Optional Redemption Price, the Withholding Tax Redemption Price or the Special Event Redemption Price, as the case may be, be deemed repaid.

7.2 Subject to all applicable fiscal or other laws and regulations:

7.2.1 each payment in respect of Distributions will be made by cheque and mailed on the relevant Distribution Date to the Holder of record at such Holder's address as it appears on the Register on the relevant record date for the Preferred Securities; and

7.2.2 any payment of amounts in respect of the Optional Redemption Price, the Withholding Tax Redemption Price, the Special Event Redemption Price or the Liquidating Distribution (or relevant proportion thereof) in respect of any Preferred Security will be made by cheque against presentation and surrender of the relevant certificate of entitlement at the office of the Registrar or any Paying Agent,

provided, however, that a Holder may receive such payment by direct transfer to a US dollar account maintained by the Holder with a bank in New York arranged by a Paying Agent if appropriate direct transfer instructions have been received by the Registrar in sufficient time prior to the relevant date of payment. Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Holder is late in surrendering certificates (if required to do so) or if a cheque mailed in accordance with this paragraph arrives after the due date for payment.

In the event that payment of the Optional Redemption Price, the Withholding Tax Redemption Price or the Special Event Redemption Price is improperly withheld or refused and not paid by the Issuer, Distributions on such Preferred Security, subject as described in paragraph 2.3 and 2.9, will continue to accrue, on a day by day basis compounding annually, from the Redemption Date to the date of actual payment of the Optional Redemption Price, the Withholding Tax Redemption Price or the Special Event Redemption Price, as the case may be.

7.3 The Issuer will not, and HSBC has undertaken in the Guarantee that it will not and it will procure that no member of the HSBC Group will, make or procure any payment to Holders if such a payment could not lawfully have been made had Holders held shares ranking *pari passu* with Substitute Preference Shares instead of the Preferred Securities.

7.4 The Issuer will, and HSBC has undertaken in the Guarantee that it will procure that the Issuer will, maintain at all times whilst the Preferred Securities are in issue (a) a Paying Agent outside the United Kingdom, (b) a Paying Agent outside the European Union, (c) for so long as the Preferred Securities are listed on the Stock Exchange, a Paying Agent in Luxembourg and (d) a Registrar having its office outside the United Kingdom.

8. Voting Rights

8.1 Except as described below and provided for in the Law, Holders will not be entitled to receive notice of or attend or vote at any meeting of partners of the Issuer or participate in the management of the Issuer.

8.2 If for two consecutive Distribution Periods ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods:

8.2.1 Distributions have not been paid in full on the Preferred Securities by the Issuer; and/or

8.2.2 HSBC has not made the required payments under the Guarantee in respect of such Distributions,

then the Holders together with the holders of any other preferred securities of the Issuer having the right to vote for the election of a special representative (the "Special Representative") in such event, acting as a single class without regard to class, will be entitled to appoint a Special Representative, by written notice to the Issuer given by the holders of a majority by outstanding nominal amount of such Preferred Securities and any other preferred securities having the said right or by resolution passed by the holders of a majority by outstanding nominal amount of such Preferred Securities and any other such preferred securities present in person or by proxy at a separate general meeting of such holders convened for the purpose. The Special Representative shall be authorised to represent the Holders to enforce their statutory rights as limited partners including provision of information on the affairs of the Issuer; however, it has no rights in addition to those held by Holders. The Special Representative shall not, by virtue only of acting in such capacity, be admitted or authorised to act as a general partner in relation to the Issuer or be admitted as a Holder or otherwise be deemed to be a general partner or a Holder in the Issuer and shall have no liability for the debts, obligations or liabilities of the Issuer or for any unpaid contribution of a partner in its capacity as Special Representative.

Not later than 30 days after such entitlement arises, if the written notice of the Holders of outstanding Preferred Securities and the holders of any other preferred securities of the Issuer having the right to vote for the election of a Special Representative in the circumstances described in the preceding paragraph has not been given as provided for in the preceding paragraph, the General Partner will convene a separate general meeting for the purpose. If the General Partner fails to convene such meeting within such 30-day period, the Holders of 10% by outstanding nominal amount of the Preferred Securities and such other preferred securities will be entitled to convene such a meeting for the purpose. The Partnership Agreement contains provisions concerning the convening and conduct of meetings of Holders. Any Special Representative so appointed shall, subject to the terms of such other preferred securities, vacate office if, after its appointment a full Distribution is made by the Issuer or by HSBC under the Guarantee for one Distribution Period or an amount equivalent to the Distributions to be paid in respect of one Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders.

8.3 The consent in writing of the Holders of at least one-third of the outstanding Preferred Securities or the sanction of a resolution, passed by a majority of at least three-quarters of those present in person or by proxy at a separate meeting of the Holders at which the quorum shall be one or more Holders holding at least one-third in nominal amount of the issued Preferred Securities, shall be required in order to give effect to any variation or abrogation of the rights, preferences and privileges of the Preferred Securities by way of amendment of the Partnership Agreement or otherwise (including, without limitation, the authorisation or creation of any securities or ownership interests of the Issuer ranking, as to participation in the profits or assets of the Issuer, senior to the Preferred Securities) (unless otherwise required by applicable law). No such sanction shall be required if the change is solely of a formal, minor or technical nature or is to correct an error or cure an ambiguity, provided that the change does not reduce the amounts payable to Holders, impose any obligation on the Holders or adversely affect their voting rights.

- 8.4 Notwithstanding the foregoing, no vote of the Holders will be required for the redemption, cancellation or substitution of the Preferred Securities in accordance with the Partnership Agreement.
- 8.5 Subject to the Law, the Issuer may not be dissolved by the General Partner whilst any Preferred Security is in issue, unless all the Holders and the General Partner have approved such action. Such approval shall not be required if the dissolution of the Issuer is proposed or initiated because of the liquidation, dissolution or winding-up, as the case may be, of the General Partner or HSBC.
- 8.6 Any Preferred Security, and any preferred security of a type referred to in paragraph 8.2, that is at any time owned by HSBC, or any entity of which HSBC, either directly or indirectly, owns 20% or more of the voting shares or similar ownership interests, shall not carry a right to vote in a meeting of Holders or at any meeting called to vote for the election of a Special Representative pursuant to paragraph 8.2 and shall, for voting purposes, be treated as if it were not in issue other than in the case of the approval required by paragraph 8.5.
- 8.7 The General Partner will cause a notice of any meeting at which Holders are entitled to vote and any voting forms to be mailed to each Holder. Each such notice will include a statement setting forth (a) the date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (c) instructions for the delivery of proxies.

9. Covenant of the General Partner

- 9.1 The General Partner has undertaken not to incur any indebtedness in the name of the Issuer other than costs and expenses incidental to creating the Preferred Securities (which may include fees and commissions payable in respect of the Subscription and Sale of the Preferred Securities) and the Issuer, performing its obligations in respect of the Partnership Agreement, maintaining the listing of the Preferred Securities, the Register, the Registrar and Paying Agents in respect of the Preferred Securities, its holding of the Subordinated Notes or any securities substituted therefor and the maintenance of a custodian thereof, the exercise of the Issuer's rights in respect of the Subordinated Notes or any securities substituted therefor and the administration of the Issuer.
- 9.2 The General Partner has undertaken that, if any of the Subordinated Notes become due or are redeemed while the Preferred Securities remain outstanding and are not subject to a notice of redemption, it will invest the proceeds of the Subordinated Notes or any Replacement Debt in debt securities issued by a member of the HSBC Group (where the issuer is not HSBC with a guarantee from HSBC) (the "Replacement Debt"), which debt securities will have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Notes (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).

10. Notices

All notices to the Holders will be mailed to the Holders of record at their respective addresses in the Register and shall be deemed to have been given on the weekday (being a day other than a Saturday or a Sunday) after the date of mailing provided however, that, so long as the Preferred Securities are listed on the Stock Exchange (and the rules of that exchange so require) notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

11. Transfers and Form

- 11.1 The Preferred Securities will be issued in registered form.
- 11.2 Preferred Securities sold to non-U.S. persons in offshore transactions in reliance on Regulation S will be represented by a permanent global certificate in fully registered form (the "Regulation S Global Certificate") and will be registered in the name of a nominee of, and deposited with a custodian for, DTC. Account holders of Euroclear and Clearstream, Luxembourg may hold interests in the Regulation S Global Certificate through the DTC accounts of such clearing systems.
- 11.3 Preferred Securities sold in reliance on Rule 144A will be represented by a permanent global certificate in fully registered form (the "Restricted Global Certificate" and together with the Regulation S Global Certificate, the "Global Certificates") and will be registered in the name of a nominee of, and deposited with, a custodian for DTC. The Preferred Securities represented by the Restricted Global Certificate (and any Preferred Securities represented by a definitive certificate issued in exchange therefor) will be subject to certain restrictions on transfer as described in "Notice to Investors".
- 11.4 Interests in Preferred Securities represented by the Restricted Global Certificate may be transferred to a person whose interest in such Preferred Securities is subsequently represented by the Regulation S Global Certificate, only upon receipt by the Registrar of a written certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S under the Securities Act. Until and including the 40th day after the Issue Date, interests in the Preferred Securities represented by the Regulation S Global Certificate may be transferred to a person whose interest in such Preferred Securities is subsequently represented by the Restricted Global Certificate only upon receipt by the Registrar of a written certificate from the transferor to the effect that such transfer is being made to a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act. Any interest in Preferred Securities which is represented by one of the Global Certificates and which is transferred to a person whose interest in such Preferred Securities is subsequently represented by the other Global Certificate will, upon transfer, cease to be an interest in Preferred Securities represented by such Global Certificate and become an interest in the Preferred Securities represented by the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in Preferred Securities represented by such other Global Certificate for as long as it remains such an interest.
- 11.5 Except in the limited circumstances described below, owners of interests in the Preferred Securities represented by a Global Certificate will not be entitled to receive physical delivery of definitive certificates. The Preferred Securities and certificates are not issuable in bearer form.
- 11.6 If (i) DTC is closed for business for a continuous period of 14 days or more (other than for purposes of a public holiday) or announces an intention permanently to cease business or does in fact do so or (ii) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in DTC, the Issuer will issue individual definitive certificates in respect of Preferred Securities in registered form in exchange for the Global Certificates. Upon receipt of such notice from DTC, the Issuer will use its best efforts to make arrangements with DTC for the exchange of the Global Certificates for individual definitive certificates and cause the requested individual definitive certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to holders of Preferred Securities. Persons exchanging interests in the Global Certificates for individual definitive certificates will be required to provide the Registrar with written instructions and other information required by the Issuer and the Registrar to complete, execute and deliver such individual definitive certificates and to make appropriate entries in the Register in respect of the Preferred Securities. In all cases, definitive certificates delivered in exchange for a Global Certificate or an interest in the Preferred

Securities represented thereby will be registered in the names, and issued in any approved denominations, requested by DTC.

- 11.7 If definitive certificates are made available in respect of Preferred Securities they will be available from the Registrar and from the Paying Agent at its specified offices, and will be posted to the relevant Holders at the address shown in the Register or, as applicable, in the relevant instrument of transfer within three Business Days of issue, by uninsured post at the risk of such Holders. Transfers of Preferred Securities if represented by definitive certificates may be effected by presentation of the relevant certificate (with the transfer certificate relating thereto duly completed on behalf of the transferor and the transferee) at the specified office of the Registrar or the Paying Agent. Where a Holder transfers only some of the Preferred Securities represented by any such certificate he shall be entitled to a certificate for the balance without charge. Holders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

12. Replacement Certificates

If a certificate is damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preferred Securities may be issued on payment of such fee and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses as the General Partner may think fit and on payment of the costs of the General Partner incidental to its investigation of the evidence and, if damaged or defaced, on delivery up of the old certificate at the specified office of the Paying Agent.

13. Prescription

Unclaimed Distributions, Optional Redemption Price, Withholding Tax Redemption Price, Special Event Redemption Price and Liquidating Distribution will be prescribed after ten years in accordance with Jersey law.

14. Governing Law

The Preferred Securities and the Partnership Agreement shall be governed by, and construed in accordance with, Jersey law. Determinations in respect of amounts of Adjusted Distributable Reserves shall, however, be made in accordance with English law.

SUMMARY OF PROVISIONS RELATING TO THE PREFERRED SECURITIES IN GLOBAL FORM

Initial Issue of Preferred Securities

The Preferred Securities of each class will be issued in registered form and will be initially represented by interests in a Restricted Global Certificate and a Regulation S Global Certificate which will each be registered in the name of a nominee of, and deposited with a custodian for, DTC on the Issue Date. Upon the registration of Preferred Securities in the name of a nominee of DTC and delivery of the Global Certificates to the depository for DTC, DTC will credit each subscriber, which may include Euroclear and Clearstream, Luxembourg in the case of the Regulation S Global Certificate with such number of Preferred Securities as is equal to the number thereof for which it has subscribed and paid.

Accountholders

So long as the Preferred Securities are registered in the name of a nominee for DTC, the nominee for DTC will be the sole registered owner or holder of the Preferred Securities represented by the Global Certificates for all purposes under the Partnership Agreement. Except as set forth under "*Description of Preferred Securities – Transfers and Form*" and under "*– Transfers of Interests*", the persons shown in the records of DTC or any other clearing system (an "*Alternative Clearing System*") as the holders of the Preferred Security evidenced by the Global Certificates (each an "*Accountholder*") will not be entitled to have Preferred Securities registered in their names, will not receive or be entitled to receive physical delivery of definitive Certificates evidencing interests in the Preferred Securities and will not be considered registered owners or holders thereof under the Partnership Agreement. Accordingly, each Accountholder must rely on the rules and procedures of DTC to exercise any rights and obligations of a holder of Preferred Securities under the Partnership Agreement. Those who hold interests in the Regulation S Global Certificate through the DTC accounts of Euroclear or Clearstream, Luxembourg must rely on the rules and procedures of such clearing systems to exercise any rights and obligations of a holder of Preferred Securities under the Partnership Agreement.

Payments

Each Accountholder must look solely to DTC or such Alternative Clearing System, as the case may be, for its share of each payment made by the Issuer to the registered holder of the Preferred Securities and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of DTC or such Alternative Clearing System, as the case may be. Such persons shall have no claim directly against the Issuer in respect of payments due on the Preferred Securities for so long as the Preferred Securities are represented by such Global Certificates and such obligations of the Issuer will be discharged by payment to the registered holder of the Preferred Securities in respect of each amount so paid. Those who hold interests in the Regulation S Global Certificate through the DTC accounts of Euroclear or Clearstream, Luxembourg will receive payments subject to and in accordance with the rules and procedures of such clearing systems.

Transfers of Interests

Accountholders will only be able to transfer their beneficial interests in the Preferred Securities in accordance with the restrictions described under "*Description of Preferred Securities – Transfers and Form*" and with the rules and procedures of DTC or the Alternative Clearing System, as the case may be. Those who hold interests in the Regulation S Global Certificate through the DTC accounts of Euroclear and Clearstream, Luxembourg will only be able to transfer their interests in accordance with the rules and procedures of such clearing systems.

Settlement

Initial settlement for the Preferred Securities and settlement of any secondary market trades in the Preferred Securities will be made in same-day funds.

DESCRIPTION OF THE SUBORDINATED GUARANTEE

The following is the form of the Guarantee to be executed by HSBC:

THIS DEED OF GUARANTEE (the "Guarantee"), dated 17 April 2000, is executed and delivered by HSBC Holdings plc ("HSBC") for the benefit of the Holders (as defined below).

WHEREAS:

- (a) HSBC desires to issue this Guarantee for the benefit of the Holders, as provided herein; and
- (b) this Guarantee is intended to provide the Holders, on a dissolution or winding up of the Issuer (as defined below) or on a default by the Issuer in discharging its obligations in respect of the Preferred Securities (as defined below), with rights against HSBC in respect of the Guaranteed Payments (as defined below) which are as nearly as possible equivalent to those which they would have had if the Preferred Securities had been directly issued non-voting, non-cumulative, preference shares of HSBC (whether or not HSBC could in fact have issued such shares).

NOW, THEREFORE, HSBC executes and delivers this Guarantee as a deed poll for the benefit of the Holders.

1. Definitions

As used in this Guarantee, capitalised terms not defined herein shall have the meanings ascribed to them in the Partnership Agreement and otherwise the following terms shall, unless the context otherwise requires, have the following meanings:

"Guaranteed Payments" means collectively (i) all Distributions due on the Preferred Securities, (ii) any Distributions on the Preferred Securities which would have been due had the Issuer had sufficient legally available resources but only if, and to the extent that, the Issuer did not have such legally available resources solely due to a failure by HSBC to pay interest on the Subordinated Notes or the Replacement Debt as and when due and payable under the terms thereof (iii) any Liquidating Distribution to which Holders are entitled, (iv) any amounts to which the Holders are entitled in respect of redemption of the Preferred Securities and (v) any Additional Amounts;

"Holder" means, in respect of each Preferred Security, the person registered on the Register as the limited partner holding such Preferred Security at the relevant time;

"Issuer" means HSBC Capital Funding (Dollar 1) L.P.;

"Partnership Agreement" means the Limited Partnership Agreement dated 14 April 2000 between, *inter alia*, HSBC (General Partner) Limited, HSBC Bank plc and HSBC Finance (Netherlands) establishing the Issuer;

"Preferred Securities" means collectively the U.S.\$1,350,000,000 9.547% Non-cumulative Step-up Perpetual Preferred Securities, Series 1 and the U.S.\$900,000,000 10.176% Non-cumulative Step-up Perpetual Preferred Securities, Series 2, of the Issuer, whether or not in issue on the date of this Guarantee, the Holders of which are entitled to the benefits of this Guarantee as evidenced by the execution of this Guarantee;

"Solvent" means, in relation to HSBC, that its Assets exceed its Liabilities (in each case, as defined below) including its Liabilities to creditors in respect of the 11.69% Subordinated Bonds due 2002 of HSBC referred to in paragraph (iii) of the proviso to the definition of Subordinated Indebtedness below and creditors ranking *pari passu* therewith but excluding its Liabilities to persons in respect of Subordinated Indebtedness whose claims rank or are expressed to rank *pari passu* with, or junior to, the Guarantee or any other of its obligations which rank *pari passu* with, or junior to, the Guarantee; and "Insolvent" shall be construed accordingly, and for the purposes hereof, "Assets" means the unconsolidated gross assets (including contingencies) of HSBC and "Liabilities" means the unconsolidated gross liabilities (including

contingencies) of HSBC, all as shown in the latest published balance sheet having the benefit of an unqualified Auditors' report but with such adjustments as the auditors of HSBC or, if HSBC is in winding up, the liquidator shall determine in any report of such auditor issued on the request of HSBC or of such liquidator prepared in connection with the liquidation of HSBC and in either case relating to the solvency of HSBC; and

"Subordinated Indebtedness" means any liability of HSBC howsoever arising for the payment of money the right to payment of which by HSBC by the terms thereof is, or is expressed to be, subordinated in the event of a winding up of HSBC to the claims of all or any of the creditors of HSBC Provided that the term "Subordinated Indebtedness" shall include, without limitation, any liability of HSBC to any creditor of HSBC:

- (i) whose right to payment ranks or is expressed to rank postponed or subordinated to that of unsubordinated creditors (such unsubordinated creditors not being creditors whose right to payment is preferred by operation of law);
- (ii) whose right to payment is made subject to a condition or is restricted (whether by operation of law or otherwise) or is expressed to be restricted in each case such that the amount which may be claimed for his own retention by such creditor in the event that HSBC is not solvent is less than in the event that HSBC is solvent; or
- (iii) whose debt is irrecoverable or expressed to be irrecoverable unless the persons entitled to payment of principal and interest in respect of the 11.69% Subordinated Bonds due 2002 of HSBC constituted by a Trust Deed dated 10 July 1992 made between HSBC and The Law Debenture Trust Corporation p.l.c. recover the amount of such principal and interest which such persons would be entitled to recover if payments of such principal and interest to such persons were not subject to any condition.

2. Guarantee

2.1 Subject to the exceptions and limitations contained in the following provisions of this Clause 2, HSBC irrevocably guarantees to the Holders the payment in full of the Guaranteed Payments, as and when due, to the extent that such payments shall not have been paid when due and payable by the Issuer regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is continuing, irrevocable and absolute. The rights of the Holders against HSBC under this Guarantee will, in the event of the winding up of HSBC, be subordinated in right of payment to the claims of all other creditors of HSBC other than creditors in respect of Subordinated Indebtedness whose claims rank or are expressed to rank *pari passu* with or junior to the Guarantee or any other of HSBC's obligations which rank *pari passu* with or junior to the Guarantee. For the avoidance of doubt the rights of the Holders against HSBC under this Guarantee will, in the event of the winding up of HSBC, be subordinated to the claims of creditors in respect of the 11.69% Subordinated Bonds due 2002 of HSBC referred to in paragraph (iii) of the proviso to the definition of Subordinated Indebtedness and creditors ranking *pari passu* therewith.

2.2 Notwithstanding Clause 2.1, HSBC's obligation to make any Guaranteed Payment is conditional upon it being able to make such payment and be Solvent immediately thereafter and, furthermore, HSBC will not, save to the extent provided in Clause 2.5, be obliged to make payment under the Guarantee of any Guaranteed Payment if HSBC is prevented by applicable U.K. banking regulations or other requirements from making such payment in full under this Guarantee. In addition, notwithstanding Clause 2.1, HSBC will not, save to the extent provided in Clause 2.5, be obliged to make payment under the Guarantee of any Guaranteed Payment in respect of Distributions on any Preferred Securities if, on the relevant Distribution Date:

- (a) HSBC is prevented by applicable U.K. banking regulations or other requirements from making payment in full of dividends or other distributions due and payable

on its Parity Obligations or is unable to make such payment of dividends or other distributions on its Parity Obligations without causing a breach of the FSA's capital adequacy requirements from time to time applicable to the HSBC Group; or

- (b) the amount of the Distribution to which such Guaranteed Payment relates (if paid in full), together with the sum of any dividends and other distributions on HSBC's Parity Obligations due and payable on the Distribution Date in respect of such Distribution, would exceed the Adjusted Distributable Reserves of HSBC determined as of the Distribution Determination Date immediately preceding the relevant Distribution Date.

2.3 HSBC will determine whether as of each Distribution Determination Date sufficient Adjusted Distributable Reserves exist to allow a payment of some or all of the relevant Distribution. In the event that any Distribution cannot be paid in full, HSBC will notify or procure notification to the Stock Exchange, the General Partner, the Registrar and the Paying Agent, and to Holders in accordance with the Partnership Agreement, of the fact and of the amount, if any, to be paid in respect of that Distribution.

2.4 All payments under the Guarantee will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, HSBC will, subject to permission (if required) being granted by the FSA, pay such additional amounts ("Guarantor Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable under this Guarantee in the absence of such withholding or deduction; except that no such Guarantor Additional Amounts will be payable to a Holder (or a third party on his behalf) in respect of any Preferred Security:

- (a) where the Holder is liable to such tax, duty or charge by reason of such Holder having some connection with the United Kingdom other than the mere holding of the relevant Preferred Security; or
- (b) to, or to a third party on behalf of, a Holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, provided that the Issuer or its agent has provided the Holder with at least 60 days' prior written notice of the opportunity to make such declaration or claim, unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a Holder that is a partnership, or a Holder that is not the sole beneficial owner of the Preferred Security, or which holds the Preferred Security in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment in the United Kingdom, where presentation is required; or
- (e) presented for payment more than 30 days after the relevant Distribution Date, except to the extent that the Holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days,

and except that HSBC's obligation to pay any Guarantor Additional Amounts is subject to the conditions relating to payments under the Guarantee set out in Clauses 2.2 and 2.3.

- 2.5 In the event that the amounts described in Clauses 2.1 and 2.4 cannot be paid in full by reason of the condition referred to in Clause 2.2, such amount as is to be paid will be payable *pro rata* in the Relevant Proportion and the obligations of HSBC in respect of any such unpaid amount shall lapse.
- 2.6 The obligations, covenants, agreements and duties of HSBC under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:
- (a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Preferred Securities to be performed or observed by or on behalf of the Issuer; or
 - (b) the extension of time for the payment by or on behalf of the Issuer of all or any portion of any Distribution, the Optional Redemption Price, the Withholding Tax Redemption Price, the Special Event Redemption Price, the Liquidating Distribution or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preferred Securities; or
 - (c) any failure, omission, delay or lack of diligence on the part of Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Issuer granting indulgence or extension of any kind; or
 - (d) the voluntary or involuntary winding up, dissolution, amalgamation, reconstruction, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganisation, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer; or
 - (e) any invalidity of, or defect or deficiency in, the Preferred Securities; or
 - (f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation on the Holders to give notice to, or obtain consent of, HSBC with respect to the happening of any of the foregoing.

- 2.7 This Guarantee shall be deposited with and held by the Registrar until all the obligations of HSBC have been discharged in full. HSBC hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Guarantee from the Registrar.
- 2.8 Subject to Clause 2.12, a Holder may enforce this Guarantee directly against HSBC, and HSBC waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against HSBC. Subject to Clause 2.12, all waivers contained in this Guarantee shall be without prejudice to the right to proceed against the assets of the Issuer and the General Partner as permitted by the terms of the Preferred Securities. HSBC agrees that this Guarantee shall not be discharged except by complete performance of all obligations of HSBC under this Guarantee.
- 2.9 HSBC shall be subrogated to any and all rights of the Holders against the assets of the Issuer in respect of any amounts paid to the Holders by HSBC under this Guarantee. HSBC shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this

Guarantee if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If HSBC shall receive or be paid any amount with respect to the Preferred Securities in violation of the preceding sentence, HSBC agrees to pay the amount to the Holders.

- 2.10 HSBC acknowledges that its obligations hereunder are several and independent of the obligations of the Issuer with respect to the Preferred Securities and that HSBC shall be liable as principal and sole obligor hereunder to make the payments undertaken to be made by it pursuant to the terms of this Guarantee, notwithstanding the occurrence of any event referred to in Clause 2.6.
- 2.11 Following a failure by HSBC to make a payment under this Guarantee on the due date therefor which failure continues for more than seven days, a Holder may petition for the winding-up of HSBC in England and claim in the liquidation of HSBC but no other remedy shall be available to the Holder.
- 2.12 No Holder shall following any breach by HSBC of any of its obligations under this Guarantee be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by HSBC to such Holder. Notwithstanding the provisions of the foregoing sentence, if any of the said rights and claims of any Holder against HSBC is discharged by set-off, such Holder will immediately pay an amount equal to the amount of such discharge to HSBC or, in the event of its winding-up, the trustee or liquidator of HSBC and until such time as payment is made will hold a sum equal to such amount in trust for HSBC, or the trustee or liquidator of HSBC and accordingly any such discharge will be deemed not to have taken place.

3. Undertakings

- 3.1 HSBC undertakes that if for two consecutive Distribution Periods ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods the Distribution is not paid in full to Holders by reason of the limitations set out in the terms of the Preferred Securities and in the Partnership Agreement, HSBC will not (a) declare or pay any dividends or other distributions in respect of its ordinary shares or (if permitted) effect any repurchase of its ordinary shares or any other securities or obligations of HSBC ranking junior to the Guarantee (or contribute any moneys to a sinking fund for the redemption of any such shares or securities) until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) (if permitted) repurchase or redeem Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).
- 3.2 HSBC undertakes that, so long as any of the Preferred Securities are outstanding (a) unless HSBC is itself being wound up, it will not permit, or take any action that would or might cause, the liquidation, dissolution or winding-up of the General Partner or the Issuer otherwise than (i) with the prior approval of the FSA (if then required) and (ii) if either (A) HSBC has sufficient Adjusted Distributable Reserves or (B) HSBC has proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the Liquidating Distribution (in either of cases (ii)(A) or (B) in an amount at least equal to the aggregate Liquidating Distribution) and (b) the General Partner will at all times be a directly or indirectly wholly owned subsidiary of HSBC, unless in the case of (a) or (b), otherwise approved by all Holders.
- 3.3 HSBC undertakes to take all reasonable steps to ensure that, following the occurrence of a Substitution Event and subject to the terms of the Partnership Agreement, it will have a sufficient amount of authorised but unissued Substitute Preference Shares to permit

the substitution thereof for all outstanding Preferred Securities and undertakes to take all reasonable steps to ensure that all corporate authorisations will have been taken for the allotment and issue of the same free from pre-emptive rights. HSBC further undertakes that (a) to the extent it is legally able to do so at the relevant time, it will allot, issue and deliver Substitute Preference Shares in satisfaction of the rights of the Holders in the circumstances described in the Partnership Agreement, such Substitute Preference Shares having the rights and being subject to the conditions set out in the Partnership Agreement, (b) it will take all reasonable steps to procure that such Substitute Preference Shares will at the relevant time be listed on a Recognised Stock Exchange and (c) if (i) Substitute Preference Shares are issued upon a Substitution Event, HSBC will confer upon Holders the option (A) to receive such Substitute Preference Shares in certificated form or (B) subject to such Holders agreeing to pay any U.K. stamp duty or stamp duty reserve tax ("SDRT") which would arise on the issue of the Substitute Preference Shares and providing appropriate indemnities against any such stamp duty or SDRT, to require HSBC to issue such Substitute Preference Shares to a depositary (or a nominee or agent for such depositary) which will issue depositary receipts representing such Substitute Preference Shares to a clearing system (or a nominee for such clearing system); or if (ii) Substitute Preference Shares are issued other than upon a Substitution Event, HSBC will (A) issue such Substitute Preference Shares to a depositary (or a nominee or agent for such depositary) which will issue depositary receipts representing such Preference Shares to a clearing system (or a nominee for such clearing system) and (B) pay any U.K. stamp duty or SDRT payable on the issue of Substitute Preference Shares. HSBC also undertakes to take all reasonable steps to propose and recommend to its shareholders at or prior to its annual general meeting in 2001 one or more resolutions amending the articles of association of HSBC in order to enable it to create preference shares denominated in US dollars and having in all material respects terms equivalent to the Preferred Securities and this Guarantee taken together.

- 3.4 HSBC undertakes that neither it nor any other member of the HSBC Group will make or procure any payment to Holders if such a payment could not lawfully have been made had Holders held shares of HSBC ranking *pari passu* with the Substitute Preference Shares instead of the Preferred Securities.
- 3.5 HSBC undertakes that it will procure that the Issuer will maintain at all times whilst the Preferred Securities are in issue (a) a Paying Agent outside the United Kingdom, (b) a Paying Agent outside the European Union, (c) for so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, a Paying Agent in Luxembourg and (d) a Registrar having its office outside the United Kingdom.
- 3.6 HSBC undertakes that it will not redeem the Subordinated Notes pursuant to Condition 4(d) of the Terms and Conditions of the Subordinated Notes other than in circumstances where the corresponding Preferred Securities are also being redeemed.

4. Termination

With respect to the Preferred Securities, this Guarantee shall terminate and be of no further force and effect upon (i) payment of the Optional Redemption Price, the Withholding Tax Redemption Price, or the Special Event Redemption Price, as the case may be, on all Preferred Securities, (ii) purchase and cancellation of all Preferred Securities, (iii) payment of the Liquidating Distribution, or the Relevant Proportion thereof, or (iv) issue and allotment in full of Substitute Preference Shares, as the case may be, and dissolution of the Issuer, provided however that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid in respect of the Preferred Securities or under this Guarantee must be restored by a Holder for any reason whatsoever.

5. Transfer; Amendment; Notices

- 5.1 Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of HSBC and

shall inure to the benefit of the Holders. HSBC shall not transfer its obligations hereunder without the prior approval of the Holders of not less than one-third by nominal amount of the Preferred Securities (excluding any Preferred Securities held by HSBC or any entity of which HSBC, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests), which approval shall be obtained in accordance with the procedures contained in the Partnership Agreement and the Law.

- 5.2 Except for those changes (a) required by Clause 3.1; (b) required to correct any manifest errors or ambiguities; or (c) which do not materially adversely affect the rights of the Holders (in each of which cases no consent will be required), this Guarantee shall be changed only by HSBC with the consent in writing of the Holders of at least one-third of the outstanding Preferred Securities, or the sanction of a resolution of the Holders of the outstanding Preferred Securities, passed by a majority of at least three-quarters of those present in person or by proxy at a separate meeting of the Holders at which the quorum shall be one or more Holders holding at least one-third in nominal amount of the outstanding Preferred Securities, subject in each case to consent or sanction being obtained in accordance with the procedures contained in the Partnership Agreement and the Law.

- 5.3 Any notice, request or other communication required or permitted to be given hereunder to HSBC shall be given in writing by delivering the same against receipt therefor or by pre-paid post addressed to HSBC at:

HSBC Holdings plc
10 Lower Thames Street
London EC3R 6AE

The address of HSBC may be changed at any time and from time to time and shall be the most recent such address furnished in writing by HSBC to the Registrar and notified to the Holders.

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by HSBC in the same manner as notices sent on behalf of the Issuer to Holders.

- 5.4 This Guarantee is solely for the benefit of the Holders and is not separately transferable from their interests in respect of the Preferred Securities.
- 5.5 HSBC will furnish any Holder, upon request of such Holder, with a copy of its annual report and any interim reports made generally available by HSBC to holders of the ordinary shares of HSBC.

6. Governing Law

This Guarantee shall be governed by, and construed in accordance with, English law.

IN WITNESS WHEREOF this Guarantee has been executed as a deed poll on behalf of HSBC Holdings plc.

TAXATION

General

Prospective investors should inform themselves as to the tax consequences within the countries of their residence and domicile of the acquisition, holding or disposal of Preferred Securities. The comments below are of a general nature based on law and published practice as at the date hereof in each jurisdiction referred to and do not constitute tax or legal advice. They relate only to the position of persons who are the beneficial owners of their Preferred Securities and hold their Preferred Securities as an investment (unless otherwise specified). Any investors who are in doubt as to their personal tax position should consult their professional advisers. In assessing their tax position, investors should note that the Issuer is a Jersey limited partnership and not a legal entity separate from its partners. The comments below under "United Kingdom Taxation" in relation to the UK tax treatment of the Preferred Securities apply only to persons who are resident (or, in the case of individuals, ordinarily resident) in the United Kingdom for taxation purposes.

Jersey Taxation

Investors in Preferred Securities (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, exchange, sale or other disposal of the Preferred Securities. Distribution payments may be made by the Issuer without withholding or deduction for, or on account of, and without, any payment of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, exchange, sale or other disposal of Preferred Securities. Probate or letters of administration may be required to be obtained in Jersey on the death of a holder of a Preferred Security with an estate in Jersey, including Preferred Securities. Stamp duty is payable in Jersey on the registration of such probate or such letters of administration on the value of the deceased's estate in Jersey.

As a limited partnership, the Issuer is not itself a subject for assessment to Jersey income tax, since it is not a legal entity separate from its partners.

United Kingdom Taxation

(a) Position of UK Investors

Classification of the Issuer

HSBC has been advised that the Issuer should be classified as a partnership for UK tax purposes. Accordingly, investors in Preferred Securities should be subject to UK tax in respect of their investment in the Preferred Securities. Investors should be taxed on the basis that they are partners in the Issuer, and that the limited partnership interests are held on their behalf in the name of a nominee of DTC and held as custodian for DTC by HSBC Bank USA. This treatment should, broadly, result in such investors being taxed as if they hold their proportionate share of the Issuer's assets. It is possible, however, that the Inland Revenue may seek to treat UK investors in the Issuer as holding interests in a "unit trust scheme" and/or apply the "offshore fund" rules. **UK investors who are in any doubt as to their tax position in respect of the Preferred Securities (or on exchange of Preferred Securities for Substitute Preference Shares) are strongly recommended to take independent professional advice.**

(b) UK Withholding Tax on Distributions on the Preferred Securities and on interest on the Subordinated Notes

Finance Bill — 7 April 2000

The Finance Bill published on 7 April 2000 contains legislation to repeal with effect from 1 April 2001 Chapter VIIA of Part IV of the Income and Corporation Taxes Act 1988, which currently imposes an obligation on persons in the United Kingdom who pay or collect interest to account for withholding tax in certain circumstances (see "*Distributions on the Preferred Securities*" and "*Interest on the Subordinated Notes*")

below). On the date such repeal becomes effective, the withholding obligations contained in these provisions will cease to apply.

The Finance Bill also provides that, with effect from 1 April 2001, the rules relating to quoted Eurobonds (see *"Interest on the Subordinated Notes"* below) will be altered. In relation to payments of interest made on or after that date, the Finance Bill defines a "quoted Eurobond" as a security which (i) is issued by a company, (ii) is listed on a recognised stock exchange, and (iii) carries a right to interest. Under provisions in the Finance Bill, there will be no obligation upon any person by or through whom a payment of interest is made to deduct United Kingdom tax at the lower rate (currently 20%) from such a payment made on or after 1 April 2001 in respect of Subordinated Notes, provided that the Subordinated Notes qualify as "quoted Eurobonds" within the new definition set out above (whether the Subordinated Notes are issued before, on or after that date).

It should be noted that the provisions of the Finance Bill are draft legislation and are subject to alteration until the Finance Bill is passed.

Distributions on the Preferred Securities

Payments of Distributions made by a paying agent outside the United Kingdom through the facilities of DTC may be made without withholding or deduction for or on account of UK tax.

If an investor appoints a UK collecting agent to collect Distributions made on the Preferred Securities, there may be United Kingdom withholding tax by virtue of the collecting agent rules in respect of such Distributions.

On the basis that Chapter VIIA of Part IV of the Income and Corporation Taxes Act 1988 is repealed with effect from 1 April 2001, there will be no United Kingdom withholding tax by virtue of the collecting agent rules in respect of any Distributions on the Preferred Securities made after April 2001.

Interest on the Subordinated Notes

The Subordinated Notes issued by HSBC will constitute "quoted Eurobonds" provided they are and continue to be in bearer form and listed on a recognised stock exchange. Accordingly, while the Subordinated Notes are and continue to be quoted Eurobonds and are in global form and are held in a recognised clearing system, payments of interest on the Subordinated Notes may be made without withholding or deduction for or on account of United Kingdom income tax, provided that the person by or through whom the interest is paid is not in the United Kingdom.

More information on the United Kingdom withholding tax treatment of the Subordinated Notes will be set out in the Listing Particulars for the Subordinated Notes.

(c) Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

Although a liability to UK stamp duty would arise on an agreement to transfer, or a transfer of, Preferred Securities which is executed in the United Kingdom or which relates, wherever executed, to any property situate in, or to any matter or thing done or to be done in, the United Kingdom, it is not likely that any such duty will need to be paid in practice.

No liability to SDRT will arise in respect of agreements to transfer the Preferred Securities.

No liability to UK stamp duty or SDRT will arise on issue of the Substitute Preference Shares unless they are issued either:

- (i) to a clearing system (or to a nominee for a clearing system) and the clearing system has not made an election under section 97A of the Finance Act 1986; or

- (ii) to a depositary (or to a nominee or agent for a depositary) who has issued or is to issue depositary receipts for the Substitute Preference Shares.

In either case, on issue of the Substitute Preference Shares, there will be an SDRT entry charge at the rate of 1.5% of their value.

If the Substitute Preference Shares are issued to a clearing system (or to its nominee) which has not made an election under section 97A of the Finance Act 1986, there will be no SDRT on any subsequent agreement to transfer the Substitute Preference Shares and no stamp duty on any subsequent transfer of the Substitute Preference Shares so long as they are held in the clearing system and provided that any instrument of transfer or written agreement to transfer the Substitute Preference Shares is executed outside the UK and remains at all times outside the UK.

If the Substitute Preference Shares are issued to a clearing system which has made an election under section 97A of the Finance Act 1986, there will be no stamp duty or SDRT entry charge on the issue to the clearing system, but there will be a SDRT charge at the rate of 0.5% of the amount or value of the consideration on any subsequent agreement to transfer the Substitute Preference Shares so long as they are held in the clearing system.

If the Substitute Preference Shares are issued to a depositary (or to its nominee or agent), there will be no SDRT on any subsequent agreement to transfer the depositary receipts representing interests in the Substitute Preference Shares and no stamp duty on any subsequent transfer of the depositary receipts provided that any instrument of transfer or written agreement to transfer the depositary receipts is executed outside the UK and remains at all times outside the UK.

(d) Proposed EU Directive on the Taxation of Savings Income

In June 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The "withholding tax system" would require a paying agent established in a Member State to withhold tax at a minimum rate of 20% from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a Member State to supply, to the other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted it will not apply to payments of interest, discounts and premiums made before January 1, 2001.

United States Taxation

The following is a summary of the principal U.S. federal income tax consequences relating to an investment in the Preferred Securities. This summary addresses the tax consequences to a holder of Preferred Securities that acquired those securities on their original issue at their original offering price and is (i) an individual who is a citizen or resident of the United States, (ii) a U.S. domestic corporation or (iii) any other person that is subject to U.S. federal income tax on a net income basis in respect of its investment in the Preferred Securities (a "U.S. holder").

This summary does not address all of the tax considerations that may be relevant to a U.S. holder. Thus, the summary does not address tax considerations that arise from rules of general application or that are generally assumed to be known by investors. In particular, the

following discussion does not address (i) persons that may be subject to special treatment under U.S. federal income tax law, such as banks, insurance companies, thrift institutes, regulated investment companies, real estate investment trusts, dealers in securities or currencies, and traders in securities that elect mark to market treatment, (ii) persons that will hold Preferred Securities as part of a position in a "straddle" or as part of a "hedging", "conversion" or other integrated investment transaction for U.S. federal income tax purposes, (iii) persons whose functional currency is not the United States dollar or (iv) persons that do not hold Preferred Securities as capital assets. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, Internal Revenue Service rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).

Prospective investors are urged to consult with their tax advisers as to the U.S. federal income tax consequences of the purchase, ownership and disposition of Preferred Securities, as well as the effect of any state, local and non-U.S. tax laws.

Income from the Preferred Securities

The Issuer will be treated as a partnership for U.S. federal income tax purposes, and the Preferred Securities will represent partnership interests in the Issuer.

A partnership is not itself a taxable entity. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether distributions are made to the partner. Such income will be treated as if it were realised by the U.S. holder directly from the same source from which it was realised by the Issuer. Accordingly, each U.S. holder will be required to include in gross income its allocable share of the Issuer's income in respect of the underlying Subordinated Notes. The Partnership Agreement will provide that an appropriate portion of income realised by the Issuer in respect of the Subordinated Notes will be assigned to each day of its taxable year and allocated to the Holders based on their interest on such day. Accordingly, U.S. holders generally should include as ordinary income their distributive shares of amounts accruing in respect of the Subordinated Notes during the period in which they hold Preferred Securities, without regard to the date on which payments are received by the Issuer or distributions are made on the Preferred Securities.

It is expected that a U.S. holder's income from the Preferred Securities will be foreign source income for purposes of determining the limitation on the allowable foreign tax credit. The foreign tax credit limitation is calculated separately with respect to specific classes of income. For this purpose, a U.S. holder's distributive share of income from the Preferred Securities will generally constitute "passive income" or, in the case of certain U.S. holders, "financial services income".

No portion of the income derived by a U.S. holder will be eligible for the dividends received deduction.

In the case of a U.S. holder that is a tax-exempt employee's pension trust or other domestic tax-exempt entity, the U.S. holder's allocable share of the Issuer's net income will not constitute "unrelated business taxable income" unless the U.S. holder has borrowed to acquire or carry its Preferred Securities or otherwise holds the Preferred Securities in connection with an unrelated business.

Disposition or Redemption of Preferred Securities or Liquidation of the Issuer

A U.S. holder generally will recognise gain or loss on a sale, exchange, redemption or other disposition of Preferred Securities or in liquidation of the Issuer in an amount equal to the difference between its adjusted tax basis in the Preferred Securities and the amount realised on the disposition of such Preferred Securities. However, a distribution of Substitute Preference Shares on the occurrence of a Substitution Event should not result in the recognition of a gain or loss. Any gain or loss so recognised generally will be capital gain or loss. Capital gains recognised by an individual U.S. holder generally are subject to tax at preferential rates if certain prescribed minimum holding periods are met.

A U.S. holder's adjusted tax basis in Preferred Securities generally will equal the amount paid for the Preferred Securities, increased by the amount of income allocated to the U.S. holder and reduced by the amount of any cash distributed to the U.S. holder with respect to the Preferred Securities.

It is expected that the Issuer will distribute, on a semi-annual basis until the First Optional Redemption Date, and thereafter on a quarterly basis, all of its accrued income that is allocable to the holders of the Preferred Securities. As a result, a U.S. holder who sells or otherwise disposes of Preferred Securities will be required to include in income its allocable share of any accrued but undistributed income of the Issuer through the date of disposition. Such income generally would be treated as ordinary income (as described above under *"Income from the Preferred Securities"*) and would be added to the U.S. holder's adjusted tax basis in the disposed Preferred Securities. If the price received for the Preferred Securities does not reflect this accrued but undistributed income, the U.S. holder would recognise a capital loss to the extent such holder's tax basis (increased by such income) is greater than the selling price.

Information Reporting and Backup Withholding

U.S. persons who purchase Preferred Securities from the Issuer in an aggregate amount greater than \$100,000 during any 12 month period or who own 10% or more of the Preferred Securities after any purchase must report the payment (and may be required to provide additional information) to the U.S. tax authorities. U.S. persons must also report any acquisition or disposition by them of 10% or more of the Preferred Securities or any proportionate change in their interest equivalent to a 10% interest in the Preferred Securities. The Issuer will engage an appropriate firm to assist U.S. holders in satisfying such reporting requirements.

Payments on the Preferred Securities and payments of the proceeds of a sale of Preferred Securities that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31% rate unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or from U.S.-related payers.

For purposes of this section, a "U.S. person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions, and the term "United States" means the United States of America (including the States and the District of Columbia).

CERTAIN ERISA CONSIDERATIONS

Before investing in the Preferred Securities, fiduciaries of plans subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") should consider, among other matters, (a) ERISA's fiduciary standards, (b) whether such investment in the Preferred Securities by the plan satisfies the prudence and diversification requirements of ERISA, taking into account the overall investment policy of the plan, the composition of the plan's portfolio and the limitations on the marketability of the Preferred Securities, (c) whether such fiduciaries have authority to make such investment in the Preferred Securities, under the applicable plan investment policies and governing instruments and (d) rules under ERISA and the Code that prohibit plan fiduciaries from causing a plan to engage in certain "prohibited transactions".

Section 406 of ERISA and Section 4975 of the Code prohibit plans subject to Title I of ERISA, as well as individual retirement accounts and Keogh and other plans subject to Section 4975 of the Code and any entity whose underlying assets include "plan assets" by reason of any such plan's or account's investment in the entity ("Plans"), from, among other things, engaging in certain transactions involving assets of a Plan with persons who are "parties in interest" under ERISA or "disqualified persons" under Section 4975 of the Code ("Parties in Interest") with respect to such Plan. A violation of these "prohibited transaction" rules may result in imposition of an excise tax or other liabilities and adverse consequences under ERISA and/or Section 4975 of the Code for Parties in Interest, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under a regulation (the "Plan Assets Regulation") issued by the U.S. Department of Labor (the "DOL"), the assets of the Issuer (and, consequently, the assets of General Partner) would be deemed to include assets of Plans for purposes of ERISA and Section 4975 of the Code if Plans acquire significant equity interests in the Issuer (and indirectly the General Partner), unless an exception is applicable. An "equity interest" is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. For those purposes, a beneficial interest in a partnership is deemed to be an equity interest.

Pursuant to an exception contained in the Plan Assets Regulation, the assets of the Issuer would not be deemed to include Plan assets if, immediately after the most recent acquisition of any equity interest in the Issuer, less than 25% of the value of each class of equity interests in the Issuer were held by Plans and other employee benefit plans not subject to ERISA or Section 4975 of the Code (collectively, "Benefit Plan Investors"). No monitoring or other measures will be taken to limit the value of the Preferred Securities held by Benefit Plan Investors to less than 25% of the total value of each such class of Preferred Securities at the completion of the initial offering or thereafter. Thus, the conditions of the exception may not be satisfied.

Under the terms of the Plan Assets Regulation, if the Issuer were deemed to hold Plan assets by reason of a Plan's investment in the Preferred Securities, such Plan assets would include an undivided interest in the assets held by the Issuer (such as the Subordinated Notes). In such event, transactions involving such assets would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and the Code. In this regard, if the person or persons with discretionary responsibility with respect to such assets were affiliated with HSBC, any such discretionary actions taken with respect to such assets could be deemed to constitute a prohibited transaction under ERISA or the Code (for example, the use of such fiduciary authority or responsibility in circumstances under which such persons have interests that may conflict with the interests of the Plans for which they act and affect the exercise of their best judgment as fiduciaries). The authority of the General Partner to take discretionary actions with respect to the assets of the Issuer and the General Partner, respectively, has been limited. In this regard each investing Plan, by purchasing one or more Preferred Securities will be deemed to have (i) directed the Issuer to invest in the Subordinated Notes, (ii) appointed the the General Partner and (iii) directed the General Partner to invest in the Subordinated Note and reinvestment into the Replacement Debt.

In addition, certain transactions involving the Issuer, the General Partner and/or the Preferred Securities could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if assets of the Issuer were deemed to include Plan assets. For example, if HSBC is a Party in Interest with respect to an investing Plan (or becomes a Party in Interest in connection with this transaction), indirect extensions of credit between HSBC and the Issuer (as represented by the Subordinated Notes) would likely be prohibited by Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief were available under an applicable exemption (see below).

The DOL has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions that may arise from the purchase or holding of the Preferred Securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Because of the foregoing, the Preferred Securities may not be purchased or held by any Plan, unless such purchase or holding is exempt by reason of PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. Each purchaser or holder of the Preferred Securities or any interest therein or any holder of a Partnership Interest will be deemed to have represented by its purchase and holding thereof that either (a) it is not a Plan and is not purchasing such securities on behalf of or with assets of any Plan or (b) the purchase and holding of the Preferred Securities or Partnership Interests is exempt from the prohibited transaction rules by reason of PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. If a purchaser or holder of the Preferred Securities or Partnership Interests that is a Plan elects to rely on an exemption other than PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the Issuer, the General Partner or HSBC may require a satisfactory opinion of counsel or other evidence with respect to the availability of such exemption for such purchase and holding.

Even if the conditions of one or more of the foregoing exemptions are satisfied, no assurance can be given that such exemptions would apply to discretionary actions taken with respect to the assets of the Issuer or to the General Partner. No assurance can be given that the possibility that discretionary actions taken with respect to the assets of the Issuer or the General Partner which may constitute prohibited transactions under ERISA or the Code has been eliminated.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Preferred Securities on behalf of or with assets of any Plan consult with their counsel regarding the potential consequences if the assets of the Issuer or the General Partner were deemed to be Plan assets and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or any other applicable exemption.

State laws or regulations governing the investment and management of the assets of governmental plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code discussed above. Accordingly, fiduciaries of governmental plans, in consultation with their advisors, should consider the impact of their respective state pension codes on investments in the Preferred Securities and the considerations discussed above, to the extent applicable.

SUBSCRIPTION AND SALE

Under a Purchase Agreement (the "Purchase Agreement") dated 14 April 2000 HSBC Securities (USA) Inc., Goldman, Sachs & Co., Lehman Brothers Inc., Merrill Lynch, Pierce, Fennér & Smith Incorporated and Morgan Stanley & Co. Incorporated (the "Managers") have agreed to subscribe for the Series 1 Preferred Securities at a price of US\$1,000 per Preferred Security and the Series 2 Preferred Securities at a price of US\$1,000 per Preferred Security. The Managers will receive a combined selling, management and underwriting commission of US\$10 per Preferred Security and will be indemnified against certain liabilities by HSBC. The Managers are entitled to terminate the Purchase Agreement in certain circumstances before the issue of the Preferred Securities. The offering price and other selling terms may be changed at any time without notice.

Each of the Issuer and HSBC has been advised by the Managers that they propose to offer the Preferred Securities for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. Specifically, the Managers will only offer or sell the Preferred Securities in the United States to persons they reasonably believe to be QIBs in reliance on Rule 144A. Any offer or sale of Preferred Securities in reliance on Rule 144A will be made by U.S. broker-dealers who are registered as such under the Exchange Act. Each purchaser of the Preferred Securities offered hereby will, by its purchase, be deemed to have made certain acknowledgements, representations, warranties and agreements as set forth under "*Notice to Investors*".

Each of the Issuer and HSBC has been advised by the Managers that they may resell a portion of the Preferred Securities offered hereby outside the United States in offshore transactions in reliance on Regulation S and in accordance with applicable law. Terms used above have the meanings assigned to them in Regulation S and Rule 144A.

In addition, until the expiry of the period ending 40 days after the date of issue of the Preferred Securities, an offer or sale within the United States by a dealer (whether or not participating in any offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Each of the Issuer and HSBC has agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Managers may be required to make in respect thereof.

The Preferred Securities have not been registered under the Securities Act and as a matter of U.S. law may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. There is no existing market for the Preferred Securities offered hereby, and although application has been made to list the Preferred Securities on the Luxembourg Stock Exchange, there can be no assurance as to the liquidity of any market that may develop for the Preferred Securities, the ability of the holders of the Preferred Securities to sell their Preferred Securities or the price at which holders would be able to sell their Preferred Securities. Future trading prices of the Preferred Securities will depend on many factors, including, among other things, prevailing interest rates, HSBC's operating results and the market for similar securities. Each of the Issuer and HSBC has been advised by the Managers that they intend to make a market in the Preferred Securities, subject to the limits imposed by the Securities Act and the Exchange Act; however, they are not obligated to do so, and may discontinue such market making at any time without notice. Therefore, no assurance can be given as to the liquidity of the trading market for the Preferred Securities.

No action has been taken in any jurisdiction (including the United States) by the Issuer, the General Partner, HSBC or the Managers that would permit a public offering of the Preferred Securities offered hereby in any jurisdiction where action for that purpose is required. The Preferred Securities offered hereby may not be offered or sold, directly or indirectly, nor may this Offering Circular or any other offering material or advertisements in connection with the

offer and sale of the Preferred Securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this Offering Circular comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this Offering Circular. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Preferred Securities offered hereby in any jurisdiction in which such an offer or solicitation is unlawful.

The Managers have also represented and agreed that:

- (i) they have not offered or sold and will not offer or sell any Preferred Securities to persons in the United Kingdom prior to the expiry of the period six months from the Closing Date except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (ii) they have complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by them in relation to the Preferred Securities in, from or otherwise involving the United Kingdom;
- (iii) they have only issued or passed on and will only issue or pass on in the United Kingdom any document received by them in connection with the issue of the Preferred Securities to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on;
- (iv) they will solicit offers for the Preferred Securities only from, and will offer the Preferred Securities only to, persons they reasonably believe to be (a) in the case of offers inside the United States, QIBs or (b) in the case of offers outside the United States, persons other than U.S. persons (as defined in Regulation S);
- (v) with respect to offers and sale outside the United States, they will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Preferred Securities from them during the distribution compliance period a confirmation or notice substantially to the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not as a matter of U.S. law be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the date of issue of the Preferred Securities, except in either case in accordance with Regulation S (or Rule 144A if available) under the Securities Act. Terms used above have the meaning given to them by Regulation S"; and
- (vi) they have not offered or sold, nor has any document or other material in connection with the Preferred Securities been issued, circulated or distributed, either directly or indirectly, to persons in Singapore other than (i) under circumstances in which such offer or sale does not constitute an offer or sale of the Preferred Securities to the public in Singapore or (ii) to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent.

GENERAL INFORMATION

1. Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange. In connection therewith, a legal notice relating to the issue of the Preferred Securities and the Partnership Agreement will be filed with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where the document may be examined and copies thereof may be obtained. The quotation on the Luxembourg Stock Exchange of the Preferred Securities will be expressed in US dollars as a percentage of the nominal amount per Preferred Security. For listing purposes, the Preferred Securities will be considered as debt securities. At the date hereof it is not intended to list the Preferred Securities on any other stock exchange.
2. The General Partner has obtained all necessary consents, approvals and authorisations in the United Kingdom and Jersey in connection with the issue of the Preferred Securities. The issue of the Guarantee and the issue of the Subordinated Notes were authorised by resolutions of the Board of Directors of HSBC passed on 31 March 2000.
3. There has been no significant change in the financial or trading position of HSBC Capital Funding (Dollar 1) L.P. and no material adverse change in the financial position or prospects of HSBC Capital Funding (Dollar 1) L.P. since its establishment.
4. HSBC Capital Funding (Dollar 1) L.P. is not, nor has been, involved in any legal or arbitration proceedings that may have, or have had since its establishment, a significant effect on the financial position of HSBC Capital Funding (Dollar 1) L.P. nor is the General Partner aware that any such proceedings are pending or threatened.
5. Save as disclosed in this document there has been no significant change in the financial or trading position of HSBC or the HSBC Group since 31 December 1998 and no material adverse change in the financial position or prospects of HSBC or the HSBC Group since 31 December 1998.
6. The UK Government commissioned an independent and wide ranging review of competition within the banking industry in the United Kingdom, the results of which were published at the end of March 2000. Following the review, the provision of banking services by clearing banks to small and medium sized firms in the UK has been referred to the Competition Commission under Section 51 of the Fair Trading Act 1973; a report upon this reference is due within 15 months. This may contribute to a further increase in the already intense competition within the market segments in which HSBC Bank plc (formerly Midland Bank plc) operates.
7. During 1999 Japanese and US regulatory agencies began investigating Princeton Global Management Ltd (and related entities), a customer of Republic National Bank of New York's broker dealer subsidiary (Republic New York Securities Corporation ("RNYSC")), and Princeton's chairman, Martin Armstrong, for his alleged fraud in selling promissory notes to certain Japanese entities (the "Princeton Matter"). Certain of the Japanese entities which allegedly hold such promissory notes have brought civil actions in the United States against RNYSC, HSBC USA Inc. and HSBC Bank USA (as the successors to Republic New York Corporation ("RNYC") and Republic National Bank of New York, respectively) (together with RNYC, the "Republic Parties").

The eleven civil proceedings commenced to date against one or more of the Republic Parties are *Amada Co. v Republic New York Securities Corporation*, *Gun-ei Chemical Industry Co., Ltd. v Princeton Economics International Ltd., et al*, *Chudenko Corp., v Republic New York Securities Corporation, et al* and *Alps Electric Co., Ltd. v Republic New York Securities Corporation, et al*, filed 29 November 1999, 22 December 1999, 20 January 2000 and 7 February 2000, respectively, *Itoki Crebio Corp. v HSBC USA Inc., et al*, *Kissei Pharmaceutical Co., Ltd. v HSBC USA Inc., et al*, *Maruzen Company, Ltd. v HSBC USA Inc., et al*, *SMC Corporation v HSBC USA Inc., et al*, and *Asatsu-DK Inc. v HSBC USA Inc.*, filed on 14 February 2000 and *Starzen Co., Ltd. v Republic New York*

Securities Corporation, et al, filed on 23 February 2000, and *Yakult Honsha Co., Ltd. v Republic New York Securities Corporation*, filed on 25 February 2000. The Amada action alleges unpaid notes in the amount of ¥12.5 billion (approximately US\$123 million), the Gun-ei action alleges unpaid notes in the amount of ¥11.8 billion (approximately US\$114 million), the Chudenko action, which is brought by 22 separate Japanese entities, alleges unpaid notes totalling approximately US\$360 million, the Alps action alleges unpaid notes in the amount of approximately US\$212 million, the Itoki action alleges unpaid notes in the amount of approximately US\$4.4 million, the Kissei action alleges unpaid notes of approximately US\$24.8 million, the Maruzen action alleges unpaid notes of approximately US\$50 million, the SMC action alleges unpaid notes of approximately US\$19.5 million, the Asatsu-DK action alleges unpaid notes of approximately US\$24.6 million, the Starzen action alleges an unpaid note of US\$28.6 million, and the Yakult Honsha action alleges an outstanding note of US\$120 million, of which approximately US\$25 million remains unpaid, and an unpaid note of approximately US\$50 million. All of the actions assert common law claims and claims under either the federal securities law or the Racketeer Influenced and Corrupt Organization Act ("RICO"), or both. All the actions seek punitive damages and all but the Gun-ei and Amada actions seek treble damages under the RICO statute. The Republic Parties filed a motion to dismiss the Amada complaint on 4 February 2000 and a motion to dismiss the Gun-ei complaint on 28 February 2000; their time to respond to the other actions has not yet occurred. In February 2000, RNYSC received notice that World Nichei Securities Co., Ltd., will seek to hold RNYSC and its affiliates liable for any losses it incurs in that action.

In addition, on 7 October 1999, a purported class action entitled *Ravens v Republic New York Corporation, et al*, was filed in the United States District Court for the Eastern District of Pennsylvania on behalf of investors who acquired common stock of RNYC between 14 May 1999 and 15 September 1999. The complaint alleges that the defendants violated the federal securities laws in the merger transaction between RNYC and HSBC by failing to disclose facts relating to potential liabilities with respect to the Princeton Matter. The complaint seeks unspecified damages on behalf of the class.

The Republic Parties intend to defend vigorously against the claims arising from the Princeton Matter.

In addition to the legal actions discussed above, HSBC, through a number of its subsidiary undertakings, is named in and is defending other legal actions in various jurisdictions arising from its normal business. No material adverse impact on the financial position of HSBC is expected to arise from these proceedings.

8. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The following security codes have been assigned:

	Series 1		Series 2	
	Restricted	Regulation S	Restricted	Regulation S
ISIN:	US40427LAA26	USG4637HAA61	US40427LAB09	USG4637HAB45
Common Code:	011058841	011058744	011058981	011058914
CUSIP:	40427LAA2	G4637HAA6	40427LAB0	G4637HAB4

9. Copies of the following documents will be available for inspection at (and, in the case of 9(c) and 9(d) for collection (free of charge) from) the offices of the Listing Agent, Kredietbank S.A. Luxembourgeoise, and at the registered offices of HSBC, the Issuer and of the Paying Agents whose addresses are shown elsewhere in this Offering Circular during normal business hours for so long as the Preferred Securities are outstanding:
 - (a) the Partnership Agreement (which includes the form of the Global Certificates);
 - (b) the memorandum and articles of association of HSBC;

- (c) the audited financial statements of HSBC for the years ended 31 December 1996, 31 December 1997 and 31 December 1998 and the documents referred to under "Available Information";
- (d) the consents and authorisations referred to in paragraph 2 above;
- (e) the Guarantee;
- (f) the Fiscal Agency Agreement and the Deed of Covenant relating to the Subordinated Notes;
- (g) the Purchase Agreement;
- (h) the consent of KPMG Audit Plc; and
- (i) a copy of this Offering Circular together with any supplemental offering circular.

For so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, the most recently published audited annual financial statements and consolidated unaudited semi-annual financial statements of HSBC, and the most recently published audited annual accounts of the Issuer, will also be available at the offices of Kredietbank S.A. Luxembourgeoise in Luxembourg. HSBC does not publish non-consolidated interim financial statements. The first annual accounts of the Issuer are expected to be prepared for the period commencing on 14 April 2000 and ending on 31 December 2000. The Issuer will not publish semi-annual interim accounts.

- 10. The financial information contained in this Offering Circular does not constitute statutory accounts within the meaning of Section 240(5) of the Companies Act 1985. KPMG Audit Plc, Chartered Accountants and Registered Auditor of 8 Salisbury Square, London EC4Y 8BB have been auditors to HSBC for the financial years ended 31 December 1996, 1997, 1998 and 1999 and have given, and have not withdrawn, their consent to the issue of this Offering Circular with the inclusion herein of its name in the form and context in which it is included. The auditors have issued unqualified reports for the four financial years ended 31 December 1996, 1997, 1998 and 1999 without any statement under Section 237 of the United Kingdom Companies Act 1985 and statutory accounts for the three financial years ended 31 December 1996, 1997 and 1998 have been delivered to the Registrar of Companies.
- 11. No redemption of the Preferred Securities (optional or otherwise) and no purchase and cancellation of the Preferred Securities will be made by the Issuer, the General Partner or HSBC without such prior consent of the FSA as may for the time being be required.

ANNEX A-1

**PRESS RELEASE: ANNOUNCEMENT OF RECOMMENDED OFFER
FOR CRÉDIT COMMERCIAL DE FRANCE ("CCF")**

1 April 2000

HSBC HOLDINGS PLC RECOMMENDED OFFER FOR CCF

HSBC Holdings plc ("HSBC") has filed an offer to acquire all outstanding shares of Crédit Commercial de France ("CCF") at a price of €150 per CCF share in cash or, as an alternative, 13 shares of HSBC for each CCF share, valued at approximately €160 per CCF share, based on the closing price of HSBC on Friday 31 March. Earlier today, the offer was recommended unanimously by the Board of CCF. HSBC has agreed to acquire, subject to CECEI (Banque de France) approval, the shareholdings of KBC Bancassurances/Kredietbank Luxembourg, The Taiyo Mutual Life Insurance Company, Lafarge and SMABTP amounting in aggregate to 24.3 per cent of CCF's share capital, and Swiss Life has committed to accept HSBC's offer in exchange for shares of HSBC in respect of its holding of 15%. ING has also committed to accept HSBC's offer in respect of its holding of about 19% of CCF's share capital. Based on the current issued share capital of CCF, the aggregate value of HSBC's cash offer is approximately €11 billion (USD10.5 billion).

CCF is a major French banking group, with businesses in personal, corporate and investment banking, asset management and private banking. It has 650 branches in France serving over 1 million customers in the middle and upper income bracket, and an important corporate and institutional business. It has funds under management of €57 billion. It is a leading foreign bank in Brazil and Egypt.

more...

This news release is issued by
HSBC Holdings plc

Registered Office and Group Head Office:
10 Lower Thames Street, London EC3R 6AE, United Kingdom
Web: www.hsbcgroup.com

A-2 Incorporated in England with limited liability. Registered number 617987 \$

HSBC Holdings plc recommended offer for CCF/2

Description of Transaction

HSBC has entered into agreements with KBC Bancassurances/Kredietbank Luxembourg, The Taiyo Mutual Life Insurance Company, Lafarge and SMABTP for the acquisition for cash of their respective holdings of 13,914,627 shares, 2,667,534 shares, 887,992 shares and 455,093 shares of CCF, representing in aggregate 24.3% of the outstanding share capital of CCF. These agreements are conditional upon the approval of the CECEI (Banque de France).

Further, Swiss Life has committed, in respect of its holding of 11,070,546 shares of CCF (15% of the outstanding share capital), to accept HSBC's offer and to elect to receive shares of HSBC in exchange under the share alternative being offered as part of the offer.

ING has also committed to accept HSBC's offer in respect of its holding of about 19% of the outstanding share capital of CCF.

Subject to the approval of the CECEI (Banque de France) and the Direction du Trésor (in its capacity as insurance regulator), HSBC's offer will be made to shareholders of CCF on the following bases:

The Cash Offer

For every share in CCF	€150 in cash
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OR

The Share Alternative Offer

If a shareholder so elects:

For every share in CCF	13 fully paid ordinary shares in HSBC
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HSBC Holdings plc recommended offer for CCF/3

Shareholders of CCF will be entitled to retain the dividend of €2.20 plus tax credit already announced and expected to be approved at the Annual General Meeting of CCF on 12 April 2000.

The Offer will be conditional on HSBC acquiring under the Offer CCF shares which, when added to any CCF shares which HSBC has otherwise acquired or owns, represent 50.1% or more of the voting rights attached to the share capital of CCF on a fully diluted basis at the time when the Offer closes. In the case of the Share Alternative Offer, if the Offer has not opened prior to 26 May 2000, the making of the Share Alternative Offer will be conditional on the renewal by shareholders on that date of the general mandate to issue shares of HSBC granted to the Directors of HSBC at last year's annual general meeting.

Documents relating to the Offer, including a joint offer document from HSBC and CCF, have been filed this evening with the Conseil des Marchés Financiers ("CMF") and the Commission des Operations de Bourse ("COB").

It is envisaged that, subject to the necessary approvals, the acquisition of CCF will be completed during the second half of 2000.

The Offer is strongly supported by the management of CCF. The Offer is recommended unanimously by the Board of CCF which met on 1 April 2000 and which considers the offer to be fair to CCF's shareholders and positive for CCF's staff, clients and commercial partners.

The shares of CCF are listed on the Paris Bourse.

The shares of HSBC are listed on the London, Hong Kong and New York Stock Exchanges. Subject to the success of the Offer, HSBC intends to list its shares on the Paris Bourse.

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HSBC Holdings plc recommended offer for CCF/4

Reasons for the Offer

For HSBC this represents a unique opportunity to acquire a well-managed, fast growing French bank on an agreed basis and to establish a significant base in the Euro-zone. CCF would become one of the five largest businesses within the HSBC Group, together with the UK, the Hong Kong SAR and mainland China, Brazil and the United States.

The acquisition of CCF will serve HSBC's strategic objectives by:

- Significantly increasing its personal wealth management business. The acquisition will add over 1 million retail customers in the middle and upper income bracket located in some of France's fastest growing regions. CCF management expects to be able to increase its market share in this attractive higher income retail sector. HSBC's expertise in direct to home banking and its well developed internet strategy will provide a major boost to CCF's activities in this area.
- Enhancing its corporate and investment banking capabilities. CCF will add significantly to HSBC's European business capability and will bring relationships with most major French companies. CCF will provide the major platform for HSBC in the Euro-zone, working with HSBC Trinkaus & Burkhardt in Germany. CCF's clients will acquire access to global financial services of the HSBC Group. The acquisition of CCF will enhance HSBC's ability to focus on the entirety of global needs of its largest customers.

In asset management, CCF which has €57 billion of funds under management, will enhance HSBC's capabilities in European investment management products. In Brazil, both groups have important businesses providing opportunities to focus on wealth management and long-term savings services. The private banking businesses of HSBC and CCF will continue to operate as separate units.

HSBC Holdings plc recommended offer for CCF/5

HSBC and CCF expect synergy benefits in the order of €150 million after tax by the year 2001, the first full year of ownership. The gains would be achieved both through revenue enhancements and cost savings, with the emphasis on revenue. There will be minor costs of integration and restructuring.

For CCF, the proposed transaction will allow it to secure the support of a strong and stable shareholder, which will both ensure its long-term stability and reinforce its development potential.

Given the exceptional geographic complementarity between the two groups, it is envisaged that CCF will be the main platform for development in the Euro-zone for HSBC, thereby providing all of its businesses and employees with very strong growth potential.

The growth potential is further reinforced by the consistency and convergence of the strategies pursued by the two groups: a retail banking activity focused on personal banking, a corporate and investment banking activity oriented towards high value-added products and services, and a strong expansion in the asset management and private banking activities.

All of CCF's businesses will thus be strengthened and will enjoy new growth opportunities, thanks to a broadening of its product range and its distribution channels, and the capacity to provide its clients access to a vast worldwide network.

CCF will also be able to leverage the expertise and infrastructure of HSBC in the area of information technology to accelerate the development of its on-line and direct banking services.

Within HSBC, CCF's headquarters will remain in Paris and its board and management will continue to direct its affairs.

more...

HSBC Holdings plc recommended offer for CCF/6

The teams that have helped develop the group in recent years will remain in place and will be closely involved in its on-going management.

Funding

HSBC expects to issue €1.5-3.0 billion of ordinary shares pursuant to the Share Alternative Offer. In addition, HSBC plans to raise a further €2.5-3.5 billion through the issue of innovative Tier 1 securities. The balance of the required financing will be sourced from loan capital (€1-2 billion) and HSBC's own resources (€3-5 billion). After taking account of the acquisition and the planned financing, HSBC's target 31 December 2000 total capital ratio will be 12.5% and target Tier 1 ratio 8.0%.

Consideration

The total consideration that HSBC proposes to pay has been determined by reference to the present and expected future earnings and assets of CCF and the potential for synergy gains through its combination with HSBC. The Directors of HSBC consider that the acquisition of CCF will meet HSBC's strategic and economic profit objectives and accordingly they consider the consideration to be fair and reasonable. Based on its audited accounts for the year ended 31 December 1999, CCF's shareholders' funds amounted to €3.1 billion.

Management

Subject to the success of the Offer, it is intended that Charles de Croisset, the Chairman and Chief Executive Officer of CCF, will be invited to join the Board of HSBC. He will remain Chairman and Chief Executive Officer of CCF. It is intended that two representatives of HSBC will join the Board of CCF.

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HSBC Holdings plc recommended offer for CCF/7

Comments

HSBC Group Chairman, Sir John Bond, said: "HSBC's strategy is to complement organic growth with selective acquisitions. CCF is a highly respected banking group. If the outcome of our offer for CCF is successful we shall have a unique opportunity to build a platform in the Euro-zone, where we have been under-represented. It will also significantly increase our wealth management business, one of the key objectives of our strategic plan, and expand our ability to meet the needs of our global corporate and institutional clients. CCF and HSBC share complementary strategies and management values. I am confident that the acquisition of CCF is in the best interests of our shareholders."

CCF Chairman, Charles de Croisset, said: "In an increasingly global economy, CCF has today chosen to join forces with one of the top two banking groups in the world. CCF will become the main platform for HSBC in the Euro-zone. This transaction will significantly strengthen CCF and allow it to further improve the services it offers to its clients. The two groups share a similar culture, as they have been engaged, for more than a century, in the business of banking where personalised client relationship is paramount. Joining the HSBC Group will allow CCF to accelerate its development. It's therefore great news for the company, for its employees and for the Paris market.

"The transaction is the result of extensive and friendly discussions, which have allowed us to reach agreement on a clear and concerted plan.

"For the shareholders, this is an attractive offer, which gives them the opportunity to become a shareholder in the best bank in the world, especially given the strong performance of its stock, which has had an average annual growth rate of over 20% over the last 25 years."

more...

HSBC Holdings plc recommended offer for CCF/8

Selected Financial Information

	<u>HSBC</u>		<u>CCF</u>	
	1999 US\$m	1998 US\$m	1999 €m	1998 €m
For the year				
Pre-tax profits	7,982	6,571	710	490
Attributable profit	5,408	4,318	449	319
	US\$bn	US\$bn	€bn	€bn
At year end				
Total assets	569	483	69	63
<u>Ratios %</u>				
Return on average shareholders' funds	17.5	15.5	15.0	11.5
Capital ratios - tier 1	8.5	9.7	8.9	9.3

Advisers

HSBC is being advised by HSBC Investment Bank plc and Goldman Sachs International.

CCF is being advised by CCF Charterhouse, Rothschild et Cie and Morgan Stanley Dean Witter.

Regulatory statements

This announcement is authorised, and its contents have been approved, by HSBC Investment Bank plc, which is regulated in the United Kingdom by The Securities and Futures Authority Limited.

HSBC Investment Bank plc and Goldman Sachs International, each of which is regulated by The Securities and Futures Authority Limited, are each acting for HSBC and no-one else in connection with the Offer and will not be responsible to anyone other than HSBC for providing protections afforded to their respective customers or for providing advice in relation to the Offer.

more...

HSBC Holdings plc recommended offer for CCF/9

Under the safe harbor provisions to the U.S. Private Securities Litigation Reform Act of 1995, HSBC cautions investors that any forward-looking statements of projections made by HSBC, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Factors that may affect HSBC's operations are discussed in HSBC's Annual Report on Form 20-F for 1998, as amended, filed with the U.S. Securities and Exchange Commission.

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Notes to Editors

HSBC

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC's international network comprises more than 5,000 offices in 80 countries and territories in the Asia-Pacific region, Europe, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong and New York stock exchanges, shares in HSBC are held by more than 175,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

Through a global network linked by advanced technology, including a rapidly growing e-commerce capability, HSBC provides a comprehensive range of financial services: personal, commercial, corporate, investment and private banking; trade services; cash management; treasury and capital markets services; insurance; consumer and business finance; pension and investment fund management; trustee services; and securities and custody services.

ends

Appendix 1

CCF Management Projections

	CAGR	OF WHICH CAGR	TARGETS CAGR
	87-99	95-99	99-01
Revenues	7%	15%	7%
Operating profit	10%	22%	11%
Net Income	17%	24%	20%
EPS	12%	22%	20%
	1995	1999	2001
ROE	8.6%	15.0%	>18.5%
RORWA	0.8%	1.4%	>1.6%

Source: CCF analysts' presentation Feb 2000

Notes: No increase in CCF shares outstanding
No change in economic and financial background

Appendix 2

CCF Economic Profit Contribution (1)

CCF Profit after tax	650
Estimated synergy gains	<u>150</u>
	800
Less interest on cash resources and non-equity financing	<u>(420)</u>
	380
Cost of equity €3 billion @ 9.5%	<u>(285)</u>
	95

(1) based on CCF management published forecast for 2001, first full year of ownership

All forward looking information regarding CCF has been extracted from information previously published by CCF. This information has not been independently verified by HSBC or its management. Accordingly, there can be no assurance that actual results may not vary.

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ANNEX A-2

DESCRIPTION OF HSBC HOLDINGS PLC

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28 February 2000

HSBC HOLDINGS PLC
1999 FINAL RESULTS – HIGHLIGHTS

- Operating profit before provisions up 7 per cent to US\$9,653 million (US\$9,051 million in 1998).
- Group pre-tax profit up 21 per cent to US\$7,982 million (US\$6,571 million in 1998).
- Attributable profit up 25 per cent to US\$5,408 million (US\$4,318 million in 1998).
- Return on average shareholders' funds of 17.5 per cent.
- Assets up 18 per cent to US\$569 billion (US\$483 billion at 31 December 1998).
- Basic earnings per share up 20 per cent to US\$0.65.
- Headline earnings per share up 25 per cent to US\$0.66.
- Second interim dividend of US\$0.207 per share; total dividend for 1999 of US\$0.34 per share an increase of 10.3 per cent over 1998.
- Total capital ratio of 13.2 per cent; tier 1 capital ratio of 8.5 per cent.

Note

All per share figures reflect the 3 for 1 share capital reorganisation implemented on 2 July 1999.

HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US\$7,982 MILLION

HSBC Holdings plc made a profit before tax of US\$7,982 million in 1999, an increase of US\$1,411 million, or 21 per cent, over 1998. Profit attributable to shareholders was US\$5,408 million, an increase of 25 per cent.

The Directors have declared a second interim dividend of US\$0.207 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US\$0.133 already paid, will make a total distribution for the year of US\$0.34 per share (US\$0.308 per share in 1998), an increase of 10.3 per cent. The dividend will be payable on 27 April 2000 in cash, in US dollars, sterling or Hong Kong dollars, or in a combination of these currencies, at the exchange rates on 18 April 2000, with a scrip dividend alternative.

The dividend payable to holders of American Depositary Shares (ADSs), each of which represents five ordinary shares, will be paid in cash in US dollars on 27 April 2000 or invested in additional ADSs for participants in the dividend reinvestment plan operated by HSBC Bank USA as depositary.

Net interest income of US\$11,990 million was US\$443 million, or 4 per cent, higher than 1998. Other operating income rose by US\$504 million, or 6 per cent, to US\$9,012 million.

The Group's cost:income ratio improved to 54.0 per cent from 54.9 per cent in 1998.

The charge for bad and doubtful debts was US\$2,073 million, which was US\$564 million lower than in 1998 and reflected a much more stable economic environment in Asia. Given the time lag generally experienced between improvement in economic conditions and the bottom of the credit cycle, the special general provision of US\$290 million in respect of Asian risk raised in 1997 continued intact. However, if economic conditions continue to improve in Asia, the Group may begin to release this provision during the course of 2000.

Gains on disposal of investments of US\$450 million were US\$228 million higher than in 1998.

The total capital ratio and tier 1 capital ratio for the Group remained strong at 13.2 per cent and 8.5 per cent, respectively, at 31 December 1999, having accommodated the acquisitions of Republic New York Corporation (RNYC) and Safra Republic Holdings (SRH) on that date.

The Group's total assets at 31 December 1999 were US\$569 billion, an increase of US\$86 billion, or 18 per cent, since year-end 1998; of the increase, US\$73 billion stemmed from the completion of the acquisition of RNYC and SRH on 31 December 1999.

Geographical distribution of results

<i>Figures in US\$m</i>	<i>Year ended 31 December 1999</i>		<i>Year ended 31 December 1998</i>	
Profit before tax				
		%		%
Europe	3,322	41.6	2,884	43.9
Hong Kong	3,054	38.3	2,427	36.9
Rest of Asia-Pacific	329	4.1	39	0.6
North America	959	12.0	987	15.0
Latin America	318	4.0	234	3.6
Group profit before tax	7,982	<u>100.0</u>	6,571	<u>100.0</u>
Tax on profit on ordinary activities	(2,038)		(1,789)	
Profit on ordinary activities after tax	5,944		4,782	
Minority interests	(536)		(464)	
Profit attributable	<u>5,408</u>		<u>4,318</u>	

Comment by Sir John Bond, Group Chairman

"HSBC's results for 1999 were significantly better than those achieved in a challenging 1998. They reflect the resilience of our customer base and the improvement in Asia's economies. They are also a tribute to our staff and evidence of the progress we have made in implementing our 'Managing For Value' strategy.

"Excluding the after tax impact of restructuring charges (US\$115 million) booked in 1999 for the integration of RNYC and SRH, our attributable profit was US\$5,523 million which is the best performance in our history. Our return on shareholders' funds improved to 17.5 per cent (1998: 15.5 per cent); economic profit doubled. The Directors have declared a second interim dividend of US\$0.207 per share taking the total for 1999 to US\$0.34, an increase of 10.3 per cent.

"One of the most positive features of our performance was that, in a year in which our customer lending declined, operating profit before provisions, at US\$9.7 billion, was 7 per cent higher than in 1998. Loan demand declined particularly in Asia but we were successful in expanding relationships with our customers. Credit quality was variable. In these circumstances HSBC concentrated on raising attractively priced deposits and generating fees through the distribution of insurance and mutual fund products. We achieved particularly strong revenue growth from personal financial services products in the UK, recording an increase of 20 per cent year on year.

Comment by Sir John Bond, Group Chairman (*continued*)

"Deepening our customer relationships also improved productivity with over US\$2.50 of additional revenues achieved in 1999 for each US\$1 of additional cost.

"Credit quality stabilised in the second half of 1999. Lower provisions were required in Malaysia and mainland China although these were offset to some extent by the need to make a significant provision against our exposure to a Korean trading company. Given the time lag generally experienced between improvement in economic conditions and the bottom of the credit cycle, we have left intact the special general provision of US\$290 million we made in 1997 when Asia's economic problems started to emerge. However, if economic conditions continue to improve in Asia, we may be able to begin to release this provision during the course of 2000.

"Our results in the UK and elsewhere in Europe were very satisfactory and in a number of important sectors we achieved encouraging growth in market share. In the US underlying pre-tax profits grew by 8 per cent in a strong economy, although attributable profit was held back because our US operations became fully taxable in 1999 as all historical tax losses had been used. Our results in Canada were sound.

"In Hong Kong our operations proved extremely resilient with strong deposit growth helping to raise net interest income while credit demand fell. As the economy stabilised, the reduction in bad and doubtful debts led to pre-tax profits rising by 26 per cent over the level achieved in 1998. In the rest of Asia-Pacific improving economic conditions and stabilising credit quality contributed to a US\$290 million increase in pre-tax profits. There are growing signs that Asia's recovery – albeit uneven – vindicates the confidence we have maintained in the region throughout the downturn. In the Middle East our performance was disappointing.

"In Latin America economic conditions remained delicate. In Brazil, high interest rates and volatile exchange rates contributed to exceptional levels of income in the first half of the year. However, the result for the second half was adversely affected by a higher rate of transactional taxes levied on the banking industry and, in common with other banks, by provisions for labour litigation as a result of restructuring. In Argentina, our operations achieved improved profitability with pre-tax profits increasing to US\$67 million (1998: loss of US\$13 million).

"Our investment banking business had an exceptional year generating pre-tax profits of US\$793 million. Our treasury and capital markets activities also produced an excellent performance due both to the strengthening links with the customer base of HSBC's commercial banks as well as favourable market conditions. We completed over 500 investment banking and capital markets transactions in 1999 on behalf of corporate customers of our commercial banks, a significant increase over 1998.

"Our strategy of Managing For Value calls for a relentless focus on our customers, providing them with secure, transparent and competitive services in the form most attractive to them. Technology continues to bring profound and permanent changes to the financial services industry.

Comment by Sir John Bond, Group Chairman (*continued*)

"HSBC intends to remain at the forefront. In particular, we have recognised the growing importance of the internet as one of a number of exciting new media which will become an integral part of our services.

"In recent years we have been reconfiguring our operations for the e-age and putting in place some of the major building blocks. We will be one of the first to provide customers with services via the internet on a multi-product, multi-geography basis. It is now time to focus on going to the market. During 2000 we will be developing hsbc.com as a brand name and portal for our consumer services. In the weeks and months ahead we will launch a range of new, internet related services for personal customers in the UK, USA, Hong Kong, Singapore, Malaysia, Australia, Turkey, Greece and, through our operations in Jersey, to expatriate customers in 200 countries. Nor is the focus solely on retail customers. One of the most exciting markets in the e-age is the commercial market, the small and medium-sized enterprises that are a vital part of our strategy and a long-standing core business for us.

"We recognise that, in the internet age, it is important to stay close to early developments. We have therefore made some strategic investments. For example, in Hong Kong we announced, on 23 January 2000, the creation of a joint venture, iBusinessCorporation.com, with Hang Seng Bank, Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, to facilitate e-commerce business.

"We believe that e-commerce will increasingly affect all technology the customer owns. We have experienced this in the UK where our investment in British Interactive Broadcasting is proving a great success. Over 2.6 million households now have access to its 'Open...' service and 55,000 have registered for TV banking with HSBC. As the company is in its start up phase, our results show our share of the start up costs and in 1999 these amounted to US\$71 million.

"We believe that, in the future, those financial services companies with international reach and strong, trusted brands will enjoy significant competitive advantages. One of our major achievements in 1999 was the creation of a uniform, global brand using HSBC and the company's hexagon symbol. There are clear signs that the brand has brought greater recognition of the Group's international strengths. It is also the most visible sign of the extent to which members of the HSBC Group are working together more closely than ever to provide more services for our customers and to create value for our shareholders.

"HSBC came through the millennium transition smoothly, experiencing no problems with our in-house software in any of the 82 countries and territories where we operate. A few temporary problems in the UK with a small quantity of externally supplied software were remedied quickly. We remain alert to the possibility of delayed effects of the millennium bug.

"The acquisitions of RNYC and SRH were completed on 31 December 1999. Integration is proceeding well and we are particularly pleased that the private banking business continues to perform well. With the addition of a highly talented team of people from RNYC and SRH, HSBC is on course to build a world class international private banking operation, HSBC Republic, and a major commercial banking operation in the US.

Comment by Sir John Bond, Group Chairman (*continued*)

"Our capital position remains strong with tier 1 capital and total capital ratios amounting to 8.5 per cent and 13.2 per cent respectively at 31 December 1999 after absorbing the acquisitions of RNYC and SRH. The internal generation of capital was exceptional in 1999 as strong profitability was achieved in an environment of lower customer lending which released capital to support our acquisitions. This was complemented by US\$3 billion raised through our share placement in May 1999 as partial funding of the acquisitions of RNYC and SRH. Our listing on the New York Stock Exchange in July last year added further strength and liquidity to the markets in which our shares trade.

"The most important external factors affecting our business in the year ahead will be sustained growth in the US economy and Asia's continued recovery. It is particularly important that domestic demand in Asia picks up and that the reform of the banking and corporate sectors remains firmly on track. HSBC has entered 2000 in good shape with a clear strategy and a broad spread of businesses able to pursue opportunities for profitable growth wherever they occur; the outlook for HSBC is encouraging."

The financial information in this news release is based on the audited consolidated accounts of HSBC Holdings plc and its subsidiaries for the year ended 31 December 1999.

1-6	Highlights of Results and Group Chairman's Comment
7	Contents
8	Financial Overview
9	Consolidated Profit and Loss Account
10	Consolidated Balance Sheet
11	Other Primary Financial Statements
12	Financial Review
12	Net interest income
13	Commercial banking net interest margins
14	Other operating income
16	Operating expenses
18	Bad and doubtful debts
20	Customer loans and advances and provisions
21	Country risk and cross-border exposure
24	Asset disposition
26	Capital resources
27	Financial Review by Geographical Segment
27	HSBC European Operations
32	HSBC Hong Kong Operations
36	HSBC Rest of Asia-Pacific Operations
43	HSBC North American Operations
47	HSBC Latin American Operations
51	HSBC Investment Banking
53	Additional Information
53	Accounting policies
53	Dividend
53	Earnings and dividends per share
54	Economic profit
55	Acquisitions
55	Provisions against advances
56	Gains on disposal of investments
57	Taxation
58	Liabilities
59	Financial instruments, contingent liabilities and commitments
60	Off-balance-sheet risk-weighted and replacement cost amounts
60	Market risk
63	Segmental analysis
64	Year 2000 readiness
65	Attributable profit by subsidiary and by line of business
66	Differences between UK GAAP and US GAAP
67	Other information

Within this document the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as "Hong Kong".

31 December
1998
US\$m

Year ended 31 December 1999
US\$m £m HK\$m

	For the year			
6,571	Profit before tax	7,982	4,933	61,932
4,318	Profit attributable	5,408	3,342	41,961
2,495	Dividends	2,872	1,775	22,284
	At year-end			
27,402	Shareholders' funds	33,408	20,680	259,680
41,092	Capital resources	44,270	27,403	344,111
343,252	Customer accounts and deposits by banks	398,075	246,409	3,094,237
483,128	Total assets	569,139	352,297	4,423,917
301,950	Risk-weighted assets	336,126	208,062	2,612,707
US\$	Per share [†]	US\$	£	HK\$
0.54	Basic earnings	0.65	0.40	5.04
0.53	Diluted earnings	0.65	0.40	5.04
0.53	Headline earnings	0.66	0.41	5.12
0.308	Dividends	0.34	0.21 ^{††}	2.64 ^{††}
3.38	Net asset value	3.95	2.45	30.7
	Share information			
8,097m	US\$0.50 ordinary shares in issue [†]	8,458m		
US\$70bn	Market capitalisation	US\$118bn		
£5.19	Closing market price per share [†]	£8.63		
%	Ratios	%		
15.5	Return on average shareholders' funds	17.5		
0.98	Post-tax return on average assets	1.20		
	Post-tax return on average risk-weighted assets	2.00		
	Capital ratios			
13.6	- total capital	13.2		
9.7	- tier 1 capital	8.5		
54.9	Cost:income ratio	54.0		

[†] 1998 comparatives have been restated to reflect the share capital reorganisation discussed on page 53.

^{††} The second interim dividend of US\$0.207 per share is translated at the closing rate. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 18 April 2000.

<i>31 December 1998</i>		<i>Year ended 31 December 1999</i>		
<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
33,620	Interest receivable	29,204	18,048	226,594
(22,073)	Interest payable	(17,214)	(10,638)	(133,564)
11,547	Net interest income	11,990	7,410	93,030
8,508	Other operating income	9,012	5,569	69,925
20,055	Operating income	21,002	12,979	162,955
(11,004)	Operating expenses	(11,349)	(7,013)	(88,057)
9,051	Operating profit before provisions	9,653	5,966	74,898
(2,637)	Provisions for bad and doubtful debts	(2,073)	(1,282)	(16,085)
(144)	Provisions for contingent liabilities and commitments	(143)	(88)	(1,110)
(85)	Amounts written off fixed asset investments	(28)	(17)	(217)
6,185	Operating profit	7,409	4,579	57,486
136	Income from associated undertakings	123	76	954
222	Gains on disposal of:			
28	- investments	450	278	3,492
	- tangible fixed assets	-	-	-
6,571	Profit on ordinary activities before tax	7,982	4,933	61,932
(1,789)	Tax on profit on ordinary activities	(2,038)	(1,260)	(15,813)
4,782	Profit on ordinary activities after tax	5,944	3,673	46,119
(393)	Minority interests:			
(71)	- equity	(460)	(284)	(3,569)
	- non-equity	(76)	(47)	(589)
4,318	Profit attributable to shareholders	5,408	3,342	41,961
(2,495)	Dividends	(2,872)	(1,775)	(22,284)
1,823	Retained profit for the year	2,536	1,567	19,677

31 December
1998
US\$m

At 31 December 1999

US\$m

£m

HK\$m

ASSETS

3,048	Cash and balances at central banks	6,179	3,825	48,029
	Items in the course of collection			
5,911	from other banks	5,826	3,606	45,285
21,980	Treasury bills and other eligible bills	23,213	14,369	180,435
	Hong Kong SAR Government certificates			
7,408	of indebtedness	9,905	6,131	76,994
85,315	Loans and advances to banks	100,077	61,948	777,899
235,295	Loans and advances to customers	253,567	156,958	1,970,976
69,185	Debt securities	110,068	68,132	855,559
4,221	Equity shares	4,478	2,772	34,807
889	Interests in associated undertakings	926	573	7,198
309	Other participating interests	280	173	2,176
146	Intangible fixed assets	6,541	4,049	50,843
12,108	Tangible fixed assets	12,868	7,965	100,023
32,352	Other assets	29,363	18,176	228,239
4,961	Prepayments and accrued income	5,848	3,620	45,454
483,128	Total assets	569,139	352,297	4,423,917

LIABILITIES

	Hong Kong SAR currency			
7,408	notes in circulation	9,905	6,131	76,994
34,342	Deposits by banks	38,103	23,586	296,175
308,910	Customer accounts	359,972	222,823	2,798,062
	Items in the course of transmission to other			
4,206	banks	4,872	3,016	37,870
29,190	Debt securities in issue	33,780	20,910	262,572
48,662	Other liabilities	59,584	36,881	463,143
4,805	Accruals and deferred income	6,129	3,794	47,641
	Provisions for liabilities and charges			
1,268	- deferred taxation	1,388	859	10,789
2,906	- other provisions	2,920	1,807	22,697
	Subordinated liabilities			
3,247	- undated loan capital	3,235	2,002	25,146
7,597	- dated loan capital	12,188	7,545	94,737
	Minority interests			
2,315	- equity	2,072	1,283	16,106
870	- non-equity	1,583	980	12,305
3,443	Called up share capital	4,230	2,618	32,880
23,959	Reserves	29,178	18,062	226,800
27,402	Shareholders' funds	33,408	20,680	259,680
483,128	Total liabilities	569,139	352,297	4,423,917

Statement of Total Consolidated Recognised Gains and Losses for the year ended

	<i>31 December</i>	
	<i>1999</i>	<i>1998</i>
	<i>US\$m</i>	<i>US\$m</i>
Profit for the financial year attributable to shareholders	5,408	4,318
Impairment of land and buildings	-	(38)
Unrealised (deficit) on revaluation of investment properties:		
- subsidiaries	(45)	(190)
- associates	(1)	(56)
Unrealised surplus/(deficit) on revaluation of land and buildings (excluding investment properties)	371	(1,787)
Exchange and other movements	(622)	(31)
Total recognised gains and losses for the year	<u>5,111</u>	<u>2,216</u>

Reconciliation of Movements in Consolidated Shareholders' Funds for the year ended

	<i>31 December</i>	
	<i>1999</i>	<i>1998</i>
	<i>US\$m</i>	<i>US\$m</i>
Profit for the financial year attributable to shareholders	5,408	4,318
Dividends	<u>(2,872)</u>	<u>(2,495)</u>
	2,536	1,823
Other recognised gains and losses relating to the year	(297)	(2,102)
New share capital subscribed	3,303	17
Less: issue costs	(30)	-
Amounts arising on shares issued in lieu of dividends	679	584
Capitalised reserves on exercise of share options issued via a qualifying employee share ownership trust	<u>(185)</u>	<u>-</u>
Net addition to shareholders' funds	6,006	322
Shareholders' funds at 1 January	27,402	27,080
Shareholders' funds at 31 December	<u>33,408</u>	<u>27,402</u>

Net interest income

Figures in US\$m

	1999		1998	
		%		%
Europe	4,231	35.3	4,007	34.7
Hong Kong	3,735	31.2	3,472	30.1
Rest of Asia-Pacific	1,240	10.3	1,255	10.9
North America	1,687	14.1	1,618	14.0
Latin America	1,097	9.1	1,195	10.3
Net interest income	<u>11,990</u>	<u>100.0</u>	<u>11,547</u>	<u>100.0</u>
Average interest-earning assets (AIEA)	419,225		405,948	
Net interest spread	2.31 %		2.24 %	
Net interest margin	2.86 %		2.84 %	

Net interest income improved by 3.8 per cent compared with 1998. In Europe, net interest income benefited from increased customer balances in the UK, to which a revision to the UK bank's product range and pricing in 1998 contributed. Net interest income levels in Hong Kong benefited from a higher level of interest-earning liquid assets, lower funding rates and the widening of the gap between best lending rate and interbank rates. In the Rest of Asia-Pacific, net interest income remained broadly at the same level as in 1998. North America benefited from the interest generated on the equity funds raised to acquire RNYC and SRH. In Brazil, the translation impact of the devaluation of the Brazilian real at the beginning of 1999 was partially offset by the exceptional margins achieved as a result of high interest rates during a period of economic instability. This benefit began to decline in the second half of 1999.

Average interest-earning assets increased by US\$13.3 billion or 3.3 per cent compared with 1998. The growth arose mainly from the re-investment of higher customer deposit flows in Hong Kong and the Rest of Asia-Pacific where credit demand was particularly subdued. In the UK, an increase in personal customer lending largely offset a reduction in lower yielding treasury assets.

The Group's net interest margin at 2.86 per cent was in line with 1998. The decline in interest rates resulted in a reduced contribution from net free funds. Spreads were higher as a result of the increased spreads on time deposits in Hong Kong and the effects of the widening of the gap between the Hong Kong best lending rate and interbank rates. In addition, increased customer deposits in Hong Kong and the United Kingdom reduced the need for higher cost wholesale funding. The high margins achieved in Brazil also benefited spread. These benefits were partially offset by the impact of a more liquid balance sheet.

Commercial banking net interest margins

	1999 <i>Local</i>	1998 <i>Local</i>	1999 US\$ <i>Equivalent</i>	1998 US\$ <i>Equivalent</i>
<i>Europe</i>				
HSBC Bank plc (UK domestic)				
- margin	2.72 %	2.54 %		
- AIEA (£m)	80,302	81,248	129,729	134,667
<i>Hong Kong</i>				
The Hongkong and Shanghai Banking Corporation Ltd and subsidiaries excluding Hang Seng Bank Ltd				
- margin	2.47 %	2.41 %		
- AIEA (HK\$m)	676,785	616,761	87,226	79,621
Hang Seng Bank Ltd				
- margin	2.87 %	2.96 %		
- AIEA (HK\$m)	406,113	383,926	52,341	49,563
<i>Rest of Asia-Pacific</i>				
The Hongkong and Shanghai Banking Corporation Ltd				
- margin	2.09 %	2.12 %		
- AIEA (HK\$m)	277,593	275,184	35,777	35,525
HSBC Bank Malaysia Berhad				
- margin	2.73 %	3.65 %		
- AIEA (Ringgit m)	24,165	20,536	6,359	5,237
HSBC Bank Middle East				
- margin	4.06 %	4.05 %		
- AIEA (US\$m)	7,262	6,924	7,262	6,924
<i>North America</i>				
HSBC Bank USA Inc.				
- margin	3.85 %	3.79 %		
- AIEA (US\$m)	31,994	30,849	31,994	30,849
HSBC Bank Canada				
- annualised margin	2.32 %	2.27 %		
- AIEA (C\$m)	23,227	22,838	16,862	15,391
<i>Latin America</i>				
HSBC Bank Brasil S.A. - Banco Múltiplo				
- margin	14.29 %	10.43 %		
- AIEA (Brazilian reais m)	10,573	10,948	5,598	9,431
HSBC Bank Argentina				
- margin	5.55 %	5.92 %		
- AIEA (Peso m)	4,001	3,386	4,001	3,386

Other operating income

Figures in US\$m

<i>Figures in US\$m</i>	<i>1999</i>		<i>1998</i>	
By geographical segment:				
		%		%
Europe	4,936	53.5	4,369	50.0
Hong Kong	1,552	16.9	1,573	18.0
Rest of Asia-Pacific	983	10.7	1,014	11.6
North America	949	10.3	871	10.0
Latin America	790	8.6	912	10.4
	<u>9,210</u>	<u>100.0</u>	<u>8,739</u>	<u>100.0</u>
Intra-Group elimination	<u>(198)</u>		<u>(231)</u>	
Group total	<u>9,012</u>		<u>8,508</u>	
By income category:				
Dividend income	157		148	
Fees and commissions (net)	6,017		5,736	
Dealing profits				
- foreign exchange	797		953	
- interest rate derivatives	67		67	
- debt securities	197		116	
- equities and other trading	238		13	
	1,299		1,149	
- operating leased assets rental income	511		500	
- general insurance underwriting (net)	353		378	
- increase in value of long-term insurance business	181		154	
- other	494		443	
	1,539		1,475	
Total other operating income	<u>9,012</u>		<u>8,508</u>	

The Group's non-funds income remained resilient. Foreign exchange profits were lower particularly in Asia as the exceptional market volatility and spreads seen in the first quarter of 1998 at the height of the Asian crisis were not repeated as Asia's economic conditions stabilised and improved. The improved economic conditions in Asia provided the backdrop to higher fees and commissions throughout Asia with growth in Hong Kong and the Rest of Asia-Pacific amounting to 15.3 per cent and 14.0 per cent respectively. Encouraging progress was

made in the development of fee-based services to the Group's customers with particularly strong growth in the UK achieved in wealth management and personal banking products. Increased fee income was earned by HSBC Investment Banking primarily resulting from success in enhancing relationships with large corporate customers of the Group's major banking operations. Investment banking commissions were stronger in buoyant equities markets. Together, investment banking fees and commissions grew by 17.1 per cent to US\$1,565 million.

The Group's securities and capital markets operations had a good year although trading income in the second half was impacted by provisioning against bonds issued by a major Korean corporate. Equities and other trading activities delivered very strong profits both as a result of certain activities causing losses in 1998 being curtailed and a high volume of business from the strong equities markets during the year.

In Latin America, the devaluation of the Brazilian real accounted for approximately 60 per cent of the decline in net fee and commission income.

Operating expenses

Figures in US\$m

	1999		1998	
		%		%
By geographical segment:				
Europe	5,454	47.2	5,197	46.2
Hong Kong	1,896	16.4	1,851	16.5
Rest of Asia-Pacific	1,162	10.1	1,052	9.4
North America	1,585	13.7	1,424	12.7
Latin America	1,450	12.6	1,711	15.2
	<u>11,547</u>	<u>100.0</u>	<u>11,235</u>	<u>100.0</u>
Intra-Group elimination	(198)		(231)	
Group total	<u>11,349</u>		<u>11,004</u>	
By expense category:				
Staff costs	6,692		6,321	
Premises and equipment (excluding depreciation)	1,329		1,454	
Other administrative expenses	<u>2,329</u>		<u>2,315</u>	
Administrative expenses	10,350 [†]		10,090 [†]	
Depreciation and amortisation	999		914	
Total operating expenses	<u>11,349</u>		<u>11,004</u>	
Cost:income ratio	54.0 %		54.9 %	

[†] Included in administrative expenses were US\$164 million of restructuring costs relating to RNYC and SRH (1998 costs included US\$180 million of Canary Wharf vacant space provisions).

In markets where revenue growth was subdued considerable focus was directed to controlling our cost base. In particular, operating costs continued to be tightly controlled in Hong Kong and the Rest of Asia-Pacific as cost structures were adjusted to the changed economic environment. The business in Hong Kong operated under a pay freeze, which is continuing into 2000. However, higher performance-related remuneration reflecting improved investment banking results caused an overall increase in staff costs in Hong Kong. In Malaysia we introduced a Voluntary Separation Scheme, at a cost of US\$16 million, which has reduced year-end headcount by 1,000. Elsewhere in the Rest of Asia-Pacific, there were cost increases to support business expansion with 15 new branches opened across the region, call centres upgraded in Malaysia and Australia and mobile salesforces established or expanded in India, Taiwan and Malaysia.