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Callable Bear Contracts

issued by

The Hongkong and Shanghai Banking Corporation Limited

(incorporated in Hong Kong with limited liability under the Companies Ordinance of Hong Kong)

Announcement

We intend to issue the following bear CBBCs detailed below (the **CBBCs**).

Stock Code	62307	62308	62309	62310	62311
Index	Hang Seng Index	Hang Seng Index	Hang Seng Index	Hang Seng Index	Hang Seng Index
Style	European	European	European	European	European
Type	Bear	Bear	Bear	Bear	Bear
Category	R	R	R	R	R
Settlement method	Cash Settled	Cash Settled	Cash Settled	Cash Settled	Cash Settled
Issue size	250,000,000 CBBCs	250,000,000 CBBCs	250,000,000 CBBCs	300,000,000 CBBCs	250,000,000 CBBCs
Issue price	HK\$0.25 per CBBCs	HK\$0.25 per CBBCs	HK\$0.25 per CBBCs	HK\$0.25 per CBBCs	HK\$0.25 per CBBCs
Expiry date ¹	28 December 2012	28 December 2012	28 December 2012	28 December 2012	30 January 2013
Valuation date ¹	28 December 2012	28 December 2012	28 December 2012	28 December 2012	30 January 2013
Relevant index futures contracts	the Hang Seng Index December 2012 Futures Contracts	the Hang Seng Index December 2012 Futures Contracts	the Hang Seng Index December 2012 Futures Contracts	the Hang Seng Index December 2012 Futures Contracts	the Hang Seng Index January 2013 Futures Contracts
Board lot	10,000 CBBCs	10,000 CBBCs	10,000 CBBCs	10,000 CBBCs	10,000 CBBCs
Call level	20,388	20,088	19,788	21,088	21,888
Strike level	20,788	20,488	20,188	21,388	22,188
Observation commencement date	25 May 2012	25 May 2012	25 May 2012	25 May 2012	25 May 2012

Stock Code	62307	62308	62309	62310	62311
Funding cost per CBBC as of Launch Date ²	HK\$0.140	HK\$0.180	HK\$0.178	HK\$0.136	HK\$0.049
Index currency amount	HK\$1.00	HK\$1.00	HK\$1.00	HK\$1.00	HK\$1.00
Divisor	15,000	20,000	15,000	20,000	15,000
Effective gearing ³	5.12x	3.84x	5.12x	3.84x	5.12x
Gearing ³	5.12x	3.84x	5.12x	3.84x	5.12x
Premium ³	11.26%	19.34%	14.39%	14.65%	3.97%
Liquidity provider	HSBC Securities Brokers (Asia) Limited (Broker ID: 9503) Levels 17 and 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong Tel: (852)2822 1849	HSBC Securities Brokers (Asia) Limited (Broker ID: 9503) Levels 17 and 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong Tel: (852)2822 1849	HSBC Securities Brokers (Asia) Limited (Broker ID: 9503) Levels 17 and 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong Tel: (852)2822 1849	HSBC Securities Brokers (Asia) Limited (Broker ID: 9503) Levels 17 and 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong Tel: (852)2822 1849	HSBC Securities Brokers (Asia) Limited (Broker ID: 9503) Levels 17 and 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong Tel: (852)2822 1849

¹ If such day is not the day on which the relevant index futures contracts expire on Hong Kong Futures Exchange Limited (or its successor or assign), the day on which the relevant index futures contracts will expire on the Hong Kong Futures Exchange Limited (or its successor or assign).

² The funding cost is calculated in accordance with the following formula:

$$\text{Funding Cost} = \frac{\text{Strike Level} \times \text{funding rate} \times n/365 \times \text{Index Currency Amount}}{\text{Divisor}}$$

Where:

- (i) "n" is the number of days remaining to expiration; initially, "n" is the number of days from (and including) the launch date to (and including) the trading day immediately preceding the expiry date; and
- (ii) the funding rate will fluctuate throughout the term of the CBBCs as further described in the relevant supplemental listing document in respect of the CBBCs. As of the launch date, the funding rate (a) in respect of stock code 62307 was 16.95% p.a.; (b) in respect of stock code 62308 was 29.53% p.a.; (c) in respect of stock code 62309 was 22.30% p.a.; (d) in respect of stock code 62310 was 21.42% p.a. and (e) in respect of stock code 62311 was 4.88% p.a..

³ The gearing, effective gearing and premium may not be comparable to similar information provided by other issuers of structured products as each issuer may use different pricing models.

The CBBCs are in global registered form and exercisable only in the relevant board lots specified above.

What is a mandatory call event? What happens if a mandatory call event occurs?

A **mandatory call event** occurs if the spot level is at or above the call level at any time during an index business day in the observation period.

Spot level means the spot level of the index as compiled and published by Hang Seng Indexes Company Limited (the **index compiler**).

An **index business day** means a day on which the index is scheduled to be published by the index compiler, or as the case may be, a successor index compiler.

An **observation period** means the period from the observation commencement date to the trading day (being a day on which the stock exchange is scheduled to be open for trading for its regular trading sessions) immediately preceding the expiry date (both dates inclusive).

Upon the occurrence of a mandatory call event, the CBBCs will terminate automatically and you will receive from us a residual value per board lot in Hong Kong dollars calculated as follows (if positive), less any exercise expenses:

$$\text{Residual value per board lot} = \frac{(\text{Strike level} - \text{maximum index level}) \times \text{one board lot} \times \text{index currency amount}}{\text{Divisor}}$$

Maximum index level means the highest spot level during the MCE valuation period (being the period commencing from and including the moment upon which the mandatory call event occurs and up to the end of the following trading session on the stock exchange, subject to any potential extension).

If the residual value is at or below zero, you will lose all your investment in the CBBCs.

How do we calculate the cash settlement amount at expiry?

If no mandatory call event occurs during the observation period and on the expiry date, the value of the cash settlement amount is greater than zero, the CBBCs will be automatically exercised. You are not required to deliver any exercise notice and you will receive from us the cash settlement amount (if any) in Hong Kong dollars calculated by us as follows, less any exercise expenses:

Cash settlement amount per board lot:

$$\text{Cash settlement amount per board lot} = \frac{(\text{Strike level} - \text{closing level}) \times \text{one board lot} \times \text{index currency amount}}{\text{Divisor}}$$

If the cash settlement amount is a negative amount, it shall be deemed to be zero.

The **closing level** shall be the final settlement price for settling (a) in respect of stock codes 62307, 62308, 62309 and 62310, the Hang Seng Index December 2012 Futures Contracts; and (b) in respect of stock code 62311, the Hang Seng Index January 2013 Futures Contracts determined pursuant to Regulation 012 of the Regulations for Trading Stock Index Futures and the Contract Specifications for Hang Seng Index Futures Contracts (as amended from time to time) of the Hong Kong Futures Exchange.

Where can you obtain further information?

Our base listing document dated 26 April 2012 (the **base listing document**), together with any addenda or successor document, our supplemental listing document to be dated 24 May 2012 and our latest publicly available annual report and interim report will be available for inspection, together with their Chinese translations, during usual business hours at our office, which is presently at HSBC Main Building, 1 Queen's Road Central, Hong Kong. Information on us can also be found on the website of the group of companies to which we belong, which is www.hsbc.com.

How will the liquidity provider provide quotes?

The liquidity provider will provide liquidity by responding to requests for bid and ask quotes. A quote may be obtained by calling its telephone number.

Additional information

The CBBCs will constitute our general unsecured contractual obligations. They are not obligations of any other person.

An application will be made to the stock exchange for the listing of, and permission to deal in, the CBBCs on the stock exchange. The date of commencement of dealings in the CBBCs is expected to be 25 May 2012.

Other than being a licensed bank in Hong Kong regulated by the Hong Kong Monetary Authority, a registered institution under the Securities and Futures Ordinance and a licensed bank under the Banking Ordinance (Cap. 155) of Hong Kong, we are not regulated by any of the bodies referred to in rule 15A.13(2) or (3) of the stock exchange rules.

Our long term credit ratings are AA- by Standard and Poor's Ratings Group and Aa1 by Moody's Investors Service, Inc.

Index disclaimer

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The Hongkong and Shanghai Banking Corporation Limited
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