

December 20, 2002

By Federal Express (cc w/o encl. by facsimile)

Mr. James A. Bundy
Licensing Manager, Western District
Office of the Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, CA 94105-2292

Re: Notice of Change in Bank Control
Household Bank (SB), National Association, Las Vegas, Nevada
Charter Number 22675
OCC Control Number 2002-WE-11-0004

Dear Mr. Bundy:

Thank you for your letter of December 9, 2002 requesting further information in support of the above-referenced Notice of Change in Bank Control (the "Notice"). Your requests, followed by our responses (using terms as defined in your letter), are set forth below.

1. The correct filing fee for your Notice of Change in Bank Control is \$10,000. Please remit a check for an additional \$8,000, payable to the Comptroller of the Currency.
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A check in the amount of \$8,000.00 made payable to the Comptroller of the Currency is enclosed with the original of this letter.

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2. Provide a copy of the final complete merger agreement between HSBC Holdings plc (HSBC) and Household International, Inc. (HII). Please provide any other documents that may be responsive to 12 U.S.C. § 1817(j)(6)(C) and question # 6 in the Interagency Notice.

A copy of the final merger agreement between HSBC and HII is attached as Attachment H. No other documents are responsive to this request except for certain employment contracts, which will take effect upon completion of the merger, between HII and certain senior executives. Copies of these agreements are being submitted under cover of a separate letter requesting confidential treatment as Confidential Attachment B.

3. Please clarify what, if any, changes are contemplated by HSBC to modify the business plans or marketing strategy for the Bank. This might include new business lines, changed customer demographic focus, sales or purchase of assets or liabilities, pricing or underwriting changes, cross marketing of products, etc.

Except as noted below, HSBC has no current plans to modify the business plan or marketing strategy of the Bank. HSBC is still in the early stages of its discussions with HII with respect to opportunities that may be available to both parties to strengthen their respective business operations as a result of the acquisition. In any event, HSBC will not make any material changes to the Bank's operations following the change in control without consulting in advance with the OCC.

HSBC will not, following the change in control, initiate these or any other material changes in the Bank's operations without first consulting, in advance, with the OCC.

One topic on which HSBC has held discussions with HII is whether operating or funding efficiencies could be achieved by a transfer or holding of prospective or existing credit-card receivables originated by the Bank to HSBC Holdings' principal U.S. banking subsidiary, HSBC Bank USA. HSBC intends, following the merger and subject to receipt of regulatory and other approvals, to hold HII's private label credit-card receivables within HSBC's U.S. banking subsidiary. As plans with respect to the credit-card receivables are further developed, HSBC and the Bank will consult with the OCC.

4. In response to question # 13 in the Interagency Notice, please provide a listing of insured banks or insured depository institutions in which HSBC has a 10% or more ownership interest. It is possible this information is in the public financial information provided but a list would speed our review.

The U.S. insured banks or depository institutions in which HSBC has a direct or indirect interest of more than 10 percent of the voting shares are HSBC Bank USA, Buffalo, New York; HSBC Bank and Trust Company (Delaware) National Association, Wilmington, Delaware; and Wells Fargo HSBC Trade Bank, N.A., San Francisco, California.

5. Please identify any other local, state, federal or foreign regulatory applications or notices that will be filed in connection with this Notice, and any mandatory public hearings associated with those filings.
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HSBC and HII have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the merger and the other transactions contemplated by the merger agreement. Under the merger agreement, in connection with obtaining these approvals, HSBC is not required to agree to, or to permit HII to agree to, any limitation, divestiture or condition that would materially and adversely impact HSBC or HII. HSBC and HII are not aware of any other material governmental approvals or actions that are required prior to completion of the acquisition other than those described below.

- a. U.S. Antitrust

Transactions like the merger are reviewed by the Antitrust Division of the United States Department of Justice ("Antitrust Division"), or the United States Federal Trade Commission ("FTC"), to determine whether they comply with applicable antitrust law. Under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the related rules, the merger cannot be completed until both HSBC and HII furnish information and materials to the Antitrust Division and the FTC and a required waiting period has ended. On November 27, 2002, HSBC and HII filed their pre-merger notification and report forms with the Antitrust Division. Early termination of the waiting period was granted effective December 16, 2002. There is no mandatory public hearing requirement associated with these filings.

- b. Other U.S. Regulatory Filings

Applications or notifications are also required to be filed with various state banking departments in connection with the change in control of HII's subsidiaries that act as mortgage bankers, sales finance companies or licensed lenders, or that engage in other consumer finance activities. These authorities may disapprove the change in control of such subsidiaries based upon the criteria set forth in the applicable laws and regulations. Applications were filed by HSBC on November 27, 2002 with the New York State Banking Department for approval of the change in control of those of HII's subsidiaries that are licensed to engage in consumer financing activities in New York.

The Superintendent of Banks of the State of New York is required to render a decision with respect to such applications within 90 days, unless such deadline is extended. Applications or appropriate notifications have also been filed in all other states that require such filings including Tennessee, Illinois, Maryland, Wisconsin, Oklahoma and Delaware. No mandatory public hearing is associated with any of these filings.

The change in control of HII's subsidiaries that act as insurance underwriters or agencies is also subject to the receipt of necessary approvals from various U.S. state insurance regulatory authorities. The insurance laws and regulations of most states generally require that, to proceed with the acquisition of control of an insurance company domiciled in a state through the acquisition of or merger with the holding company parent of the insurance company, the acquiror must obtain the prior approval of the insurance regulatory authority of that state. In this regard, completion of the merger is subject to the prior approval of the insurance regulatory authorities of Arizona, Delaware, Michigan, New York and Ohio and applications are being made to the insurance departments of those states. In addition, notices have been sent to insurance regulators in other, non-domiciliary states notifying them of the merger. No prior approval is required by these states. With one exception, no mandatory public hearing is associated with any of these filings. In Delaware, a hearing must be held on any change in control of a licensed insurance company domiciled in that state.

On October 11, 2002, HII announced that HII had determined that the continued operation of Household Bank, f.s.b. was not in HII's long-term strategic interest. As a result, HII has entered into contracts to dispose of Household Bank, f.s.b.'s current assets and deposits. If Household Bank, f.s.b. continues to be owned by HII at the time of the completion of the merger, an approval by the Board of Governors of the Federal Reserve System of HSBC's indirect acquisition of that savings bank will be required. However, HII expects to sell the assets and deposits of Household Bank, f.s.b. and to dissolve it before the completion of the merger.

c. United Kingdom

The merger is conditioned on confirmation having been received by HSBC from the U.K. Office of Fair Trading, in terms reasonably satisfactory to HSBC, that the U.K.'s Secretary of State for Trade and Industry does not intend to refer the merger to the U.K.'s Competition Commission.

HSBC and HII notified the Office of Fair Trading of the merger on November 29, 2002 by way of a prescribed statutory merger notice, under the merger control provisions of the Fair Trading Act 1973. Subject to certain exceptions, the Secretary of State has to make a decision on whether or not to refer the merger to the U.K.'s Competition

Commission (and, if necessary, whether or not to accept undertakings from the parties in lieu of a reference to the Competition Commission) within 20 working days of receiving the merger notice. This period has been extended by a further 15 working days at the request of the Office of Fair Trading and will expire January 22, 2003.

Review of the merger by the U.K.'s competition authorities is conducted to determine whether the merger would operate against the public interest. In practice, this generally requires the competition authorities to consider whether the merger would reduce competition in the United Kingdom. If there is concern that the merger may operate against the public interest, undertakings may be sought from the parties, or the proposed merger could be referred to the U.K.'s Competition Commission for more detailed consideration. If the Competition Commission finds that the merger may operate against the public interest, a range of remedies may be imposed by the Secretary of State including prohibition of the merger.

The merger is conditioned, under the Financial Services and Markets Act, on the approval of the U.K. Financial Services Authority ("FSA"). HSBC is obliged to notify the FSA of the merger because it would result in HSBC holding 10% or more of the shares in a parent undertaking, and therefore acquiring "control" of a U.K. authorized person (HFC Bank plc, Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited). Applications were filed with the FSA on December 6, 2002, and the FSA has a maximum period of three months to determine whether to approve the change of control or whether to impose such conditions as it considers appropriate.

No mandatory public hearing is associated with any of the filings in the United Kingdom.

d. Canada

HSBC is required to file an application with the Canadian Office of the Superintendent of Financial Institutions for prior approval of the indirect acquisition of HII's Canadian subsidiaries. HSBC and HII are also required to file a pre-notification under the Canadian Competition Act in connection with the change in control of HII's Canadian subsidiaries. No mandatory public hearing is associated with either of these filings.

e. European Union Merger Regulation

Notification to the European Commission is not required under the European Union Merger Regulation.

f. Other International Regulatory Matters

In addition to the required filings in the United States, the United Kingdom and Canada, an application for change in control of HII's subsidiaries in the Republic of Ireland has been filed. An antitrust filing has been made in the Federal Republic of Germany and the German Federal Cartel Office has determined that the merger does not have any effect on the German domestic market and so no further consideration is required. An antitrust filing has also been made in the Republic of Ireland. In addition, HSBC and HII conduct operations in a number of other jurisdictions and HSBC and HII are currently reviewing whether other filings or approvals may be required or desirable in these other jurisdictions in connection with the completion of the merger. No mandatory public hearing is associated with any of these filings.

6. Please expand and clarify the discussion of the competitive effects of the transaction. The analysis in the Notice was cursory and did not provide statistical or numerical support for the conclusion that the transaction will not be anticompetitive.

The Bank's only business line is the issuance of credit cards and its only office is located in Las Vegas, Nevada. HSBC is engaged in the business of issuing credit cards in the United States solely through HSBC Bank USA, which operates 410 branches in New York, eight branches in Florida, four branches in California, two branches in Pennsylvania, one branch in Oregon and one branch in Washington. According to a leading industry report, the rankings of the Bank and HSBC Bank USA as credit card issuers as of June 30, 2002 among the 100 largest such issuers were as follows:

	Rank	Receivables (in millions)	% of Top 100 Banks	Rank	Volume* (in millions)	% of Top 100 Banks
Household Bank	8	\$ 15,373.4	3.10%	8	\$ 17,133.9	3.76%
HSBC Bank	25	\$ 1,251.0	0.25%	25	\$ 1,010.0	0.22%
Total		\$ 16,624.4	3.35%		\$ 18,143.9	3.98%
Total Top 100 Banks		\$ 496,490.0			\$ 455,970.0	

Source: The Nilson Report as of June 30, 2002.

*Volumes: defined as purchases and cash advances (including balance transfers)

As can be seen from the foregoing data, even combined, the Bank and HSBC Bank USA would not hold a market share in excess of four percent of the market held by the largest 100 bank credit card issuers. Based on The Nilsen Report, even the two banks combined would still rank as of June 30, 2002 as the eighth-largest issuer in the country.

The market for credit cards has become increasingly competitive since the early 1990s. According to BAIGlobal Inc., in 1999 0.99 billion credit card solicitations were mailed to customers with an annual response rate of 2.4 percent. While the annual volume of such mailings has significantly increased to an estimated 5.34 billion in 2002, the annual response rate has steadily declined during the same period to an estimated 0.4 percent in 2002.

During that period, HSBC Bank USA's portfolio has declined by more than 12 percent due to its decision in 1999 to restrict its marketing efforts to the geographic region served by its branch network. As of June 30, 2002, approximately 62 percent of HSBC Bank USA's credit card outstandings were to holders in New York State. By contrast, Household Bank markets nationwide and less than 10 percent of its outstandings are to borrowers in New York.

The Bank is the third-largest issuer of private-label credit cards in the United States. HSBC Bank USA does not issue private-label credit cards.

7. Following the acquisition, purchase accounting adjustments on HII would be allocated among its subsidiaries according to Generally Accepted Accounting Practices, including possible adjustments to the balance sheet of the bank. In order for us to determine the materiality of the purchase accounting adjustments at the Bank level, please provide a pro forma balance sheet for the Bank after the acquisition.

A pro forma balance sheet for the Bank after the acquisition is attached as Confidential Attachment C.

8. Please certify if any *person* will *control* (as both terms are defined in 12 U.S.C. § 1817(j)(8)) more than 5% of HSBC upon completion of this change in bank control. If yes, please provide their identity and percentage of ownership. Upon review of that information we will consider if further information should be submitted on these individuals or entities.

No person will control more than five percent of HSBC upon completion of the change in control of the Bank, as the terms "person" and "control" are defined in 12 U.S.C. § 1817(j)(8). It is possible, depending on the number of shareholders of HII that receive American Depository Shares of HSBC issued by its depository, Bank of New

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York ("BONY"), that BONY will hold as depository, more than five percent of the underlying shares of HSBC. However, under the terms of the BONY's depository agreement with HSBC, BONY has no beneficial rights to those underlying shares and holds them solely as depository for the purpose of issuing its ADSs.

* * *

If you require any further information necessary to make the Notice technically complete, please call me at the telephone number above or my colleague Naomi Beard at (202) 835-7544.

Sincerely,

Winthrop N. Brown

cc by facsimile, attachments by Federal Express:

Mr. Alan Herlands (OCC)
Paul L. Lee, Esq.

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