



THE FEDERAL RESERVE BANK OF RICHMOND

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January 28, 2025

Richard Kim, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Sent via EZFile

Dear Mr. Kim:

The following additional information request relates to the application (“Application”) filed by Capital One Financial Corporation (“Capital One”), the parent of Capital One, National Association (“CONA”), both of McLean, Virginia, to acquire 100 percent of Discover Financial Services (“Discover”), Riverwoods, Illinois, and thereby indirectly acquire Discover Bank, Greenwood, Delaware, pursuant to section 3 of the Bank Holding Company Act of 1956¹ (“BHC Act”), and the notice (“Notice”) filed by Capital One to indirectly acquire DFS Services LLC, Riverwoods, Illinois; Discover Financial Services (Canada), Inc., Vancouver, British Columbia, Canada; PULSE Network LLC, Houston, Texas; and Diners Club International Ltd., Riverwoods, Illinois, pursuant to sections 4(c)(8) and 4(j) of the BHC Act.²

Please provide responses to each of the following questions. Supporting documentation should be provided, as appropriate. To the extent information requested is not yet available, provide a date by which it is expected to be made available to the Board of Governors of the Federal Reserve System (“Board”).

1. Provide an updated version of Confidential Exhibit C, titled “Pro Forma and Projected Financials, Capital Ratios and Asset Quality of COFC and CONA,” which was also included with redactions as Public Exhibit 17, to the section 3 application, dated March 20, 2024. The statements and information provided should be as of December 31, 2024. In addition, the following refinements or additions are requested:
 - a. Financial statements should be provided with more granularity as the submitted appear to be condensed versions.
 - b. For the income statements, include actual and pro forma columns.

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1843(c)(8) and (j).

- c. The financial statements should include and identify the one-time merger costs as well as projected costs/revenues with the proposed merger with assumptions explained.
2. Provide actual and pro forma asset and liability concentrations for CONA relative to (i) tier 1 capital plus allowance for credit losses and (ii) total loans. All figures requested should be as of December 31, 2024.
3. Provide asset quality ratios (with relevant calculations) for Capital One and CONA on a consolidated and bank only basis, using actual and pro forma balance sheets as of December 31, 2024. The asset quality analysis should include the following:
 - a. Focus on two separate elements: (i) internally classified assets comprised of the separate categories of substandard, doubtful, and loss (with relevant components of other real estate owned (“OREO”) separately identified in each category), and (ii) nonperforming assets, comprised of nonaccrual loans, all restructured and modified loans, and OREO.
 - b. For the classified assets ratio, the level of classified assets should be compared to the total amount of tier 1 capital and allowance for credit losses.
 - c. For the nonperforming assets ratio, the level of nonperforming assets should be compared to the total equity capital and the allowance for credit losses.
4. Provide loan loss reserve coverage ratios (with relevant calculations) for Capital One and CONA on a consolidated and bank only basis, using actual and pro forma balance sheets as of December 31, 2024. The coverage ratios should include the following:
 - a. For the numerator use the total allowance for credit losses and for the denominator use nonaccrual loans and leases.
5. Provide balance sheet and income statements for DFS Corporate Services, LLC, and DFS Services, LLC, both of Riverwoods, Illinois, as of December 31, 2024.

Provide your response via EZ-File #111944 within eight business days. Any information for which confidential treatment is desired should be so labeled and separately bound in accordance with section 261.17 of the Board’s Rules Regarding Availability of Information. The public portion of any response should be so designated. The Board will make the public portion of this request and the public portion of any response available on the Board’s website, so that it is readily accessible to the commenters and to other interested parties.³ Please also send a copy of your response to the Office of the Comptroller of the Currency Senior Licensing Analyst Jenny Small at jenny.small@occ.treas.gov, the Federal Deposit Insurance Corporation Senior Case Manager Jeffrey Ralston at jralston@fdic.gov, and the Delaware Office of the State Bank Commissioner Senior Deputy Commissioner Lisa Collison at lisa.collison@delaware.gov.

³ See <https://www.federalreserve.gov/foia/capital-one-discover-application-materials.htm>.

If you have any questions, please contact Katherine Eike of this Reserve Bank, via email at kathy.eike@rich.frb.org.

Sincerely,

E-SIGNED by Brent Hassell
on 2025-01-28 17:19:05 GMT

Brent Hassell
Assistant Vice President

cc: Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Delaware Office of the State Bank Commissioner