

NOTIFICATION
to the
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
by
CAPITAL ONE FINANCIAL CORPORATION
in connection with the acquisition of
DISCOVER FINANCIAL SERVICES AND ITS NONBANKING SUBSIDIARIES
pursuant to Sections 4(c)(8) and 4(j)
of the Bank Holding Company Act of 1956, as amended
and Section 225.24 of Regulation Y

March 20, 2024

Board of Governors of the Federal Reserve System



Notification by a Bank Holding Company to Acquire a Nonbank Company and/or Engage in Nonbanking Activities

Capital One Financial Corporation

Corporate Title of Notificant

1680 Capital One Drive

Street

McLean

City

Virginia

State

22102

Zip Code

Hereby provides the Board with a notice pursuant to:

- ☐ (1) Section 4(c)(8) and 4(j) of the Bank Holding Company Act of 1956, as amended ("BHC Act"— 12 U.S.C. 1843), under the "Expedited action for certain nonbanking proposals by well-run bank holding companies" as described in section 225.23 of Regulation Y; or
- ☒ (2) Section 4(c)(8) and 4(j) of the BHC Act, under the "Procedures for other nonbanking proposals" as described in section 225.24 of Regulation Y;

for prior approval to engage directly or indirectly in certain nonbanking activities, *de novo*, through acquisition of the assets of a going concern, or through direct or indirect ownership, control, or power to vote at least 100% of the voting shares of:

DFS Services LLC (primarily engaged in financial data processing, including payments, lending and related servicing)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

2500 Lake Cook Road

Street

Riverwoods

City

Illinois

State

60015

Zip Code

Discover Financial Services (Canada), Inc. (primarily engaged in financial data processing, including payments)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

Three Bentall Center, 595 Burrard St., Suite 2600

Street

Vancouver

British Columbia, Canada

V7X1L3

City

State

Zip Code

PULSE Network LLC (engaged in financial data processing, including payments)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

1301 McKinney, Suite 600

Street

Houston

Texas

77010

City

State

Zip Code

Diners Club International Ltd. (primarily engaged in financial data processing, including payments, lending and related servicing)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

2500 Lake Cook Road

Street

Riverwoods

Illinois

60015

City

State

Zip Code

Diners Club Services Private Ltd.– India (primarily engaged in financial data processing, including payments)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

Level 1, First International Financial Centre, Plot No C-54 and C-55 G Block

Street

Mumbai

India

400051

City

State

Zip Code

Diners Club Services Taiwan Ltd. (engaged in financial data processing, including payments)

Corporate Title of Company to be Acquired and/or Description of Nonbanking Activity

15-2, No. 168, Sec. 3, Nanjing E. Rd

Street

Taipei

Taiwan

N/A

City

State

Zip Code

Does Notificant request confidential treatment for any portion of this submission?

☒ Yes

☒ As required by the General Instructions, a letter justifying the request for confidential treatment is included.

☒ The information for which confidential treatment is being sought is separately bound and labeled “CONFIDENTIAL.”

☐ No

Public Reporting Burden for this collection of information is estimated to average 0.5 hours for a post-consummation notification, 5 hours for an expedited notification, and 12 hours for a complete notification, including the time to gather and maintain data in the required form, to review instructions, and to complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of

Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0121), Washington, D.C. 20503. The Federal Reserve may not conduct or sponsor, and an organization or a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

Name, title, address, telephone number and facsimile number of person(s) to whom inquiries concerning this notification may be directed:

Rosemary Spaziani, Esq.
Wachtell, Lipton, Rosen & Katz, 51 W. 52nd Street, New York, NY 10019
(212) 403-1342, (212) 403-2354 (fax)
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with a copy to:

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rkim@wlrk.com

Certification

I certify that the information contained in this notification has been examined carefully by me and is true, correct, and complete, and is current as of the date of this submission to the best of my knowledge and belief. I acknowledge that any misrepresentation or omission of a material fact constitutes fraud in the inducement and may subject me to legal sanctions provided by 18 USC 1001 and 1007.

I also certify, with respect to any information pertaining to an individual and submitted to the Board in (or in connection with) this notification, that the notificant has the authority, on behalf of the individual, to provide such information to the Board and to consent or to object to public release of such information. I certify that the notificant and the involved individual consent to public release of any such information, except to the extent set forth in a written request by the notificant or the individual, submitted in accordance with the Instructions to this form and the Board's Rules Regarding Availability of Instructions to this form

and the Board's Rules Regarding Availability of Information (12 CFR Part 261), requesting confidential treatment for the information.

I acknowledge that approval of this notification is in the discretion of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Actions or communications, whether oral, written, or electronic, by the Federal Reserve or its employees in connection with this filing, including approval if granted, do not constitute a contract, either express or implied, or any other obligation binding upon the agency, the United States or any other entity of the United States, or any officer or employee of the United States. Such actions or communications will not affect the ability of the Federal Reserve to exercise its supervisory, regulatory, or examination powers under applicable laws and regulations. I further acknowledge that the foregoing may not be waived or modified by any employee or agency of the Federal Reserve or of the United States.

Signed this 20th day of March, 2024.

DocuSigned by:

Matt Cooper

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Matthew Cooper, General Counsel & Corporate Secretary

Typed Name and Title

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Request for Confidential Treatment

Confidential treatment is being requested under the federal Freedom of Information Act, 5 U.S.C. § 552 (the “FOIA”), and the implementing regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), for the information contained in the Confidential Exhibits Volume to this application (the “Confidential Materials”). The Confidential Materials include, for example, nonpublic pro forma financial information and information regarding the business strategies and plans of (1) Capital One Financial Corporation (“COFC”), Vega Merger Sub, Inc. (“Merger Sub”) and Capital One, National Association (“CONA”) and (2) Discover Financial Services (“Discover”) and Discover Bank (“Discover Bank”), and other information regarding additional matters of a similar nature, which is commercial or financial information that is both customarily and actually treated as private by COFC, Merger Sub, CONA, Discover and Discover Bank and provided to the government under an assurance of privacy. Certain information in the Confidential Materials also includes “confidential supervisory information” as defined in the Federal Reserve’s regulations at 12 CFR § 261.2, which is protected from disclosure. None of this information is the type of information that would otherwise be made available to the public under any circumstances. All such information, if made public, could result in substantial and irreparable harm to COFC, Merger Sub, CONA, Discover and Discover Bank. Other exemptions from disclosure under the FOIA may also apply. In addition, investors and potential investors could be influenced or misled by such information, which is not reported in any documents filed or to be filed in accordance with the disclosure requirements of applicable securities laws, as a result of which COFC, Merger Sub, CONA, Discover and Discover Bank could be exposed to potential inadvertent violations of law or exposure to legal claims. Accordingly, confidential treatment is respectfully requested for the Confidential Materials under the FOIA and the Federal Reserve’s implementing regulations.

Please contact Rosemary Spaziani (212-403-1342) or Richard K. Kim (212-403-1354) before any public release of any of this information pursuant to a request under the FOIA or a request or demand for disclosure by any governmental agency, congressional office or committee, court or grand jury. Such prior notice is necessary so that COFC, Merger Sub, CONA, Discover and Discover Bank may take appropriate steps to protect such information from disclosure.

Introductory Statement

This Notification to the Board of Governors of the Federal Reserve System (the “Federal Reserve”), pursuant to Section 4(c)(8) and 4(j) of the Bank Holding Company Act of 1956, as amended¹ (the “BHC Act”), relates to the acquisition by Capital One Financial Corporation, McLean, Virginia (“COFC”, together with its subsidiaries, “Capital One” or the “Company”) of Discover Financial Services (“Discover”) and its subsidiaries (excluding Discover Bank and Discover Bank’s subsidiaries) (the “Discover Nonbanking Companies”) via a merger of Discover with and into COFC with a multi-step transaction (the “Proposed Transaction”).

The organizational chart provided in Exhibit 1 sets forth the entities that Capital One is acquiring pursuant to the Proposed Transaction and highlights those Discover Nonbanking Companies, which are related to this Notification. As detailed in Exhibit 2, Discover Nonbanking Companies engage in permissible payment activities permissible under Section 4(c)(8) of the BHC Act and Subpart C of Regulation Y, as having been determined to be so closely related to banking as to be a proper incident thereto. Capital One is requesting prior Board approval under Section 4(c)(8) of the BHC Act to acquire the Discover Nonbanking Companies.

The Discover Nonbanking Companies operate the Discover Network, the PULSE network (“PULSE”) and Diners Club International (“Diners Club”), collectively known as the “Discover Global Network.” The Discover Network processes transactions for Discover-branded credit and debit cards and provides payment processing and settlement services. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as merchant acceptance throughout the United States for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded charge cards and/or provide card acceptance services. Discover provides Diners Club licensees with payment processing and settlement services for transactions, as well as a centralized service center and technological services.

With the acquisition of the Discover Nonbanking Companies, Capital One will scale and leverage the benefits its eleven-year technology transformation across the Discover payments network to provide customers and merchants expanded products and services within Capital One’s robust risk management framework.

For the reasons discussed in this Notification, Capital One respectfully submits that the acquisition of the Discover Nonbanking Companies fully satisfies the statutory factors that the Federal Reserve is required to consider under the BHC Act and that the acquisition of the Discover Nonbanking Companies merits the Board’s approval.

¹ 12 U.S.C. § 1843(c)(8).

Overview of the Proposed Transaction

COFC, Merger Sub and Discover entered into the Agreement and Plan of Merger on February 19, 2024 (the “Agreement”), for COFC to acquire Discover through a merger and, thereby indirectly acquire Discover Bank. Each outstanding share of Discover’s common stock (“Discover Common Stock”) will be converted into the right to receive 1.0192 shares (the “Exchange Ratio”) of COFC common stock (the “COFC Common Stock”). Each outstanding share of Discover preferred stock will be converted into the right to receive one share of a newly created series of COFC preferred stock having materially the same terms as the applicable series of Discover preferred stock.

In the Proposed Transaction, there will be three mergers, all part of a single, integrated transaction. First, Merger Sub will merge with and into Discover, with Discover continuing as the surviving corporation to effectuate the “First Step Merger.” Immediately following the First Step Merger, the “Second Step Merger” will occur in which Discover will merge with and into COFC, with COFC continuing as the surviving corporation and, following the Second Step Merger, the separate corporate existence of Discover will cease. Immediately following the Second Step Merger, the Bank Merger will take place in which Discover Bank will merge with and into CONA, with CONA continuing as the surviving entity and the separate corporate existence of Discover Bank will cease to exist.

See the summary of terms of the Proposed Transaction provided in Exhibit 3.

On consummation of the Proposed Transaction, the subsidiaries of Discover Bank will become subsidiaries of CONA and the other direct and indirect subsidiaries of Discover will become direct or indirect subsidiaries of COFC. In Exhibit 1, please find the current organizational chart of Discover, which sets forth the entities to be acquired by Capital One, including the Discover Nonbanking Companies described in Exhibit 2. In Confidential Exhibit A, please find a pro forma organizational chart of COFC.

The Proposed Transaction will substantially enhance Capital One’s ability to distribute its broad suite of consumer and business banking products and services, and better position the combined organization to compete with the largest banking organizations in the United States.

Required Approvals

- An application to the Federal Reserve by COFC and Merger Sub, requesting approval to acquire Discover and thereby Discover Bank, pursuant to sections 3(a)(3) and (5) of the BHC Act, and section 225.15 of Regulation Y (the “FRB Application”);
- An application to the OCC for prior approval for Discover Bank to merge with and into CONA, with CONA as the surviving institution, pursuant to the Bank Merger Act and to operate Discover Bank’s branch as a licensed branch of CONA pursuant to

the Bank Merger Act, section 36(d) of the National Bank Act and the OCC's implementing regulations (the "OCC Application");² and

- An application to the Delaware State Bank Commissioner for prior approval to acquire control of Discover Bank immediately prior to the Bank Merger, pursuant to Title 5 Del. C. § 843, and for a waiver of the 30% state deposit concentration limit pursuant to Title 5 Del. C. § 795H.

Permissibility of the Discover Nonbanking Companies Acquisition under the BHC Act

Section 4(c)(8) of the BHC Act permits a bank holding company to acquire "shares of any company the activities of which had been determined by the Board by regulation or order under this paragraph as of the day before November 12, 1999, to be so closely related to banking as to be a proper incident thereto (subject to such terms and conditions contained in such regulation or order, unless modified by the Board)."³ Section 225.28(b) of the Board's Regulation Y sets forth a list of activities that the Board has previously determined to be permissible under Section 4(c)(8). Among the permissible activities are those engaged in by the Discover Nonbanking Subsidiaries, namely:

- Payments and data processing, permissible under 12 CFR § 225.28(b)(14); and
- Extensions of credit, loan servicing and other activities related thereto, permissible under 12 CFR § 225.28(b)(1)-(2).

Certain of the Discover Nonbanking Companies are also engaged in providing services to affiliates, as permissible under 12 CFR § 225.22(b). Based on the diligence it has conducted to date, Capital One understands that the activities and investments of the Discover Nonbanking Companies are permissible for bank holding companies. Please refer to Exhibit 2 for additional information on which activities are conducted in each of the Discover Nonbanking Subsidiaries.

In considering a proposal by a bank holding company to acquire a nonbank company, the Board is required under Section 4(j)(2)(A) of the BHC Act to consider whether the proposal "can reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices or risk to the stability of the United States banking or financial system."⁴ As part of its consideration of these factors, the Board also reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets and the public benefits of the proposal. As discussed below, Capital One submits that the proposed acquisition by Capital One of the Discover Nonbanking Companies satisfies all of the factors that the Board is required to consider under the BHC Act.

² 12 U.S.C. §§ 24, 36(d), 1828(c) and 1831u; 12 CFR §§ 5.33 and 5.34. This OCC Application will also cover the operating subsidiaries of the Bank Merger.

³ 12 U.S.C. § 1843(c)(8).

⁴ 12 U.S.C. § 1843(j)(2)(A) (as amended by Section 604(e) of the Dodd Frank Act, effective July 21, 2011).

Financial and Managerial Resources

The Proposed Transaction will introduce the Discover Global Network to Capital One. Currently, Discover processes approximately 5% of total debit purchase volume and 4% of total credit purchase volume in the United States. Capital One expects to utilize its strong credit card issuance platform to drive increased volume to the Discover Global Network, which, coupled with expected additional investments in the Discover Global Network, position the Discover Global Network to compete more effectively with Visa, Mastercard, and Amex.

Capital One has strong financial, capital, liquidity and managerial resources, including a robust risk management framework (“RMF”), that will enable it to consummate the Proposed Transaction, successfully integrate the operations of Discover into Capital One and Discover Bank into CONA, and ensure the continued safe and sound operation of Capital One, including the Discover Nonbanking Companies, going forward.

Senior management of Capital One will continue to take steps to ensure that COFC maintains suitable capital planning, liquidity management, managerial resources, corporate governance, enterprise risk management programs, compliance and technological infrastructure commensurate with its size, complexity, risk profile, and scope of operations and otherwise meet the Federal Reserve’s and OCC’s supervisory expectations. As a Category III organization under the Federal Reserve’s prudential standards for large bank holding companies (Regulation YY, 12 CFR part 252), COFC has already been subject to enhanced prudential supervisory standards, including the Supplementary Leverage Ratio, Countercyclical Capital Buffer requirements of the banking agencies’ regulatory capital rules, company-run capital stress testing and single counterparty credit limits, as well as the liquidity coverage ratio requirement (the “LCR”) and net stable funding requirement (the “NSFR”) and resolution planning requirements.⁵ COFC has satisfactorily met all these requirements and standards and will continue to have the governance, infrastructure and systems to meet all the relevant regulatory requirements and supervisory expectations for a Category III banking organization. Furthermore, the Proposed Transaction will have the effect of bringing the assets, liabilities and operations of the Discover organization under the heightened requirements applicable to Category III organizations, described above.

A. Financial, Capital and Liquidity Strength

Since January 1, 2020, the federal banking agencies’ capital and liquidity rules classify all banking organizations with \$100 billion or more in total consolidated assets into one of four categories (Category I, II, III or IV), based on the banking organization’s asset size and risk profile, with the most stringent capital and liquidity requirements applicable to Category I firms and the least restrictive requirements applying to Category IV firms. Based on this regulatory framework, COFC currently qualifies as a Category III organization. Following the Proposed Transaction, COFC will have approximately \$646 billion in total consolidated assets and will remain well under \$75 billion in cross-jurisdictional activity. Capital One would become subject

⁵ See Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, 84 Fed. Reg. 59032 (Nov. 1, 2019).

to Category II standards if it has \$700 billion or more in total consolidated assets or \$75 billion or more in cross-jurisdictional activity, each as measured based on the average for the four most recent calendar quarters.⁶ Accordingly, upon consummation of the Proposed Transaction, the combined organization will continue to be a Category III firm. Capital One understands the additional regulatory requirements applicable to Category II firms and will be prepared to meet such additional requirements to the extent future growth results in Capital One exceeding the applicable thresholds for classification as a Category II firm.

Capital. Capital One employs comprehensive and rigorous capital planning and capital stress testing programs, and the acquired operations of Discover will be covered by these effective programs. The respective capital and leverage ratios of COFC, CONA, Discover and Discover Bank exceed the minimum ratios necessary for “well capitalized” status and, on consummation of the Proposed Transaction, the capital ratios and leverage ratios of COFC and CONA are projected to exceed the required minimum levels necessary for “well capitalized” status and meet supervisory expectations. The Proposed Transaction is expected to result in a holding company and bank with stronger financial and operating metrics, and increased profitability and scale that will permit the combined organization to better compete against the largest banking organizations and larger regional banking organizations in the United States.

Liquidity. COFC and CONA are subject to the LCR as implemented by the Federal Reserve and OCC (the “LCR Rule”).⁷ The LCR Rule requires each of COFC and CONA to hold an amount of eligible high quality liquid assets that equals or exceeds 100% of its respective projected adjusted net cash outflows over a 30-day period, each as calculated in accordance with the LCR Rule. As a Category III institution with less than \$75 billion in weighted average short-term wholesale funding, COFC’s and CONA’s total net cash outflows are subject to an outflow adjustment percentage of 85%. The LCR Rule requires each of COFC and CONA to calculate its respective LCR daily.

The NSFR requires COFC and CONA to maintain an amount of available stable funding, which is a weighted measure of a company’s funding sources over a one-year time horizon, calculated by applying standardized weightings to equity and liabilities based on their expected stability, that is no less than a specified percentage of its required stable funding, which is calculated by applying standardized weightings to assets, derivatives exposures and certain other items based on their liquidity characteristics. As a Category III institution, COFC and CONA are each required to maintain available stable funding in an amount at least equal to 85% of its required stable funding.

Capital One maintains a robust liquidity risk management program and manages liquidity risk at the consolidated company level to help ensure that it (1) can obtain cost-effective funding to meet current and future obligations under both normal “business as usual” and stressful circumstances, and (2) maintains an appropriate level of contingent liquidity. Management monitors liquidity through a series of early warning indicators that may indicate a potential market or Capital One-specific liquidity stress event, performs liquidity stress tests over multiple

⁶ 12 CFR §§ 252.2 and 252.5.

⁷ 12 CFR § 50 (OCC) and 12 CFR § 249 (Federal Reserve).

time horizons with varying levels of severity, and maintains a contingency funding plan to address a potential liquidity stress event. Capital One's liquidity guidelines and liquidity-related risk limits are established at an enterprise level, as well as managed and monitored at various entity levels, including CONA. Capital One's liquidity risk management program will cover the acquired operations of Discover and Discover Bank on consummation of the Proposed Transaction. Substantial focus has been placed by regulators, the markets and, the banks themselves on a bank's level of insured deposits in absolute terms and relative to total deposits. CONA's insured deposits would be approximately 79% of its total deposits, which is expected to be the highest insured deposit percentage amongst the 10 largest U.S. banks.

Resolution Planning. COFC is a Category III organization for purposes of the Federal Reserve's resolution planning requirements⁸ and CONA is an insured depository institution with more than \$50 billion in total assets that is subject to the FDIC's resolution planning requirements.⁹ Following consummation of the Proposed Transaction, COFC will continue to be a Category III organization, subject to the Federal Reserve's resolution planning rules, and CONA will continue to be subject to the FDIC's resolution planning rules.

Capital One does not expect that the Proposed Transaction will make COFC or CONA materially more difficult to resolve if they fail or experience financial distress. The Proposed Transaction does not involve the acquisition or assumption of complex assets or liabilities. Although Capital One will have a larger asset base after consummation of the Proposed Transaction, approximately 99% of the combined organization's total assets will be held by or through CONA. The introduction of the new operations, legal entities, and activities related to the Discover Global Network is not expected to increase the relatively low level of complexity of Capital One's operations from a resolution standpoint especially given that the Discover Global Network could be viewed as a standalone and marketable asset.

Capital One anticipates that its existing resolution planning processes and governance framework, including ongoing enhancements designed to address regulatory rules and expectations, are appropriate to incorporate Discover, including the Discover Global Network, into Capital One's resolution and recovery planning strategy. Discover's most significant business lines and the significant majority of its assets and liabilities consist of activities at Discover Bank, namely credit card lending and direct banking. Capital One has extensive existing operations, expertise and experience, including extensive resolution planning experience with respect to those activities. The services provided by the Discover Global Network to CONA's material entities and core business lines will be appropriately mapped and evaluated as part of Capital One's resolution strategy. Capital One is currently evaluating the impact of the Proposed Transaction on its resolution plans and resolution strategy, and expects to submit interim updates to its resolution plans within a reasonable timeframe following the consummation of the Proposed Transaction.

⁸ See Regulation QQ, 12 CFR part 243.

⁹ See 12 CFR § 360.10.

B. Managerial Resources

COFC has a diverse, highly accomplished and experienced Board of Directors and senior executive management team, which provide it with outstanding managerial resources to ensure its safe and sound operation.

Boards of Directors

COFC. The COFC Board of Directors and management will evaluate the proposed composition of the Board of COFC following the Proposed Transaction, considering the appropriate size, skill sets, geographic representation, diversity as well as other governance considerations. The Board of COFC will add three members of the Discover Board of Directors and expand from 12 to 15 directors. These individuals will be named at a later date.

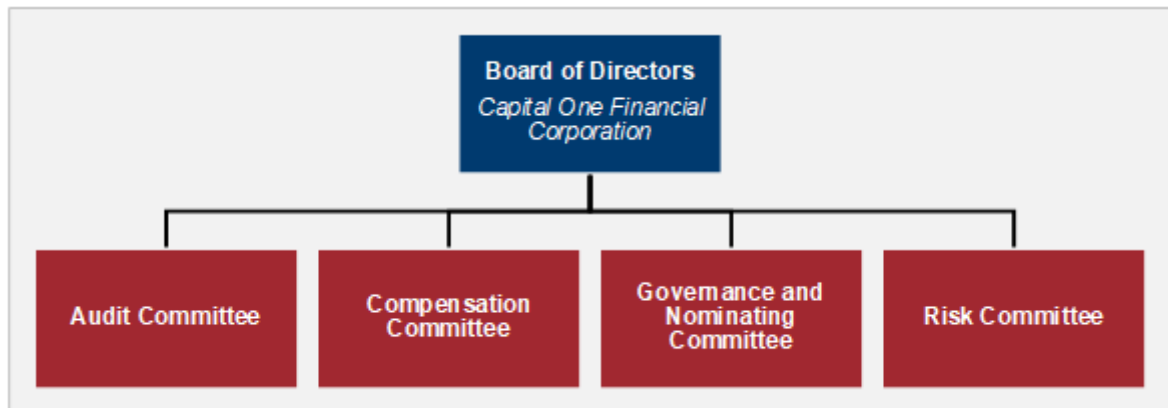
The independent directors of the COFC Board (the “Independent Directors”), each year in conjunction with the Board of Directors’ self-assessment, evaluate the continued effectiveness of its leadership structure in the context of Capital One’s specific circumstances, culture, strategic objectives, and challenges.

The Board of Directors has determined that the existing leadership structure with a combined Chairman/CEO and a Lead Independent Director provides the most effective governance framework and allows Capital One to benefit from Mr. Fairbank’s talent, knowledge, and leadership as the founder of Capital One and allows him to use the in-depth focus and perspective gained in running Capital One to effectively and efficiently lead the Board. As CEO, Mr. Fairbank oversees Capital One’s day-to-day operations and strategic planning, and as Chairman of the Board he leads the Board in its oversight role, including with respect to strategic matters and risk management.

COFC and the Board of Directors also benefit from an active and empowered Lead Independent Director who provides strong, independent leadership for the Board. Recognizing the importance of independent perspectives to the Board to balance the combined Chairman and CEO roles, Capital One appropriately maintains strong independent and effective oversight of its business and affairs through its Lead Independent Director; fully-independent Board committees with independent chairs that oversee Capital One’s operations, risks, performance, compliance and business strategy; experienced and committed directors; and regular executive sessions.

The COFC Board of Directors currently has four standing committees: (i) Audit Committee, (ii) Risk Committee, (iii) Governance and Nominating Committee, and (iv) Compensation Committee. Each committee chair provides recurring reports to the Board regarding its discussions and activities.

COFC Board Committee Structure

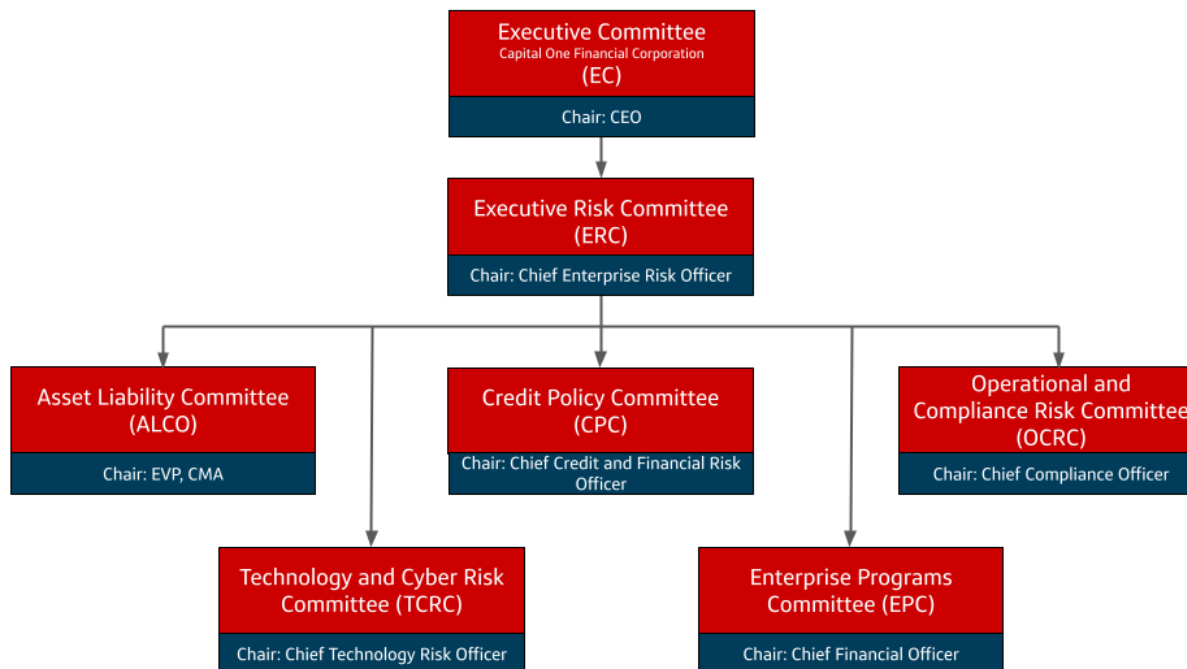


Management

Capital One does not anticipate material changes to the management structure and team. Mr. Fairbank will remain Chairman and Chief Executive Officer of COFC and Chairman, President and Chief Executive Officer of CONA. As part of the integration planning, the management structure and team will be reviewed for any appropriate changes.

As part of its management structure, Capital One has senior management committees, which are governance forums established to advise and assist the CEO and other accountable executives, as subject matter expert advisory panels, in the management of Capital One's strategy, financial results, business operations, compliance with laws and regulations (including those pertaining to consumer protection), and enterprise risk matters, including the Company's performance against risk appetites and limits. The senior management committee structure is an important part of Capital One's broader governance framework.

Senior Management Committee Structure



3. Governance Structure

Capital One is dedicated to strong and effective corporate governance that provides the appropriate framework for the COFC Board of Directors to engage with and oversee the management of the organization. Robust and dynamic corporate governance policies and practices are the foundation of an effective and well-functioning Board, and are vital to preserving the trust Capital One has built with its stakeholders, including customers, stockholders, regulators, suppliers, associates, communities, and the general public.

The COFC Board of Directors and its committees are accountable for oversight of Capital One's business affairs and operations. In carrying out this responsibility, among other things, the Board and its committees oversee management's development and implementation of the Company's (i) corporate culture; (ii) corporate strategy; (iii) financial performance and associated risks; (iv) the enterprise-wide RMF, including cybersecurity and technology risk; (v) succession planning for the Company's CEO and other key executives; (vi) compensation policies and practices; and (vii) policies, programs, and strategies related to Environmental, Social, and Governance matters.

The COFC Board of Directors and its committees regularly review and approve key governance policies and plans. The Corporate Governance Guidelines adopted by the COFC Board of Directors formalize Capital One's key corporate governance practices and facilitate efficient and effective Board oversight. The Guidelines enable the COFC Board of Directors to

engage in responsible decision-making, work with management to pursue Capital One's strategic objectives and promote the long-term interests of its stockholders. The Corporate Governance Guidelines embody many of Capital One's long-standing practices, policies, and procedures, which collectively form a corporate governance framework that promotes the long-term interests of its stockholders, promotes responsible decision-making and accountability, and fosters a culture that allows the COFC Board of Directors and management to pursue Capital One's strategic objectives.

To maintain and enhance independent oversight, the COFC Board of Directors regularly reviews and refreshes its governance policies and practices as changes in corporate strategy, the regulatory environment and financial market conditions occur, and in response to stakeholder feedback and engagement.

Capital One's governance structure is designed to ensure that its business is conducted in compliance with all legal and regulatory requirements. As part of the integration process, Capital One will maintain its governance framework in order to continue providing strong and effective oversight of the combined operations.

4. Risk Management

Capital One dedicates significant resources to Risk Management and maintains a robust RMF, including coverage of liquidity and funding, credit, market, operational (including data and technology), strategic, reputational, and compliance risks. The RMF is rooted in the Risk Appetite Statement for Capital One, which is established by the COFC and CONA Boards of Directors and sets forth the high-level principles that govern risk taking at Capital One. The Risk Appetite Statement defines the Boards of Directors' tolerance for certain risk outcomes at an enterprise level and enables senior management to manage and report within these boundaries. This Risk Appetite Statement is also supported by specific risk appetite statements for each risk category as well as metrics and qualitative factors and, where appropriate, Board Limits and Board Notification Thresholds. Capital One's Risk Appetite Statement and associated metrics will be reviewed with the COFC and CONA Boards of Directors and adjusted to reflect necessary changes, upon integration of Discover's businesses (e.g., Card Concentration).

The RMF is codified in the Enterprise Risk Management Policy, which is reviewed and approved at least annually by the Board of Directors. Capital One maintains a robust structure of policies and supporting documents, which collectively establish clear and specific risk management requirements, commensurate with Capital One's complexity, size, and risk profile.

Risk Officer Structure

Capital One utilizes a dual Chief Risk Officer ("CRO") structure. The Chief Enterprise Risk Officer ("CERO") oversees Compliance Risk, Operational Risk, Reputation Risk, and Strategic Risk, and leads the Enterprise Risk Management function. The Chief Credit and Financial Risk Officer ("CCFRO"), oversees Credit Risk, Liquidity Risk, and Market Risk and leads the Model Risk Management function.

Each CRO reports directly to the CEO and Risk Committee Chair, has unrestricted access to the Board and its committees, is responsible for Risk Committee planning and debriefing interactions with the Chair, and holds membership in all Senior Management Committees. In addition, the CCFRO provides administrative oversight to the Credit Review function, which independently reports to the Risk Committee of the Board.

Lines of Defense

The RMF sets consistent expectations for Capital One’s “Three Lines of Defense” model, which defines the roles, responsibilities and accountabilities for taking and managing risk across Capital One. Accountability for overseeing an effective RMF resides with COFC’s Board of Directors either directly or through its committees. CONA has adopted COFC’s RMF as permitted by the OCC’s Heightened Standards.

	First Line	Second Line	Third Line
	Identifies and Owns Risk	Advises & Challenges First Line	Provides Independent Assurance
Key Responsibilities	Identify, assess, measure, monitor, control, and report the risks associated with their business.	Independent Risk Management (“IRM”): Independently oversees, challenges, and assesses risk taking activities for the First Line.	Provides independent and objective assurance to the Board of Directors and senior management that the systems and governance processes are designed and working as intended and that the RMF is appropriate for the size, complexity, and risk profile of Capital One.

The First Line consists of any line of business or function that is accountable for risk-taking and is responsible for: (1) engaging in activities designed to generate revenue or reduce expenses; (2) providing operational support or servicing to any business function for the delivery of products or services to customers; or (3) providing technology services in direct support of first line business areas. Each Capital One line of business or First Line function must manage the risks associated with their activities, including identifying, assessing, measuring, monitoring, controlling, and reporting the risks within its business activities consistent with the RMF.

The Second Line consists of two types of functions: IRM and support functions that are centers of specialized experts (“Support Functions”). IRM oversees risk-taking activities and assesses risks and issues independent of the First Line. IRM functions play a central role in defining the risk management standards that guide the risk taking activities of the First Line, in addition to providing effective challenge to first line risk taking activities. IRM is responsible for designing and updating the RMF; setting policies and standards for risk identification, assessment, measurement, monitoring, control, and reporting by the First Line; identifying and assessing material aggregate risks consistent with Capital One’s risk appetite; establishing and adhering to enterprise risk policies that include concentration risk limits; and monitoring the risk

profile relative to the approved risk appetite. No First Line executive may oversee an IRM unit. IRM functions provide effective challenge across the relevant risk categories to the first line of defense and, when appropriate, certain activities conducted by support functions. Support Functions include Human Resources, Accounting and Legal, which leverage their skills and expertise to advise Capital One across all lines of defense in performing their respective activities or in identifying, assessing, measuring, monitoring, controlling, and reporting the risks associated with business activities owned by the First Line.

The Third Line is comprised of Capital One's Internal Audit and Credit Review functions. The third line provides independent and objective assurance to senior management and the Board that the first and second lines of defense have systems and governance processes which are well designed and working as intended and that the RMF is appropriate for the size, complexity, and risk profile of Capital One. Additionally, in carrying out its responsibilities, the third line maintains a complete and current inventory of Capital One's material processes, product lines, services, and functions, and assesses the risks, including emerging risks, associated with each, which collectively provide a basis for the audit plan. No First Line executive may oversee any Internal Audit or Credit Review units. Third Line functions provide effective challenge and determine how and when effective challenge is conducted, including the evidentiary requirements.

Elements of the RMF

The RMF consists of the following nine elements:

- *Governance and Accountability.* The RMF sets the foundation for the methods for governing risk taking and the interactions within and among the three lines of defense. Capital One's risk governance structure and culture of accountability is a core focus to effectively and consistently oversee the management of risks across the Company. The Board of Directors, CEO, and management team establish the tone at the top regarding the culture of the Company, including management of risk, which is reinforced throughout the various levels of the organization. Senior Management Committees are governance forums established to assist the CEO and other management team accountable executives in the management of the strategy, financial results, business operations, and enterprise risk management for Capital One.
- *Strategy and Risk Alignment.* Capital One's strategy is informed by and aligned with its risk appetite, from development to execution, including how initiatives may impact Capital One's overall risk profile. The strategy is developed with input from teams in the First, Second, and Third Lines, as well as the Board of Directors.
- *Risk Identification.* The First Line is responsible for identifying risks, including concentration and emerging risks, across the relevant risk categories associated with their current and proposed business activities and objectives. IRM and certain Support Functions, where appropriate, provide effective challenge in the risk identification process. IRM is also responsible for identifying material aggregate risks on an ongoing basis.

- *Assessment, Measurement and Response.* Risks are assessed to understand their severity and likelihood of occurrence under both normal and stressful conditions. Risk severity is measured through modeling and other quantitative estimation approaches, as well as qualitative approaches, based on management judgment. As part of the risk assessment process, the First Line also evaluates the effectiveness of the existing control environment and mitigation strategies. Management determines the appropriate risk response, which may include implementing new controls, enhancing existing controls, developing additional mitigation strategies to reduce the impact of the risk, and/or monitoring the risk. These risk assessments and mitigation strategies are challenged by the Second Line.
- *Monitoring and Testing.* Management monitors risks to ensure alignment with Capital One's risk appetite and to evaluate how the risk is affecting Capital One's strategy, business objectives and resilience. The First Line is required to evaluate the effectiveness of risk management practices and controls through testing and other activities. IRM and Support Functions, as appropriate, assess the First Line's evaluation of risk management, which may include providing effective challenge, performing independent monitoring, or conducting risk or control validations.
- *Aggregation, Reporting and Escalation.* Capital One's risk aggregation processes aggregate risk information from lower levels of the business hierarchy to higher levels to determine material risk themes across the Enterprise and provide a comprehensive view of performance against risk appetite. Material risks are reported to the Risk Committee of the Board of Directors and the appropriate senior management committees no less than quarterly.
- *Capital and Liquidity Management (including stress testing).* Capital One's risk management practices inform key aspects of Capital One's capital planning, including the development of stress scenarios, the assessment of the adequacy of post-stress capital levels, and the appropriateness of potential capital actions. In assessing its capital adequacy at both COFC and CONA, Capital One identifies how and where its material risks are accounted for within the capital planning process. Monitoring and escalation processes exist for key capital thresholds and metrics to continuously monitor capital adequacy. Prudent balance sheet management is a critical component of Capital One's overall business strategy as it enables management to manage risk and allows Capital One to achieve its long-term financial objectives. Capital One identifies and manages funding and liquidity risks that could affect its earnings, balance sheet strength, and investor confidence. Capital One also manages its liquidity position to satisfy regulatory requirements.
- *Risk Data and Enabling Technology.* Risk data and technology are utilized for risk reporting and to monitor changes to Capital One's risk profile. Core governance and risk systems are used as the systems of record to monitor risks, controls, issues, and events and support the analysis, aggregation, and reporting capabilities across the risk categories.
- *Culture and Talent Management.* The RMF relies on the culture, talent, and skills of Capital One's employees. Every associate at the Company is responsible for risk

management; however, associates with specific risk management skills and expertise within the first, second, and third lines of defense are critical to execute appropriate risk management across the enterprise.

Enterprise Risk Management and Categories of Risk

Enterprise Risk Management

Capital One devotes significant resources to maintaining and continuously improving the company's Risk Management Capabilities. A key component of its Risk Management system is the Enterprise Risk Management function and the role it plays in developing, implementing, maintaining, and monitoring adherence to the RMF and the supporting Enterprise Risk Management Policy.

Capital One's Enterprise Risk Management function is led by the Head of Enterprise Risk Management and reports directly to the CERO as well as maintains a seat on the senior leadership team of the Credit and Financial Risk Management organization. The Enterprise Risk Management function is responsible for the following:

- Setting enterprise guidelines and frameworks to support the identification, assessment, measurement, monitoring, controlling, and reporting of risks including concentrations of risk.
- Establishing enterprise risk management governance and strategy; providing advice to the three lines of defense, as the advice relates to enterprise risk management; and communicating significant risk management trends and insights from the enterprise level.
- Conducting oversight, including review and challenge by providing effective challenge; independently monitoring enterprise risk management activities; and independently escalating enterprise risk management gaps and issues.
- Driving risk aggregation, including maintaining a complete and current inventory of material risks; and analyzing and independently assessing the Enterprise Risk Profile across all categories.
- Driving holistic reporting of risk to senior management and the Board through the Enterprise Risk Profile report and other reporting.
- Administering, monitoring, and supporting enterprise-wide communication of the Risk Appetite Program.

The Enterprise Risk Management function fulfills these responsibilities through the establishment of processes and capabilities which support the Enterprise Risk Management framework.

Capital One applies its RMF to protect itself from the major categories of risk that it is exposed to through its business activities. Capital One has seven major categories for the management of risk, as described below.

Categories of Risk	
Compliance	The risk to current or anticipated earnings or capital arising from violations of laws, rules or regulations. Compliance risk can also arise from nonconformance with prescribed practices, internal policies and procedures, contractual obligations or ethical standards that reinforce those laws, rules or regulations
Credit	The risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the Company or otherwise perform as agreed
Liquidity	The risk that the Company will not be able to meet its future financial obligations as they come due, or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time
Market	The risk that an institution's earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates or other market factors
Operational	The risk of loss, capital impairment, adverse customer experience or reputational impact resulting from failure to comply with policies and procedures, failed internal processes or systems, or from external events
Reputation	The risk to market value, recruitment and retention of talented associates and maintenance of a loyal customer base due to the negative perceptions of internal and external constituents regarding the Company's business strategies and activities
Strategic	The risk of a material impact on current or anticipated earnings, capital, franchise or enterprise value arising from the Company's competitive and market position and evolving forces in the industry that can affect that position; lack of responsiveness to these conditions; strategic decisions to change the Company's scale, market position or operating model; or, failure to appropriately consider implementation risks inherent in the Company's strategy

Compliance Risk Management

Capital One recognizes that compliance requirements for financial institutions are increasingly complex and that there are heightened expectations from financial services regulators and customers. In response, Capital One continuously evaluates the regulatory environment and proactively adjusts its compliance program to fully address these requirements and expectations.

Capital One's Compliance Management Program establishes expectations for determining compliance requirements, assessing the risk of new product offerings, creating appropriate controls and training to address requirements, monitoring for control performance,

and independently testing for adherence to compliance requirements. The program also establishes regular compliance reporting to senior business leaders, the executive committee and the Board of Directors.

The Chief Compliance and Ethics Officer is responsible for establishing and overseeing Capital One's Compliance Management Program. Business areas incorporate compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls and Compliance periodically independently tests to validate the effectiveness of business controls. The Chief Compliance and Ethics Officer also oversees the company's Ethics Office, which administers the Code of Conduct and provides training and guidance to ensure the company meets its high expectations for ethical behavior and business practices.

Credit Risk Management

Capital One recognizes that it is exposed to changes in credit quality driven by economic cycles, market pressures and other factors. Consequently, the Company follows robust risk management practices designed to ensure its credit portfolio is resilient to economic downturns and other drivers of changing credit performance. The tools Capital One relies on in this endeavor include customer selection, underwriting, monitoring, remediation, and portfolio management. In unsecured consumer loan underwriting, Capital One generally ensures lending decisions are resilient to higher credit losses than those prevailing at the time of the underwriting. In commercial underwriting, Capital One generally requires strong cash flow, collateral, covenants, and guarantees. In addition to sound underwriting, Capital One continually monitors its portfolio and takes steps to collect or work out distressed loans.

The CCFRO, in conjunction with the Chief Credit Officers for each line of business, is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of Capital One's lending related transactions. The Chief Credit Officers are responsible for evaluating the risk implications of credit strategy and the oversight of credit for both the existing portfolio and any new credit investments.

Capital One's credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, Capital One's goal is to generally provide credit on terms that generate above hurdle returns. Capital One uses a number of quantitative and qualitative factors to manage credit risk, including setting credit risk limits and guidelines for each of its lines of business. Capital One monitors performance relative to these guidelines and reports results and any required mitigating actions to appropriate senior management committees and its Board of Directors.

Liquidity Risk Management

Capital One recognizes that liquidity risk is embedded within its day-to-day and strategic decisions. Liquidity is essential for banks to meet customer withdrawals, account for balance

sheet changes, and provide funding for growth. Capital One has acquired and built deposit gathering businesses and actively monitors its funding concentration. Capital One manages liquidity risk, which is driven by both internal and external factors, centrally and establishes quantitative risk limits to continually assess liquidity adequacy.

The CCFRO, in conjunction with the Head of Liquidity, Market and Capital Risk Oversight, is responsible for the establishment of liquidity risk management policies and standards for governance and monitoring of liquidity risk at a corporate level. Capital One assesses liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure it can withstand significant funding degradation. Results are reported to the Asset Liability Committee monthly and to the Risk Committee no less than quarterly. Capital One also continuously monitors market and economic conditions to evaluate emerging stress conditions and to develop appropriate action plans in accordance with its Contingency Funding Plan and Recovery Plan.

Capital One uses internal and regulatory stress testing and the evaluation of other balance sheet metrics within its Liquidity Framework to confirm that the firm maintains a fortified balance sheet. Capital One relies on a combination of stable and diversified funding sources, along with a stockpile of liquidity reserves, to effectively manage liquidity risk. Capital One maintains a sizable liquidity reserve of cash and cash equivalents, high-quality unencumbered securities and investment securities and certain loans that are either readily marketable or pledgeable. Capital One also continues to maintain access to secured and unsecured debt markets through regular issuance.

Market Risk Management

Capital One recognizes that interest rate and foreign exchange risk are present in its business due to the nature of its assets and liabilities. Market risk is inherent from the financial instruments associated with Capital One's business operations and activities including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Capital One manages market risk exposure, which is principally driven by balance sheet interest rate risk, centrally and establishes quantitative risk limits to monitor and control its exposure.

The CCFRO, in conjunction with the Head of Liquidity, Market, and Capital Risk Oversight, is responsible for the establishment of market risk management policies and standards for the governance and monitoring of market risk at a corporate level. The market risk position is calculated and analyzed against pre-established limits. Capital One uses industry accepted techniques to analyze and measure interest rate and foreign exchange risk and performs sensitivity analysis to identify its risk exposures under a broad range of scenarios. Results are reported to the Asset Liability Committee monthly and to the Risk Committee no less than quarterly.

Management is authorized to utilize financial instruments as outlined in Capital One's policy to actively manage market risk exposure. Investment securities and derivatives are the main levers for the management of interest rate risk. In addition, Capital One also uses derivatives to manage foreign exchange risk.

Operational Risk Management

Capital One recognizes the criticality of managing operational risk on both a strategic and day-to-day basis and that there are heightened expectations from its regulators and customers. Capital One has implemented appropriate operational risk management policies, standards, processes and controls to enable the delivery of high quality and consistent customer experiences and to achieve business objectives in a controlled manner.

The Chief Operational Risk Officer (“CORO”), in collaboration with the Chief Technology Risk Officer (“CTRO”), is responsible for establishing and overseeing Capital One’s Operational Risk Management Program. Both the CORO and CTRO report to the CERO. The program establishes practices for assessing the operational risk profile and executing key control processes for operational risks. These risks include topics such as internal and external fraud, cyber and technology risk, data management, model risk, third-party risk management, country risk, payments risk, and business continuity. Operational Risk Management and Technology Risk Management enforce these practices and deliver reporting of operational risk results to senior business leaders, the executive committee and the Board of Directors.

Reputation Risk Management

Capital One recognizes that reputation risk is of particular concern for financial institutions and, increasingly, technology companies, in the current environment. Areas of concern have expanded to include company policies, practices and values and, with the growing use of social and digital platforms, public corporations face a new level of scrutiny and channels for activism and advocacy. The heightened expectations of internal and external stakeholders have made corporate culture, values and conduct pressure points for individuals and advocates voicing concerns or seeking change. Capital One manages both strategic and tactical reputation issues and builds relationships with government officials, media, community and consumer advocates, customers and other constituencies to help strengthen the reputations of both Capital One and the industry. Capital One’s actions include implementing pro-customer practices in its business and serving low- to- moderate- income communities in its market area consistent with a quality bank and an innovative technology leader. The Executive Vice President, Head of External Affairs, is responsible for managing Capital One’s overall reputation risk program. Day-to-day activities are controlled by the frameworks set forth in the Reputation Risk Management Policy and other risk management policies.

Strategic Risk Management

Capital One recognizes that strategic risk is present within its business and strategy. Capital One monitors risks for the impact on current or future earnings, capital growth or enterprise value arising from changes to the Company’s competitive and market positions, including as a result of evolving forces in the industry. Additionally, Capital One monitors timely and effective responsiveness to these conditions, strategic decisions that impact the Company’s scale, market position or operating model and failure to appropriately consider implementation risks in the Company’s strategy. Potential areas of opportunity or risk inform the Company’s strategy, which is led by the Chief Executive Officer and other senior executives.

The CERO, in consultation with the CCFRO, oversees the identification and assessment of risks associated with the Company's strategy and the monitoring of these risks throughout the year.

Capital One's Strategic Risk Management Policy, processes and controls encompass an ongoing assessment of risks associated with corporate or line of business specific strategies. These risks are managed through periodic reviews, along with regular updates to senior management and the Board.

Integration of Discover into the Capital One RMF

Immediately upon closing, Capital One will begin to apply its RMF to Discover's businesses and risk management functions. In parallel, Capital One will start a process to integrate Discover's existing risk management functions directly into their counterparts or equivalents at Capital One. In those instances where Capital One does not currently have an equivalent risk management function (e.g., for the Discover Global Network, discussed below), Capital One will establish such a function with appropriate executive oversight and merge the relevant Discover risk management function into it upon the consummation of the Proposed Transaction.

Capital One expects that this integration will occur in phases and result in one, cohesive and comprehensive Risk Management system for the combined entity operating under uniform Capital One policies, standards and expectations. During the integration period, Capital One will mitigate the risks related to the transition to a single risk management framework through the implementation of a comprehensive integration plan. The integration plan will seek to prioritize the highest risk areas first as well as provide a means for monitoring, reporting and escalating progress against the plan.

With respect to the Discover Global Network, Capital One's risk management strengths provide a strong foundation for integration. Capital One recognizes that conducting full risk oversight related to the Discover Global Network will require Capital One to expand its risk management capabilities. In particular, Capital One intends to establish, prior to integration, dedicated teams that will oversee the Discover Global Network's risk management upon consummation of the Proposed Transaction. These teams will include dedicated staff with relevant industry experience and expertise across operational risk management, technology risk management compliance and other Second Line teams.

As a part of the integration activities, Capital One will evaluate Discover's current risk management approach to the Discover Global Network, ensuring continuity of oversight during the transition while developing plans to elevate risk management practices where necessary. This evaluation will include an assessment of the talent and skill sets in all three Lines of Defense to oversee and manage these risks consistent with Capital One's Enterprise Risk Management framework, across applicable risk management categories, and risk appetite. Additionally, Capital One will conduct detailed risk assessments of Discover Global Network, including critical processes, infrastructure, and products. These risk assessments will result in risk mitigation activities where appropriate, and will inform Capital One's enterprise-level assessments of material risk and risk appetite performance.

5. Compliance

Capital One manages compliance risk through its Compliance Management Program (“CMP”), as established by its Compliance Management Policy (“Compliance Policy”). The CMP, as outlined in the Policy, provides an enterprise-wide approach to compliance risk management and oversight that creates and supports a culture of compliance throughout the Company. Capital One’s CMP is designed to ensure that Capital One appropriately identifies, manages, and oversees all compliance risk – including consumer compliance, fair lending, and AML risk – through sound governance, rigorous controls and transaction testing, advice and effective challenge to the First Line and staff functions, and timely risk escalation. The program also establishes regular compliance reporting to senior business leaders, the executive committee, and the Board of Directors.

The Chief Compliance and Ethics Officer is responsible for establishing and overseeing the CMP and leads the Compliance & Ethics (“C&E”) department. C&E is staffed by compliance leaders and professionals with expertise in regulatory risk management, testing, investigations, ethics, and data. The C&E organization fulfills IRM risk activities as a Second Line function that advises and effectively challenges the First Line and staff operations under Capital One’s Enterprise Risk Management Framework.

The First Line and staff operations are accountable for complying with laws and regulations and incorporating compliance requirements and controls into their business policies, standards, processes, and procedures. They regularly monitor and report on the efficacy of their compliance controls; as a second line IRM function, C&E independently tests to validate the effectiveness of first line business controls. Additionally, C&E advises the first line on applicable regulatory requirements, compliance risks related to new and changed products, and the assessment and remediation of issues and events. C&E both advises and effectively challenges the first line in their development and enhancement of products, processes and procedures to ensure they maintain effective control oversight and support adherence to compliance requirements.

Culture of Compliance

Capital One’s culture is built on two core values: Excellence and Do the Right Thing. To promote these values, Capital One’s Code of Conduct (“Code”) memorializes a commitment to comply with applicable laws, regulations and internal policies governing conduct and operations. Following these policies helps to ensure that honesty, fair dealing, and integrity are hallmarks of Capital One’s business dealings. By adhering to the Code, associates live Capital One’s values and ensure that Capital One is recognized for modeling the highest standards of business conduct in everything it does. The Code is more than just a set of “do’s and don’ts.” It provides guidance, practical information, and resources that help enhance Capital One’s relationships with its customers, each other, and all of the people that play a role in Capital One’s success.

The Board of Directors reviews and approves the Code. The Ethics Office, which is managed by the Chief Compliance and Ethics Officer, has day-to-day responsibility for administering the Code and managing Capital One’s Ethics program. In addition, the Ethics

Office is responsible for managing the Ethics Line, which is a confidential reporting tool operated by an independent third party. Reports may be submitted to the Ethics Line online or through a call center that operates 24 hours a day, seven days a week. Ethics Line complaints may be submitted anonymously, and phone calls are not recorded.

All newly hired associates receive the Code with their employment offer and, within their first 30 days, must complete a 30-minute interactive computer-based training course where they agree to comply with the Code and demonstrate their understanding of its content. Thereafter, all associates are required to complete the Code training annually and agree to comply with the Code and all related policies, standards, and procedures.

Doing the right thing includes speaking up. Capital One expects all associates to immediately report any suspected or potential violations of law, the Code, the company's policies, or other actions inconsistent with Capital One's values. Associates may report concerns to their manager, the Associate Relations team in Human Resources, the Ethics Line, or to the Ethics Office. Raising concerns within Capital One does not prevent associates from reporting the same concerns to law enforcement or the relevant government entity if there is a suspected or potential violation of law. Further, Capital One prohibits retaliation against any individual for making good faith claims regarding possible violations of law, the Code or other Company policies. Capital One also prohibits retaliation against any individual for participating in or cooperating with any investigation.

In addition, as discussed in *Risk Management* above, Capital One expects the integration to require a substantial amount of investment in the Risk Management team and related infrastructure to ensure a successful transition.

Oversight, Escalation and Reporting

Compliance risk reporting is foundational in supporting Capital One's Board of Directors and senior management committee members in executing their compliance risk oversight responsibilities. The Compliance Policy and Compliance Risk Reporting Standard outline the process for compliance reporting. Through the CMP, C&E supports the enterprise's adherence to Capital One's compliance risk appetite by tracking and producing data that corresponds to Compliance Risk Appetite Metrics (as well as informational metrics) that are reported to senior management and the Risk Committee of the Board of Directors. In addition, the charter of the Audit Committee requires the Chief Compliance and Ethics Officer to discuss the annual assessment of the Corporation's enterprise-wide compliance program, including management's corrective actions to address any deficiencies. The update is provided at the joint Risk and Audit Committee meeting held in July each year.

Quarterly, Compliance produces the Compliance Update within the Integrated Risk Management Report ("IRMR") for the Risk Committee of the Board of Directors and senior management through the Operational and Compliance Risk Committee. Further, Compliance produces an annual update within the IRMR for the Audit Committee of the Board of Directors, in accordance with its charter responsibilities. Compliance also provides divisional quarterly compliance reports to the Division Risk Oversight Committees ("ROCs"), consistent with the Senior Management Committee Standard. For functions that are not formally governed by a

ROC, Compliance evaluates and reports any material issues to the Chief Compliance and Ethics Officer, CERO, and Board via the IRMR.

As required by regulation and/or at the discretion of the Chief Compliance and Ethics Officer, additional reports may be produced by Compliance to inform the Board, a Board Committee, and/or senior management on compliance specific topics (e.g., Regulation O, Annual Swap Dealer Report, policy renewals, etc.).

In addition, Compliance contributes risk analysis for other risk reporting provided to Capital One's Board of Directors, such as the Enterprise Risk Profile ("ERP") within the IRMR. The CERO submits the ERP to the Risk Committee of the Board of Directors and senior management Executive Risk Committees. Compliance also contributes risk appetite metrics and annual risk narratives via Enterprise Risk Management's Executive Committee Risk Scorecard. The risk scorecards are organized by Executive Committee members to evaluate risk-taking performance for their respective business areas.

Risk Assessments

Compliance performs and challenges First Line risk assessments at the divisional, business unit, and process and product level to provide a formal, independent perspective on compliance risk. Compliance also conducts Targeted Compliance Risk Assessments, which assess specific areas of risk, or areas required to be assessed by statute, regulatory guidance, or internal policies. Compliance performs the following risk assessments independently of those conducted by the respective business units: AML/Economic Sanctions, Fair Lending, Identity Theft Red Flags, and Anti-Bribery/Anti-Corruption.

Impact on Competition

As discussed further in Exhibit 4 and Confidential Exhibit B, the Proposed Transaction will not substantially lessen competition in any market. Concentration and share levels for the Proposed Transaction are well below safe harbor thresholds in all markets in which the parties compete:

U.S. (2023)	Change in HHI	Post-Merger HHI	Combined Share
Deposits	3	405	2.8%
Checking Account Deposits	0	440	1.1%
Savings Account Deposits	4	593	3.5%
Credit Card Purchase Volume	74	1,226	13.6%
Credit Card Outstanding Balances	178	1,060	19.0%

With respect to banking, there is no overlap in any local banking market. The only relevant geographic market in which to analyze banking competition between the parties is nationwide. In this context, the parties are small players holding less than 3% of deposits whether measured as a whole, by checking account, or savings account deposits, and the Proposed Transaction will cause de minimis changes in concentration levels for these products.

The combined Capital One-Discover will continue to face robust competition for deposits from, in some cases, substantially larger banking institutions such as JPMorgan Chase, BOA, Wells Fargo, Citigroup, and U.S. Bancorp, as well as digital-first financial institutions like Chime Financial, SoFi Technologies, Ally Financial, EverBank Financial, Synchrony Financial, and Varo Money, eliminating any possibility that the Proposed Transaction will substantially lessen competition in any banking market.

The Proposed Transaction will similarly not substantially lessen competition with respect to credit card issuance. Credit card issuing is a highly competitive and fragmented industry. Despite exponential purchasing growth, concentration levels have *declined* in the last decade, demonstrating the competitive and dynamic nature of the industry. Credit card issuers can and do readily adjust, change, and add to their credit card portfolios to attract consumers, and consumers can and do readily add and switch among credit cards. At the same time, new payment and lending solutions such as “Buy Now, Pay Later” have entered the payments and lending landscape, competing with credit card issuers for consumers’ share of their wallet and acting as significant competitive constraints. The Proposed Transaction will not alter these competitive dynamics. The merged Capital One-Discover will lower its combined costs and continue to compete with the plethora of credit card issuers including JPMorgan Chase, Citibank, BOA, U.S. Bancorp, Wells Fargo, Amex, Barclays, and Synchrony Bank, and the Proposed Transaction will increase consumers’ overall access to credit, given Capital One’s more inclusive underwriting standards.

With respect to payments networks, the Proposed Transaction will *deconcentrate* the marketplace and greatly improve competition. Capital One does not own or operate any payments network. Vertically integrating with Discover’s payments networks will add scale to these credit and debit networks—which respective shares are in long-term decline—making the networks less costly to operate on a marginal basis and more attractive to consumers and merchants. The combination will also allow Capital One to lower its transaction-related costs and to reinvest those dollars in improved banking products and services, including investments into the payments networks to reduce fraud, improve dispute resolution processes, and lessen information sharing friction to the benefit of consumers and merchants. These network investments will allow Capital One to further scale the networks, improve the actual and perceived acceptance of the networks, and create a credible alternative to the Visa, Mastercard, and Amex payments networks, which dominate the industry today.

In view of the above, the competitive considerations of the Proposed Transaction, including the acquisition of the Discover Nonbanking Companies, are consistent with approval of this Notification.

Public Benefits of the Acquisition

Capital One will acquire Discover Nonbanking Companies and operate the Discover Global Network to process transactions for the branded credit and debit cards and provide payment transaction processing and settlement services. As noted above, the Proposed Transaction promises to promote competition in two significant segments of the financial-services industry—debit and credit card networks—that would meaningfully benefit from the injection of investment and competition. The increase in competition amongst credit and debit

card networks by strengthening Discover's payments network benefits of the users (i.e., consumers and merchants). For example, Capital One plans to integrate with Discover's debit network, which will reduce Capital One's cost of offering checking account services, including debit cards, and allow it to expand and improve this offering to compete with the nation's largest banks that are able to attract primary accounts and checking deposits at a significant discount to other banks.

In addition to the overall benefits from encouraging increased competitiveness in the debit and credit card networks, the overall Proposed Transaction will benefit the public more broadly. For additional information on how the Proposed Transaction will meet the needs of the public, see the *Convenience and Needs of the Communities* and *Commitment to the CRA* in the public FRB Application in Exhibit 5.

Conclusion

The Proposed Transaction, including the acquisition of the Discover Nonbanking Companies, will result in a stronger and more competitive financial institution, which will better serve the interests of its customers and communities. The managerial and financial resources, as well as the capital and earnings power, of the combined organization will enable it to promote competition within the market. The consolidation of resources will enable the combined company to realize economies of scale and provide a wider and improved array of financial products and services to customers. These combination benefits, especially the greater amount and diversification of earnings and financial resources, are particularly salient given the current financial market and economic conditions, which are posing challenges to less diversified and less well capitalized banking institutions, both large and small.

In addition, the combined Capital One and Discover card businesses and addition of the Discover Payment Network will promote competition in the credit card issuing and processing space. There is no shortage of competitors in the issuance of credit cards and the addition of a strong player into the payment network space will assist in promoting competition and aim to reduce the market share of the current massive players.

Accordingly, for the reasons set forth herein, the acquisition of the Discover Nonbanking Companies should be approved.

Information Required by Section 225.23 of Regulation Y

1. Description of the proposal. (§ 225.24(a)(2)(i))

Please refer to Exhibit 3 for a summary of the Proposed Transaction terms.

2. Description of the companies involved in the transaction and the activities to be conducted. (§ 225.24(a)(2)(i)-(ii))

A description of each of the proposed activities in the Discover Nonbanking Companies and COFC's commitment to conduct its activities in conformity with the Federal Reserve's regulations in the *Permissibility of the Acquisition Under the BHC Act* section above.

As set forth on Exhibit 2, the Discover Nonbanking Companies are engaged only in activities that the Federal Reserve has determined by regulation or order to be so closely related to banking, or managing or controlling banks, as to be proper or incident thereto.

3. Identification of geographic markets in which competition would be affected by the proposal, a description of the effect of the proposal on competition in the relevant markets, a list of the major competitors in that market on the proposed activity if the affected market is local in nature, and, if requested, the market indexes for the relevant market. (§ 225.24(a)(2)(i))

Please refer to the discussion of the competition-related considerations and effect of the Proposed Transaction in the *Introductory Statement* and additional information set forth in Exhibit 4 and Confidential Exhibit B.

4. Provide a description of the public benefits that can reasonably be expected to result from the Acquisition. (§ 225.23(a)(2)(iv))

Please refer to the *Introductory Statement* and Exhibit 5.

5. If the bank holding company has consolidated assets of \$150 million or more, provide the following:

- a. Parent company and consolidated pro forma balance sheets for the acquiring bank holding company as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction.
(§ 225.24(a)(2)(iv)(A))**

Please refer to Confidential Exhibit C.

- b. Consolidated pro forma risk-based capital and leverage ratio calculations for the acquiring bank holding company as of the most recent quarter.
(§ 225.24(a)(2)(iv)(B))**

Please refer to Confidential Exhibit C.

- c. A description of the purchase price and the terms and sources of funding for the transaction. (§ 225.24(a)(2)(iv)(C))**

Please refer to Confidential Exhibit C for a description of the purchase price and the *Introductory Statement* for the terms and sources of funding for the Acquisition.

- 6. For each insured depository institution whose Tier 1 capital, total capital, total assets or risk-weighted assets change as a result of the transaction, the total risk-weighted assets, total assets, Tier 1 capital and total capital of the institution on a pro forma basis. (§ 225.24(a)(2)(vi))**

CONA will not be impacted by the acquisition of the Discover Nonbanking Companies. See Confidential Exhibit C for the overall impact of the Proposed Transaction on CONA.

- 7. A description of the management expertise, internal controls and risk management systems that will be utilized in the conduct of the proposed activities. (§ 225.24(a)(2)(vii))**

Please refer to the *Introductory Statement*.

- 8. A copy of the purchase agreements, and balance sheet and income statements for the most recent quarter and year-end for any company to be acquired. (§ 225.24(a)(2)(viii))**

Please see Exhibit 6 for a copy of the Agreement, Exhibit 7 for the most recent annual report filed by Discover and Confidential Exhibit D for the most recent income statements for the Discover Nonbanking Companies.

EXHIBITS

<u>Exhibit 1</u>	Discover Organizational Chart
<u>Exhibit 2</u>	Discover Nonbanking Companies – Activities and Related Authorities
<u>Exhibit 3</u>	Summary of Terms of the Proposed Transaction
<u>Exhibit 4</u>	Additional Information on Competitive Impact
<u>Exhibit 5</u>	FRB Application (public narrative)
<u>Exhibit 6</u>	Agreement and Plan of Merger, dated February 19, 2024
<u>Exhibit 7</u>	Discover Financial Services Annual Report for period ending December 31, 2023

CONFIDENTIAL EXHIBITS

(SET FORTH IN SEPARATELY BOUND CONFIDENTIAL VOLUME)*

<u>Confidential Exhibit A</u>	Capital One Pro Forma Organizational Chart
<u>Confidential Exhibit B</u>	Additional Information on Competitive Impact
<u>Confidential Exhibit C</u>	Pro Forma Balance Sheet and Capital Calculations
<u>Confidential Exhibit D</u>	Discover Nonbanking Companies Income Statements