



# **CORPORATE GOVERNANCE REPORT**

For the financial year ending 31 December 2022  
Capital One (Europe) plc (the "Company")

# 1. SECTION 172(1) STATEMENT

## Background

In their discussions and decisions during the year ending 31 December 2022, the directors of the Company (the “Board”) have acted in the way that they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole (having regard to stakeholders and the matters set out in Section 172(1) of the Companies Act 2006 (the “Act”).

## Effective decision making and long term value

The Board demonstrated effective decision making to promote the long term success of the Company during 2022 in the following ways:

### **Review and approval of the Company’s business strategy, technology strategy and resource allocation:**

The Board is responsible for oversight and approval of the Company’s business strategy (the “Strategy”), providing direction on what it requires management and the Company to focus on. The Strategy approved by the Board for 2022 focused on matters that align with the Directors’ duties under Section 172(1), such as maintaining strong relationships with stakeholders, including customers, both in the near and long term. In 2022, the Board also provided approval of the Company’s annual budget, ensuring that it allocated appropriate resources to deliver the Strategy. In addition, the Board reviewed and approved the Company’s ‘Tech Strategy’, ensuring that the annual key strategic priorities regarding technology enable the Company to provide long term value for stakeholders. Delivery of the Tech Strategy supports the delivery of the Strategy, and includes aligned priorities in relation to the Company’s objectives on technology and cyber security.

### **Review and approval of the Company’s lending policy:**

The Board reviewed and approved the Company’s ‘Lending Policy’ in 2022, which outlines its approach to offering credit to new and existing customers. Effective decision making and oversight of management regarding lending is crucial to the Company’s long term financial success and underpins the Company’s relationships with its customers. The Board’s focus on good customer outcomes and financial soundness aligns with regulatory requirements.

**Maintaining robust governance arrangements:**

The Board strives to maintain robust governance within the Company and for the Board. In 2022, the Board's 'Terms of Reference' were updated, including an expansion of the list of 'Matters Reserved for the Board' (i.e. the list of business decisions requiring Board approval), thus allowing for greater involvement of the Board in business decision making and oversight, and providing further clarity to management regarding the Board's remit. Additionally, a new delegated Board committee, the Board Risk Committee ("BRC"), was established in early 2022, with the responsibility of reviewing and approving adoption of the Company's risk appetite and overseeing adherence to it. In addition to Board members, attendees at BRC include risk specialists from across the Company and wider Capital One Group. Both the Board and BRC receive regular reports from management, which support the Board's ability to make effective decisions.

**Continual improvements and Board effectiveness:**

The Board focuses on continuous improvements to its own effectiveness, including its administration, composition and relationships with stakeholders. This is driven by an ongoing Board Effectiveness Programme ("Programme") which identifies and delivers improvements, which are facilitated and monitored under the direction of the Company Secretary and Chair. Throughout 2022, actions under this Programme included a re-design of the format and content of Board reporting, to ensure it aligned to the Strategy and supports the Board in ensuring the Company's success. The Programme has also led to additional Board appointments in 2022, ensuring that Board composition continues to be diverse and effective.

## The Board's approach to engagement with its key stakeholders

### Stakeholder engagement and Board member management roles:

The Board maintains awareness of how its activity and decisions impact its shareholders, each of which are other companies within the wider Capital One Group (the "Capital One Group"). The Board also engages directly with the Company's other key stakeholders as part of their management roles through a multitude of other channels and initiatives (the details of which are beyond the scope of this statement). This engagement helps to ensure that Board decision making aligns with the strategic objectives, risk appetite and the values of the Company's shareholders; whilst also ensuring these are appropriately balanced against the priorities of its other key stakeholders. Their management roles also provide Board members with a detailed understanding and valuable first hand experience of the needs and voice of customers, which supports them in fulfilling their directors' duties under section 172(1) of the Act.

### Customers

The Board recognises that fostering positive relationships with the Company's customers, including understanding their needs and circumstances, is fundamental to the Company's success and to delivering good customer outcomes. As such, the Company's business model and Strategy is centred on achieving positive customer outcomes. Examples of the Board's engagement with customers in 2022 included:

- Close involvement with the development of the Company's approach to implementing the Consumer Duty. This included Board review and approval of the Company's Consumer Duty Implementation Plan; including providing challenge and oversight of its delivery. Multiple Board and BRC meetings have taken place specifically to discuss Consumer Duty, including regarding the Board's role, and that of the Consumer Duty Champion.
- The Board received quarterly reports regarding the Company's interaction and engagement with its customers, particularly on areas which are central to the delivery of the Strategy. The Board had sight of the impacts to customers arising from the rising cost of living, discussed interventions to ensure the Company's lending continued to be affordable and the Company was allocating sufficient resource to support struggling customers.

- The Board maintained oversight of the FCA's continued focus on outcomes for customers in financial difficulty, including through Board reports from management on the work done to enhance the support the Company provides.
- Following information provided to the Board from the Company's Chief Experience Officer, the Board requested that all Board reports were re-formatted to further highlight information on: (i) how Company initiatives are impacting customer outcomes; and (ii) details on customer insights underpinning decision making.

### **Employees**

The Strategy is driven by the Company's employees and the Board understands they are key to the Company's success. Therefore, the Board continually considers employees as part of Board discussions and decision-making. Examples of Board's engagement with employees in 2022 included:

- The Board received information from management on the outcome of employee surveys, which in 2022 included employee views on topics such as inclusion and belonging, people leadership and hybrid working.
- The Board also monitored the transition to hybrid working, considering learnings one year on from the adoption of the model.
- The Board maintained awareness of impacts on employees from the rising cost of living, and received information relating to actions management have taken to provide support to employees.
- In support of maintaining a positive culture, the Board approved updates to the Company's Diversity, Inclusion, and Belonging Strategy, and oversaw delivery of that strategy through bi-annual progress reports from management.
- In support of the Company's commitments to gender representation, the Board approved reporting on the Company's Gender Pay Gap Report, and the Company's reporting relating to the 'Women in Finance Charter'. The Board also reviewed the Company's commitments under the Race at Work Charter.

## Regulators and government bodies

The Board understands the need for the Company to engage with its regulators and government bodies, and to understand their priorities, which helps to support the Company's strategic aims. Examples of the Board's engagement relating to regulators and government bodies in 2022 included:

- The Board considered matters arising from UK government bodies and relevant UK and US regulators, as well as changes to laws and regulations which may impact the Company, its customers or employees, for example the FCA's new rules on Consumer Duty (as referenced earlier), the FCA's annual business plan, and several 'Dear CEO' letters received by the Company from the FCA, regarding the use of financial promotions, and the impact on consumers arising from the rising cost of living.
- Management briefed the Board on the Company's interactions with regulators. For example, the FCA's data collection surveys which involved questions regarding the Company's customers; and the US Federal Reserve Board and Office of the Comptroller of the Currency's annual regulatory exams of the Company.
- The Chair, in their role as CEO of the Company, met with the FCA informally, as part of their interest in learning more about the Company. This provided the Company opportunity to have open dialogue with the FCA about its strategic aims, the outcome of which was shared with the Board.
- The Chair, again in their capacity as CEO of the Company, is a member of the Financial Ombudsman Service "Industry Steering Group (Banking)", which met twice in 2022 to discuss the key industry trends in complaints and FOS engagement with firms.
- Through their management responsibilities, Board members engaged in regulatory matters both directly and through industry trade bodies, such as UK Finance. The aim of which is to understand and influence industry thinking on matters impacting the Company and its customers.

## Suppliers and partners

The Board maintains awareness of the Company's business relationships with its key suppliers and partners, who support the Company to operate effectively and execute the Strategy. As part of this, it has oversight of how external factors may impact suppliers and how this can impact delivery of the Strategy (and therefore the success of the Company). Examples of the Board's engagement with suppliers and partners in 2022 included receiving Board reports on the following:

- Material changes in the Company's supply chain, supplier trends and performance data, including updates on the performance of its Appointed Representatives' (i.e. supplier's who perform regulated activity as an agent of the Company), as well as information regarding the strategy applicable to one of the Company's key partners, as specifically requested by the Board.
- The continued impacts of the pandemic on the Company's supply chain, which prompted the Board to consider how to continue to effectively foster relationships with those third parties throughout those circumstances, and the associated impacts to the delivery of the Strategy.
- Regulatory guidance and laws impacting supply chains in 2022, including outsourcing, operational resilience and new requirements relating to Appointed Representatives. For example, the Board approved the Company's Operational Resilience Self Assessment and lessons learned documentation in 2022.
- Critical suppliers and material outsourcing, as part of the European Banking Authority rules on outsourcing.
- Cyber monitoring information relating to the Company's supply chain which has provided the Board with oversight of impacts to the Company's other stakeholders and its business operations.

## **Community and environment**

The Board understands the value the Company can add to the community and environment, and requires management to focus on supporting community engagements. This is embedded as an objective in the Strategy, and operates primarily through the Company's corporate social responsibility ("CSR") and broader engagement activities. Examples of the Board's engagement with community and the environment in 2022 included:

- Review and challenge of management's approach to 'Environmental, Social and Governance' ("ESG"), which included a framework to support the Company in portraying its commitments as a responsible business to its stakeholders.
- The Board reviewed the Company's first CSR Report, and asked management to consider the overall strategic aims of the various publications made by the Company.



## 2.STATEMENT ON EMPLOYEE ENGAGEMENT

### See the 'Section 172(1) Statement'

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the Company has engaged with its employees in 2022.

## 3.STATEMENT ON STAKEHOLDER ENGAGEMENT

### See the 'Section 172(1) Statement'

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company in 2022.

## 4. STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

### Principle 1 - Purpose and Leadership

The Board approved the continued adoption of the Wates Corporate Governance Principles for Large Private Companies (“Wates Principles”) during 2022. The following considers how the Wates Principles were applied by the Company. Further information illustrating the Company’s adoption of the Wates Principles can be seen in the ‘Section 172(1) Statement’ above.

The Company operates with a clear sense of purpose through its Strategy, which sets out clear goals for the Company which align with the Capital One Group values and ‘Mission’ to “Change Banking for Good”. The Strategy is delivered by management under the Board’s leadership; with the goals communicated to employees in a number of ways.

In 2022, the Board maintained close oversight of progress against the Strategy, ensuring that the Company was adhering to those goals. The Board’s Terms of Reference also outlined the Board’s accountability for leading the adoption of the Company’s values.

The Board is committed to investing in its business, employees and local communities to deliver value to its stakeholders; and this is embedded as a key goal within its Strategy. All Board decision making is underpinned by the Company’s values and culture, putting the customer and the Company’s other stakeholders at the centre of decision making. The Board prides itself on the Company’s positive and inclusive company culture. Values and culture have been a particular focus for the Board in 2022, with employees adapting to hybrid working and due to the impact of the rising cost of living on employees.

The governance framework adopted by the Board ensures the purpose and direction of the Company is communicated to employees through management, who provide quarterly updates on progress against the Company’s ‘Imperatives’ (i.e. the Company’s key objectives for the year, sitting in parallel to the Strategy) to all employees.

For further detail regarding the Board’s approach to Purpose and Leadership, see the ‘Effective decision making and long term value’ section of the Company’s ‘Section 172(1) Statement’.

## **Principle 2 - Board Composition**

Members of the Board, including its Chair, represent a range of skills, knowledge and backgrounds, which provides differing perspectives and experience. Two new appointments in 2022 brought additional skills and gender diversity to the Board, thus promoting the overall diversity of the Board. The Chair effectively leads the Board, ensuring that there is open debate and constructive discussion during meetings.

Diverse perspectives are provided to the Board by an independent adviser, who was appointed in 2022. The independent advisor is employed within the wider Capital One Group, but independent from the Company's management.

In 2022, the Chair of the Board and the Head of HR completed a 'succession planning' exercise, the results of which considered the size of the Board and will contribute to future Board composition planning. This exercise identified the key skills required for an effective Board, as well as candidates who may be suitable for future Board appointments.

With support from the Company Secretary, Board members effectively manage time and commitment to their responsibilities, for example by having a dedicated pre-reading day of Board material, which is followed by a pre-meeting allowing for initial discussion on Board reports and the proposed agenda for the Board meeting. Key themes and questions from the pre-reading day are compiled during this pre-meeting and shared with management so they can respond prior to or in the Board meeting. This assists the Board in discharging their duties and drives more focused discussions in Board meetings, allowing Board members to make valuable contributions to discussions.

## **Principle 3 - Director Responsibilities**

Board members understand their accountability and responsibilities in relation to their role on the Board, as set out in Company's internal documentation. Board members receive regular training on their responsibilities as Board members. In 2022, there was a review of the Board's training needs, with input from the Risk and Legal Teams, resulting in updates to documented training plans, providing assurance from those teams that the Board is focusing on the right areas.

The Board has ultimate responsibility for overseeing the Company in accordance with the risk governance structure it adopts and overseeing operation of the appropriate systems and controls of the Company.

The structure and organisation of Board meeting content and agendas is designed to support and enable effective Board decision making, including by ensuring that 'Matters Reserved for the Board' are put forward to the Board. Independent challenge is provided to the Board from different sources (for example, attendance by external parties on specific topics, and the Board's independent adviser). The Board is also able to provide effective independent challenge and oversight to management, as there is a deliberate separation between membership of wider management and the members of the Board.

Various management forums exist in addition to the Board and BRC, which provide effective governance, whilst ensuring that the Board and BRC maintain overall responsibility for challenge and oversight of decision-making by management.

For further detail regarding the Board's approach to Director Responsibilities, see the 'Effective decision making and long term value' section of the Company's 'Section 172(1) Statement'.

## **Principle 4 - Opportunity and Risk**

The Board ensures that the Strategy takes into account business opportunity and risk, and receives regular reports from management against progress on the specific opportunities and risks identified. The Board receives market information on the external environment and business opportunities, such as from the Company's Customer Research Team, as well as from external stakeholders, including regarding new innovations and trends in the market, and on risk and regulation, which provides further insights to inform potential opportunities and risks under the Strategy.

Risk management is overseen by the BRC, which has responsibility for approval and monitoring of risk appetite within the business. Other dedicated management risk fora allow for detailed SME discussion of risk categories such as credit risk, liquidity risk, operational risk and conduct risk, the contents of which are escalated to BRC as appropriate.

For further detail regarding the Board's approach to Opportunity and Risk, see the 'Effective decision making and long term value' section of the Company's 'Section 172(1) Statement'.

## **Principle 5 - Remuneration**

Remuneration for all employees, including executives, is managed through a Capital One Group policy. This requires compensation to be assessed in accordance with individual performance. Whilst the Board does not have a remuneration committee, the Company's adoption of this policy is approved by the Board annually. The policy is accessible to all employees to promote transparency of the remuneration structures applicable within the Company.

The Company's approach regarding payment of competitive compensation to employees is included within the Strategy and is designed to support the sustainable success of the Company. Pay of all employees (including the Company's senior management and Board members), is subject to performance management processes, which are transparent and fair, and are subject to monitoring to ensure appropriate application. Performance management takes a balanced scorecard approach to reviewing employee performance, including taking account of the individuals' objectives, and their approach to business risk and customer outcomes.

The Company publishes an annual Gender Pay Gap Report which is available publicly. The Board reviews and approves this annually, as it is a 'Matter Reserved by the Board'.

## **Principle 6 - Stakeholder Relationships and Engagement**

Board members foster effective stakeholder relationships, which are aligned to the Company's purpose, through both their roles as Board members and also their day to day roles as members of executive management, which includes regular first hand interactions with employees, suppliers and other key stakeholders. For example, quarterly business updates from the CEO of the Company and senior management to employees provide updates on the Company's progress against its Strategy.

The Board has regard to the need to foster business relationships with its stakeholders and oversees the output from the Company's key stakeholder feedback channels, such as employee surveys and customer engagement forums, receiving feedback on the output of those through management information presented to the Board, as well as hearing directly from certain stakeholders invited into Board meetings, such as the Company's external auditors.

For more information regarding the Company's stakeholder relationships, including its interactions with the Capital One Group and the Board's oversight of ESG, see the 'Shareholder Engagement' and 'The Board's approach to engagement with its key stakeholders' sections of the Company's 'Section 172(1) Statement'.