



CORPORATE GOVERNANCE REPORT

For the financial year ending 31 December 2021
Capital One (Europe) plc (the "Company")

1. SECTION 172(1) STATEMENT

Background

The paragraphs that follow outline examples of how the directors of the Company (the “Board”) have fulfilled their duty under Section 172(1) of the Act throughout 2021, in compliance with Section 414CZA of the Companies Act 2006 (the “Act”).

The members of the Board maintain an active awareness of their personal duties as directors under the Act, including their obligations under Section 172(1) to promote the success of the Company for the benefit of its shareholders. In doing so, the Board ensures consistent consideration of the potential consequences of its decision making in the long term and maintaining high standards of business conduct. The Board ensures that strong relationships are maintained between the Company and its key stakeholders, including: employees, customers, regulators, the Company’s supply chain, the community and the environment.

The Board is committed to making effective decisions that promote the long term success of the Company for its shareholders. The Board demonstrated effective decision making in 2021 via the following:

Effective decision making and long term value

Review and approval of the Company’s business strategy:

The Board is responsible for oversight and approval of the Company’s purpose and business strategy (the “Strategy”), ensuring that the Board provides direction on what it would like senior executives and the Company to focus on. The Strategy is submitted to the Board for review and approval by the Company’s CEO. Senior executives are then allocated responsibility for components of the Strategy and provide regular updates on progress against those components throughout the year. The Board is also required to provide approval of the Company’s annual budget, which is designed to allocate appropriate resources to deliver the approved Strategy.

Throughout 2021 the Board maintained continual awareness of the impacts of the pandemic on the Strategy and on its stakeholders, and considered the impact on decisions made under the Strategy as further outlined below.

Review and approval of the Company's lending policy:

The Company's core business is lending, thus the Board reviews and approves the Company's 'Lending Policy', which outlines its approach to offering credit to new and existing customers. Effective decision making in this space is crucial to the Company's long term financial success and underpins the Company's relationships with its customers, ensuring financial soundness, customer affordability and good customer outcomes, which are also of key interest of the Company's regulators.

Maintaining robust governance arrangements:

The Board has regular and timely sight of quality management information which is presented to them by senior executives, either directly or to the Board's Assurance and Risk Committee ("ARC"). The Board has delegated authority to ARC to provide oversight and decision making with respect to all types of risk across the Company. ARC comprises a number of risk subject matter experts from across the business, and is a core part of the Board's effective decision making.

Shareholder engagement:

The Board maintains regard as to 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 Chair of the Board has regular direct engagement with the Company's ultimate parent, which is the publicly traded US company 'Capital One Financial Corporation'. This helps to ensure that Board decision making aligns with strategic objectives, the mission and the values of the Company's shareholders, whilst also ensuring these are appropriately balanced against the priorities of its other key stakeholders.

Continual improvements and regard to Board effectiveness:

The Board undertakes regular assessments of its own effectiveness, including with respect to its administration, composition and relationships with stakeholders. The last review, undertaken by the Company's Risk, Governance and Company Secretarial functions, which commenced at the end of 2020, was reported to the Board at the start of 2021. This process included interviews with each Board member and a number of senior executives. It was concluded and reported that the Board is effective, with some recommendations made to enhance the Board's effectiveness. Throughout 2021, the Board has actively considered the output of this assessment and implemented various changes to further improve its effectiveness. For example, the Board has updated its terms of reference, resulting in an updated list of 'matters reserved for the Board'.

In addition to their responsibilities on the Board, each of the Company's Board members are also senior executives within the Company. This allows for a detailed understanding and valuable first hand experience of how the Company operates on a day to day basis, which contributes to effective decision making under section 172(1) of the Act. Whilst this statement considers stakeholder engagement of the Board members specifically in that capacity, each Board member also engages directly with the Company's key stakeholders as part of their senior executive roles, via a multitude of other channels and initiatives, the details of which are beyond the scope of this statement.

The Board's approach to engagement with its key stakeholders

The Board is aware of the need to:

- i. foster relationships with key stakeholders, including employees, customers, regulators, the Company's supply chain, the community and environment; and
- ii. understand the issues of interest to those stakeholders, which are critical to decisions made by the Board and the long term success of the Company.

Employees

The Board regularly receives information from senior executives on employee sentiment, and takes this into consideration when making decisions which may impact employees. For example, throughout 2021, the Board received information arising from employee survey feedback, which included employee sentiment on a variety of topics, including inclusion and belonging, and the Capital One Group's mission and customer focus; as well as information on the impacts to employees resulting from the pandemic. This information assisted the Board in its decision making when considering the proposal from senior executives for the Company to adopt a hybrid working model. This was recommended in response to employee preference and the success of remote working during the lockdown phases of the UK Government's response to the pandemic.

The Board has maintained awareness of impacts of the pandemic on the Company's employees, and has been regularly updated on the changing talent market following the easing of COVID-19 restrictions.

The Board approved the Company's diversity, inclusion, and belonging ("DIB") strategy in 2021. It has maintained oversight of the DIB strategy through the first bi-annual DIB report, and regular reporting on the Company's commitment to gender representation as signatories of the 'Women in Finance Charter'. The Board remains supportive of the Company being a signatory to the 'Race at Work Charter', and has expressly committed to zero tolerance of harassment and bullying (as required by the Charter).

Customers

The Board recognises that understanding customer needs and circumstances is fundamental to the Company's success. It is core to the Strategy to continually develop a deeper understanding of customer needs and circumstances, as well as continuing to raise the bar on customer outcomes. Since early 2021, additional metrics and insight, focused on the understanding of end to end customer experience, have been shared with the Board to aid decision making and the development of Strategy in this area.

The Board receives regular updates regarding customer interaction and engagement, particularly with respect to any areas deemed to be of high risk or potentially impacting delivery of the Strategy. For example, in 2021, the Board maintained awareness of challenges faced by customers due to the pandemic, and discussed industry interventions to support customers, such as payment deferrals.

The Board has maintained close oversight of progress made with respect to the Financial Conduct Authority's ("FCA") 'Guidance for Firms on the Fair Treatment of Vulnerable Customers', looking to ensure consistent good outcomes for vulnerable customers, and the Board has continued to discuss this with senior executives to ensure it remains a priority. The Board has also been kept informed of the FCA's continued focus on outcomes for customers in financial difficulty and has received reports from senior executives on the work undertaken by the Company to continue to enhance support provided to such customers.

The Board has been engaged on the Company's program of work to implement the FCA's requirements relating to operational resilience in 2021, which amongst other things, is designed to limit disruption to customers. As part of this, the Board has had oversight of key milestones, and where relevant provided approvals, e.g. the identified important business services of the Company. In considering the proposals put forward from senior executives, the Board has had regard to reducing potential impact to customers and market integrity, in the event of potential business disruption.

Regulators

The Board regularly considers matters arising from UK government bodies and both UK and US regulators that may impact the Company, its customers or employees, including relevant publications and commentary. For example, the Board considered matters arising from the FCA's 2021/22 Business Plan relevant to the Company's operation, its customers and employees.

The Board also engages in, and is briefed on, key interactions that the Company has with UK and US regulators. For example, the Board has been briefed on interactions that the Company has had with the FCA as part of thematic work arising from its 2021/22 Business Plan and with the US Federal Reserve as part of the Federal Reserve's 2021 Regulation K examination.

The Board is regularly briefed on key changes to laws and regulation that may impact the Company's operation, its customers and employees, including regular progress updates on the actions taken to deliver compliance. For example, during 2021 the Board has received regular updates on the Company's progress towards implementation of the Payment Services Directive 2.

The Board considers how external engagement on relevant matters can assist the Board in performing its duties. Board members, including through senior executive responsibilities, engage in relevant regulatory matters both directly and through industry trade bodies, including UK Finance and the Finance and Leasing Association. The aim of such interactions is to understand and also influence industry and regulatory thinking on matters impacting the Company and its customers.

Supply chain

The Board maintains awareness and oversight of key priorities and material changes in the Company's supply chain, as well as receiving information on supplier trends and performance, through regular updates and discussion at meetings of the Board and ARC. This enables the Board to ensure the Company is able to effectively deliver the Strategy and provide services to customers and employees, and meet its regulatory requirements where third party suppliers are critical to such delivery. In 2021, the Board received updates on how partner products were performing and received an overview of key governance activities relating to its appointed representative arrangements with one of its partners, Post Office Limited. This information provided the Board with a view of key performance results relating to the Strategy.

In 2021, the Board provided approval of the Company's technology strategy and received regular updates on the transition to a new critical technology supplier for the provision of application development resource.

The Board also monitors how industry changes and initiatives external to the Company, such as amendments to applicable regulatory requirements, may impact its suppliers. For example, in 2021, the Board continued to receive updates from senior executives on the impacts of the pandemic on the Company's supply chain and any potential impacts on customers and employees, as well as the response to emerging regulatory guidance impacting supply chains, including outsourcing and operational resilience. Risks arising from these were discussed by the Board in ARC meetings. The Board has also received regular information relating to specific cyber risks arising in the Company's supply chain, as well as updates on industry threats impacting other companies. This has enabled the Board to maintain knowledge of risk mitigation plans; providing appropriate challenge to this and the level of investment required.

Community and environment

The Board understands the value the Company can add to external stakeholders and the external community and their related initiatives, and therefore requires senior executives to focus on supporting community engagements. This is embedded as an objective in the Strategy.

The Board also supports decisions and activities of the 'Corporate Social Responsibility team', which sets and delivers to the Company's corporate social responsibility strategy and runs ongoing initiatives with community organisations and not-for-profit groups.

In 2021, Board members were briefed on the consideration of 'environment, social and governance' ("ESG") matters, following a materiality assessment conducted by external consultants. The Board has approved a wider piece of work to take place in relation to ESG during 2022 and onwards, which will deepen the Company's understanding and potential future obligations in this area.

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 2021.

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 2021.

4. STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

Principle 1 - Purpose and Leadership

Throughout 2021, the Company has adopted the Wates Corporate Governance Principles (“Wates Principles”). The following considers how the Wates Principles were applied by the Company:

The Board updated its terms of reference in 2021, which declares its purpose to be focusing on the Company values, culture and ensuring that management operates within the defined Company business strategy (the “Strategy”).

The Board develops and sets the Company’s purpose through its engagement with senior executives in the development of the Strategy. The Board ensures alignment of the Company’s values, Strategy and culture to that purpose through regular review of progress against strategic goals, which is received via management information submitted by senior executives. Further, the Board’s approval is required for the Strategy, or material deviations to it.

The Board has adopted the Capital One Group Mission to “Change Banking for Good” and looks to set the tone for the Company’s customer centric culture. The Board considers an inclusive and diverse culture to be essential to a healthy culture overall and to the long term success of the Company, thus the Board has reviewed and approved the Company’s diversity, inclusion, and belonging strategy and oversees management’s delivery of that strategy on a regular basis.

Principle 2 - Board Composition

The Board's most recent Board effectiveness report, delivered to the Board in 2021, evaluated the Board to be effective with valuable contributions being made by all members, including the Chair.

Members of the Company's Board represent a range of skills and knowledge, and are from a balance of backgrounds. A mixture in Board member tenure provides differing perspectives and experience. Each Board member is also employed as a member of the senior leadership team of the Company, and therefore has a detailed, practical understanding of the way the Company operates. Diverse perspectives are also provided to the Board by an independent adviser, who was appointed in the second half of 2021 and is an employee within the wider Capital One Group, though independent from the executive management. The Company Secretary actively contributes to Board deliberations, resulting in further challenge and a second line perspective. The Chair of the Board and Head of HR completed a skills assessment of the Board in 2021, the results of which will contribute to consideration of future Board composition in 2022.

Board members manage their time and commitment to their responsibilities, for example by having a dedicated pre-reading day of Board material. Key themes and questions are compiled to assist the Board in discharging their duties and this has resulted in more focus at Board meetings, allowing Board members to make valuable contributions to discussions.

The Board decreased in size during 2021 following the departure of two members, resulting in a temporary period whereby at the end of 2021, the Board had three members (2 male and 1 female). The Board has undertaken an exercise to expand in size, which has included a review on how to further improve its own diversity and skills. As part of this, the Board has identified and agreed on a new female member who will be appointed in 2022 which will result in the Board gender split moving to 50/50.

Principle 3 - Director Responsibilities

Board members have a clear understanding of their accountability and responsibility in relation to the Board, which is set out within the Company's internal documentation. This also includes information on the Board's delegated risk committee (ARC), management's governance forums and senior executive roles. As 'Senior Managers', all Board members have approval from the FCA to perform the 'Executive Director Function'. Board members are trained regularly on their accountabilities and responsibilities as Board members, and in 2021 training was delivered by external counsel.

The Board's terms of reference provide clarity on the Board's remit including matters reserved for the Board which support effective Board decision making. They support the Board to ensure it has oversight, and approval where necessary, of material decisions and activity within the Company.

The protocol for forming Board meeting agendas supports effective decision making by ensuring matters reserved for the Board are put forward to the Board (i.e. material decisions). Independent challenge is provided to the Board from a variety of sources (for example, attendance from external speakers, the Company Secretary and the Board's adviser who is independent from the Company's management).

Various management forums assist and support the Board with effective governance, whilst ensuring that the Board and ARC maintain overall responsibility for challenge and oversight of decision-making by senior executives. 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.

Principle 4 - Opportunity and Risk

The Board promotes the long-term sustainable success and preserves value of the Company through its approval and oversight of the Strategy which identifies both short and long term opportunities for the Company and considers its long-term value and success. Senior executives provide regular reports to the Board on such opportunities, and they are discussed regularly at quarterly Board meetings, and at other management forums at which Board members are present. Market insight is regularly provided to the Board from external parties, including information on market trends, to enable the Board to consider industry developments with respect to potential future opportunities for the Company. In 2021 for example, the Board received external insight on customers, their choices and use of credit cards.

Throughout 2021, the Board has considered the long term sustainable success of the Company, together with the impacts of the pandemic. The Board has requested regular updates from management on trends and risks emerging from the pandemic, and in turn, allowed for decision making in the best interests of the Company and stakeholders in the long term, including ensuring the Company's success in a post-pandemic environment.

Future opportunity is balanced against the business' risk appetite, which is constantly monitored, with risks mitigated and managed. Oversight of risk management is delegated to the Board's risk committee, ARC (which consists of all Board members as well as key risk experts as advisors). Other dedicated management risk committees allow for further discussion of particular risk categories such as credit risk, liquidity risk, operational risk and conduct risk. The Board also annually adopts Capital One Group risk policies and receives oversight from its parent.

Principle 5 - Remuneration

Remuneration for all employees is managed via a Capital One Group policy, the Company's adoption of which is annually approved by the Board.

Pay of each employee, including Board members, is subject to performance management processes, taking employee achievement and behaviours into account on decisions regarding discretionary pay increases, bonuses and progression. The Company's approach regarding payment of competitive compensation to employees is included within the Strategy. Performance management processes are transparent and fair, and are in turn subject to thorough monitoring to ensure appropriate application.

Principle 6 - Stakeholder Relationships and Engagement

The Board acknowledges the Company's key stakeholders as employees, customers, regulators, supply chain, community and the environment, and the Company's shareholders, which are all within the Capital One Group. It maintains oversight over the Company's 'Stakeholder Map' (a reference document which details each of the Company's key stakeholder groups, including key examples within each category). This is reviewed and approved annually by the Board, which considers the interests of stakeholders when developing the Strategy and purpose.

The Board members individually foster effective stakeholder relationships, which are aligned to the Company's purpose, both through their role as Board members and as senior executives of the Company. The Strategy drives key business activity each year, including with respect to initiatives impacting the Company's key stakeholders which ensures meaningful engagement with stakeholders.

With respect to shareholder engagement, the Company CEO has regular dialogue with shareholders across the wider Capital One Group and its ultimate parent entity, Capital One Financial Corporation. Certain other senior executives within the Company have direct or "dotted" reporting lines to executives within the parent company, including the Chief Financial Officer who is a Board member and has a reporting line to the parent company.

Impacts to the Company's stakeholder groups arising from business decisions are actively considered across Board reporting, including a key stakeholder identifier in each report. The Board maintains an awareness of the Company's stakeholder feedback channels and receives feedback on the output of those via information provided to it via Board reports, as well as directly from other stakeholders, including external auditors.

For more information regarding the Company's stakeholder relationships, see the Company's 'Section 172(1) Statement'.