

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998.

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED).

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-13300  
CAPITAL ONE FINANCIAL CORPORATION  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	54-1719854 (I.R.S. EMPLOYER IDENTIFICATION NO.)
2980 FAIRVIEW PARK DRIVE, SUITE 1300 FALLS CHURCH, VIRGINIA	22042-4525
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (703) 205-1000  
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.01 Par Value	New York Stock Exchange
Preferred Stock Purchase Rights*	New York Stock Exchange

\* Attached to each share of Common Stock is a Right to acquire 1/100th of a share of the Registrant's Cumulative Participating Preferred Stock, par value \$.01 per share, which Rights are not presently exercisable.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on February 26, 1999.

Common Stock, \$.01 Par Value: \$8,318,490,040\*

\* In determining this figure, the registrant assumed that the executive officers of the registrant and the registrant's directors are affiliates of the registrant. Such assumption shall not be deemed to be conclusive for any other purpose.

The number of shares outstanding of the registrant's common stock as of the close of business on February 26, 1999:

Common Stock, \$.01 Par Value: 65,855,648 shares

DOCUMENTS INCORPORATED BY REFERENCE

- Portions of the Annual Report to stockholders for the year ended December 31, 1998 are incorporated by reference into Parts I, II and IV.
- Portions of the Proxy Statement for the annual meeting of stockholders to be held on April 29, 1999 are incorporated by reference into Part III.

CAPITAL ONE FINANCIAL CORPORATION  
1998 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	PAGE
	----
Item 1. Business.....	1
Overview.....	1
Lines of Business.....	2
Competition.....	5
Employees.....	6
Supervision and Regulation.....	6
Risk Factors.....	10
Statistical Information.....	14
Item 2. Properties.....	14
Item 3. Legal Proceedings.....	14
Item 4. Submission of Matters to a Vote of Security Holders.....	15
Item 5. Market for Company's Common Stock and Related Stockholder Matters.....	15
Item 6. Selected Financial Data.....	15
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....	15
Item 8. Financial Statements and Supplementary Data.....	15
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	15
Item 10. Directors and Executive Officers of the Company.....	16
Item 11. Executive Compensation.....	16
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	16
Item 13. Certain Relationships and Related Transactions.....	16
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	16

## PART I

### ITEM 1. BUSINESS.

#### OVERVIEW

Capital One Financial Corporation (the "Corporation"), is a holding company, incorporated in Delaware on July 21, 1994, whose subsidiaries provide a variety of products and services to consumers using its proprietary information-based strategy ("IBS"). The Corporation's principal subsidiary, Capital One Bank (the "Bank"), a limited purpose Virginia state chartered credit card bank, offers credit card products. Capital One, F.S.B. (the "Savings Bank"), a federally chartered savings bank, offers consumer lending and deposit products. Capital One Services, Inc., another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. Unless indicated otherwise, the term "Company" refers to the Corporation and its consolidated subsidiaries and for periods prior to the Separation (as defined herein), Signet Bank's/1/ credit card division. The Company's common stock is listed on the New York Stock Exchange under the symbol COF. The Company's principal executive office is located at 2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia 22042-4525 (telephone number (703) 205-1000).

The Company commenced operations in 1953, the same year as the formation of what is now MasterCard International, and is one of the oldest continually operating bank card issuers in the United States. The Company is among the ten largest issuers of Visa and MasterCard credit cards in the U.S. based on managed credit card loans outstanding as of December 31, 1998. The growth in the Company's managed credit card loans and accounts has been due largely to credit card industry dynamics and the success of the Company's IBS initiated in 1988.

Prior to November 22, 1994, the Bank conducted its operations as a division of Signet Bank, a wholly-owned subsidiary of Signet Banking Corporation ("Signet"). Pursuant to the terms of an agreement among Signet, Signet Bank and the Corporation, Signet Bank contributed designated assets and liabilities of its credit card division to the Bank, initially established as a subsidiary of Signet Bank (the "Separation"). Signet Bank immediately distributed the capital stock of the Bank to Signet, which then contributed such stock to the Corporation. Concurrently with the Separation, the Corporation issued 7,125,000 shares of the Corporation's common stock, par value \$.01 ("Common Stock") in an initial public offering. On February 28, 1995, Signet distributed all of the remaining shares of the Common Stock held by it to Signet shareholders of record as of February 10, 1995.

In June 1996, the Company established the Savings Bank to expand the Company's product offerings and its relationship with its cardmembers. The Savings Bank currently takes deposits and offers credit cards and installment loans, in each case both unsecured and secured. The Savings Bank expects to offer multiple financial products and services to existing cardmembers and other households using the Company's IBS and existing information technology systems.

Through a branch of the Bank in the United Kingdom and several non-bank operating subsidiaries, the Company offers credit card products outside of the United States, with an initial focus on the United Kingdom and Canada. The Company also offers various non-card consumer lending products, automobile financing and telecommunications services through its subsidiaries.

#### Information-Based Strategy

The Company's IBS is designed to allow the Company to differentiate among customers based on credit risk, usage and other characteristics and to match customer characteristics with appropriate product offerings. IBS involves developing sophisticated models, information systems, well-trained personnel and a flexible culture to create credit card or other products and services that address the demands of changing consumer and competitive markets. By using sophisticated statistical modeling techniques, the Company segments its potential customer lists based upon the integrated use of credit scores, demographics, customer behavioral characteristics and other criteria. By actively testing a wide variety of product and service features, marketing channels and other aspects of its offerings, the Company designs and targets customized solicitations at various customer segments, thereby enhancing customer response levels and maximizing returns on investment within given underwriting parameters.

---

/1/ Signet Bank and Signet Banking Corporation have since been acquired by First Union National Bank and First Union Corporation, respectively, as of November 30, 1997.

Continued integrated testing and model development builds on information gained from earlier phases and is intended to improve the quality, performance and profitability of the Company's solicitation and account management initiatives. The Company applies IBS to all areas of its business, including solicitations, account management, credit line management, pricing strategies, usage stimulation, collections, recoveries and account and balance retention.

## BUSINESS SEGMENTS

The Company maintains three distinct business segments: lending, telecommunications and "other." The lending segment is comprised primarily of credit card lending activities. The telecommunications segment consists primarily of direct marketing of wireless telephone service. "Other" consists of various, non-lending new business initiatives, including taking deposits.

### Lending

The Company offers an array of general purpose credit card products to consumers throughout the United States and in the United Kingdom and Canada. Products consist of varying annual percentage rates ("APRs") and fee combinations (annual membership, past-due, overlimit, returned check, cash advance and other fees), credit limits and other special features or services, depending on the risk profile and other characteristics of the targeted consumer segment. The Company offers premium ("platinum" and "gold") cards and unsecured and secured standard credit card products. The Company's credit card and other lending opportunities include, and are expected to continue to include, low introductory and intermediate-rate balance transfer products, low non-introductory rate products, and other customized credit card products, such as secured cards, affinity and co-branded cards, student cards and other cards tailored for specific consumer segments. The Company's customized products are distinguished by a varied range of credit lines, pricing structures and other characteristics. Platinum and gold cards, for example, generally have higher lines of credit and additional ancillary benefits. The Company uses information derived from proprietary statistical models and targets consumers with carefully matched combinations of pricing, credit analysis and packaging. The Company's pricing philosophy reflects a risk-based approach where consumers with better credit qualifications generally merit more favorable pricing. The Company continually tests new product offerings and pricing combinations targeted to different consumer segments. For example, the Company's low non-introductory rate products, which are marketed to consumers with the best established credit profiles, are characterized by higher credit lines, lower yields and an expectation of lower delinquencies and credit losses than the traditional low introductory rate balance transfer products. On the other hand, certain other customized card products are characterized by lower credit lines, higher yields (including fees) and in some cases, higher delinquencies and credit losses than the Company's traditional products. These products also involve higher operational costs but exhibit better response rates, less adverse selection, less attrition and a greater ability to reprice than the Company's traditional introductory rate products.

Additionally, the Company has been applying its IBS to other financial and non-financial products and services. On July 31, 1998, the Company completed the acquisition of Summit Acceptance Corporation ("Summit"), a Texas corporation. Summit is an automobile finance lender located in Dallas, Texas. It offers loans throughout the United States, secured by automobiles, which are marketed principally through dealer networks. Summit is the Company's platform to test and apply its IBS to the automobile loan market.

The Company has also expanded its existing operations outside of the United States, with an initial focus on the United Kingdom and Canada. The Company has experienced growth in the number of accounts and loan balances in its international business. To support the continued growth of its United Kingdom business and any future business in Europe, in July 1998, the Company opened a new operations center in Nottingham, England.

### Telecommunications

The Company continues its efforts to market telecommunications services through its subsidiary America One Communications, Inc. ("America One"). America One's initial business, the reselling of wireless services through direct marketing channels, has recently begun to experience growth in the number of customers and accounts. As a result of the expenses necessary to build the operations to support this new business and to acquire new accounts, to date this business negatively impacts earnings.

## Geographic Diversity

Loan portfolio concentration within a specific geographic region or demographic portion of the population may be regarded as positive or negative based upon the current and expected credit characteristics and performance of the portfolio. The Company's consumer loan portfolio is geographically diverse. See Note P to Consolidated Financial Statements on page 53 of the Company's Annual Report to its stockholders for the year ended December 31, 1998 (the "Annual Report"), which is incorporated herein by reference.

## Origination and Risk Management

The Company originates accounts through (i) applications mailed directly to prospective accountholders, (ii) direct mail and telemarketing solicitations for accounts from individuals whose creditworthiness was prescreened, (iii) arrangements with affinity groups, (iv) conversion of existing non-premium accounts to premium accounts, (v) application information taken over the telephone or through the Internet from prospective accountholders, (vi) newspaper, magazine, radio, television and Internet advertisements and (vii) location or event marketing. For account originations and solicitation activity since 1990, the Company has focused largely on prescreened direct mail and telemarketing targeted to multiple consumer segments with varying combinations of product structure and pricing. In general, the Company's prescreening and underwriting criteria are intended to identify and avoid potential losses. These procedures are based on limited information, however, and it is not possible for the Company to identify all potential losses. Since the introduction of IBS in 1988, the Company has steadily increased its marketing efforts and has developed a sophisticated screening process to target potential consumers. The Company tracks and periodically reviews the results of each solicitation. Management information systems and processes enable management to monitor the effectiveness of prescreening and underwriting criteria, and such criteria are modified based on the results obtained from this process.

The Company employs a comprehensive risk management process that integrates all aspects of an account's life cycle, from origination to closure. Marketing and credit policy decisions are made by a credit policy group consisting of senior management representatives from the credit operations, risk management and marketing and analysis units. This group originates credit policy from the viewpoints of both profitability and credit risk, based on prescreening criteria, proprietary model development and usage, as well as reviews of test programs and test results. Significant test results are reviewed before the widespread introduction of a tested policy or product.

The Company uses various credit risk scores, generated by both third party providers of scoring models and by proprietary models. These scores are used, together with other criteria, in multiple screening reviews at both the prescreening stage and the credit application stage. Score usage continues after the account has been established and throughout its life cycle to adjust credit lines, pricing and collection policies.

## Credit Operations

The Company's credit extension process is actively managed by senior management and is designed to bring consistency in credit practices and operating efficiencies. The Company's scoring technology and verification procedures are highly automated with limited judgmental review. The credit evaluation process is based on proprietary models using, among other things, scores developed by nationally recognized scoring firms and tailored to individual programs. These scores are validated, monitored and maintained by the Company as part of IBS. The scores provide a statistically measurable way to make decisions about applications, to evaluate risk and to modify credit extension policies.

The Company's prescreened account solicitation process generally utilizes information from credit reporting agencies to identify consumers who are likely to be approved for a credit card account. The sets of underwriting criteria used to prescreen potential applicants vary from time to time in accordance with the Company's established policies and procedures relating to the operation of its consumer revolving lending business, as such policies may be changed from time to time, and include various models, including risk models, designed to predict the credit risk of potential cardholders. In order to establish the amount of the customer's credit line, the information on returned applications is analyzed and may be verified. Each customer whose credit request meets all of the underwriting criteria is generally offered a line of credit equal to or in excess of a minimum level which is established for each product offering.

The Company may also manually review applications that are rejected by the Company's credit scoring system because of inconsistencies in application information, an inquiry from a rejected applicant or for other reasons. Credit analysts then have the ability to override decisions made by the system upon the receipt of additional information from an applicant or otherwise.

For non-pre-screened solicitations, the Company acquires names of prospective customers from a variety of sources, including list vendors, and then edits the list utilizing internal and external sources to ensure quality and accuracy. The prospective customers on the final list are mailed solicitations. Prospective customers who respond to a solicitation are approved or declined based on the characteristics drawn from both the application submitted and a credit reporting agency.

Under the Company's secured credit card program, an accountholder provides the Company with a sum of money in the form of a check or money order as security for such accountholder's payment obligations arising under the secured credit card. The funds equal all, or a portion, of the credit limit available to the accountholder. If a secured credit card account becomes delinquent, the Company may immediately withdraw funds from the deposit account to satisfy the accountholder's payment obligations. Notwithstanding this right to immediately withdraw funds, the Company typically will not withdraw funds until shortly before the secured credit card account is charged off as uncollectible.

#### Account Management

Management has found that active account management is necessary in order to respond to the changing economic environment and cardholder risk, usage and payment patterns. The Company applies new credit scores to each account multiple times each year and new behavioral scores for open accounts each month. This information is used in account management strategies relating to credit lines, pricing, usage stimulation, retention and collection. For creditworthy and profitable accounts, such periodic review may result in more favorable pricing, higher credit lines or other enhancements which, based on testing, are likely to increase account usage or the overall profitability of an account. Conversely, for delinquent or other accounts with significant credit risk, periodic review may result in an account being reassigned to a higher risk category and hence not being eligible for credit line increases or, in certain circumstances, having pricing adjusted upward or the credit line reduced.

The IBS approach has allowed the Company to develop customized collections and pricing strategies based on cardholder behavior. Similarly, IBS has been used in developing the Company's retention strategies. The Company has developed integrated systems which evaluate account profitability and risk, test various strategies for cost and effectiveness in retaining cardholders and assist service representatives in negotiating potential pricing alternatives. Certain of the Company's products, including the introductory interest rate program and balance transfer program, have a repricing feature after an initial period. The Company has developed methodologies for retaining these accounts and the balances in these accounts after the expiration of the initial period.

#### Collection Procedures

The Company generally considers an account delinquent if a minimum payment due thereunder is not received by the Company by the accountholder's payment due date. The Company makes use of behavioral scoring models designed to predict the probability of an account charging off. Based on the behavioral score and certain other factors, the Company determines the timing of the collection activity to be implemented for the account. Delinquent accounts are currently referred for contact by phone between seven and 60 days after contractual delinquency, depending on the accountholder's risk profile. In any event, the accountholder's statement reflects the request for payment of past due amounts. Efforts to collect delinquent credit card accounts are generally made by the Company's regular collection group, supplemented in certain cases by collection agencies.

The focus of the Company's response to an early stage delinquency is rehabilitation and identification of the causes for delinquency. The Company's policies and procedures are designed to encourage accountholders to pay delinquent amounts; for example, once a delinquent account has re-established a payment pattern with three consecutive minimum monthly payments, it can be re-aged as current. Federal guidelines restrict how frequently an account can be re-aged, renewed or extended.

The Company reserves the right to suspend charging privileges at any time after an account enters the collections process. In most cases, an account is restricted and charging privileges are suspended no later than 105 days after contractual delinquency. The Company may also, at its discretion, enter into arrangements with delinquent accountholders to extend or otherwise change payment schedules.

During the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans. The Company now charges off as uncollectible an account (net of collateral) at 180 days past-due versus the prior practice of charging off the account in the next billing cycle after becoming 180 days past-due. In connection with a secured card account, except as set forth below, funds deposited as collateral will generally be applied to payment on the account shortly before the account is charged off as uncollectible. With respect to bankrupt customers, the Company generally charges off the account within 30 days after the Company receives the bankruptcy petition and, with respect to secured credit card accounts, funds deposited as collateral will be applied in satisfaction of the account only after the bankruptcy automatic stay is lifted. The Company charges off accounts of deceased customers within 60 days of receiving proper notice if no estate exists against which a proof of claim can be filed, no other party remits payments or no other responsible party is available. The Company's credit evaluation, servicing and charge off policies and collection practices may change over time in accordance with the business judgment of the Company, applicable law and guidelines established by applicable regulatory authorities.

#### Technology/Systems

A key part of the Company's strategic focus is the development of flexible, high-volume systems capable of handling the Company's growth and changes in marketing and account management strategies. Management believes that the continued development and integration of these systems is important to its efforts to reduce its operating costs and maintain a competitive advantage.

The Company has developed proprietary integrated systems which allow associates to manage the large volumes of data collected through the IBS process and to utilize such data in the Company's account solicitations, application processing, account management and retention strategies. The Company uses this information to predict consumer behavior and then matches prospects to lending products with various terms and fees. These systems also allow the Company's customer service representatives to access account specific information when responding to customer inquiries.

#### Funding

The Company's primary methods of funding include loan securitizations, issuing certificates of deposit, senior and deposit notes and other borrowings, and fed funds purchased from financial institutions. For a discussion of the Company's funding program, see pages 19-20 and pages 28-29 of the Annual Report under the respective headings "Management's Discussion and Analysis of Financial Condition and Results of Operations--Managed Consumer Loan Portfolio" and "--Funding," which are incorporated herein by reference.

#### COMPETITION

As a marketer of credit card products, the Company faces intense and increasing competition in all aspects of its business from numerous bank and non-bank providers of financial services. Many of these companies are substantially larger and have more resources than the Company. The Company competes with national, regional and local issuers of Visa and MasterCard credit cards. In addition, American Express, Discover Card, Diner's Club and, to a certain extent, smart cards and debit cards, represent additional competition in the general purpose credit card market. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features and customer loyalty is often limited. The Company believes that IBS will allow it to more effectively compete in this and new markets. There can be no assurance, however, that the Company's ability to market its services successfully or to obtain adequate yield on its loans will not be impacted by the nature of the competition that now exists or may later develop.

In addition, the Company faces competition in seeking public funding from banks, savings banks, money market funds and a wide variety of other entities that take deposits and/or sell debt securities, some of which are publicly traded. Many of these companies are substantially larger, have more capital and other resources and have better financial ratings than the Company. Accordingly, there can be no assurance that competition from these other borrowers will not increase the Company's cost of funds.

## EMPLOYEES

As of December 31, 1998, the Company employed 10,073 full-time and 359 part-time employees, which the Company refers to as "associates." A central part of the Company's philosophy is to attract and maintain a highly capable staff. The Company views current associate relations to be satisfactory. None of the Company's associates are covered under collective bargaining agreements.

## SUPERVISION AND REGULATION

### General

The Bank is a banking corporation chartered under Virginia law and a member of the Federal Reserve System, the deposits of which are insured by the Bank Insurance Fund (the "BIF") of the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is subject to comprehensive regulation and periodic examination by the Bureau of Financial Institutions of the Virginia State Corporation Commission (the "Bureau of Financial Institutions"), the Federal Reserve Board (the "Federal Reserve"), the Federal Reserve Bank of Richmond, the FDIC and in the case of the United Kingdom branch of the Bank, the Financial Services Authority. The Bank is not a "bank" under the Bank Holding Company Act of 1956, as amended (the "BHCA"), because it (i) engages only in credit card operations, (ii) does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others, (iii) does not accept any savings or time deposits of less than \$100,000, other than as permitted as collateral for extensions of credit, (iv) maintains only one office that accepts deposits and (v) does not engage in the business of making commercial loans. Due to the Bank's status as a limited purpose credit card bank, any non-credit card operations which may be conducted by the Company must be conducted in other operating subsidiaries of the Company.

The Savings Bank is a federal savings bank chartered by the Office of Thrift Supervision (the "OTS") and is a member of the Federal Home Loan Bank System. Its deposits are insured by the Savings Association Insurance Fund ("SAIF") of the FDIC. The Savings Bank is subject to comprehensive regulation and periodic examination by the OTS and the FDIC.

The Corporation is not a bank holding company under the BHCA as a result of the Corporation's ownership of the Bank because the Bank is not a "bank" as defined under the BHCA. If the Bank failed to meet the credit card bank exemption criteria described above, the Bank's status as an insured depository institution would make the Corporation subject to the provisions of the BHCA, including certain restrictions as to the types of business activities in which a bank holding company and its affiliates may engage. Becoming a bank holding company under the BHCA would affect the Corporation's ability to engage in certain non-banking businesses. In addition, for purposes of the BHCA, if the Bank failed to qualify for the credit card bank exemption, any entity that acquired direct or indirect control of the Bank and also engaged in activities not permitted for bank holding companies could be required either to discontinue the impermissible activities or to divest itself of control of the Bank.

As a result of the Corporation's ownership of the Savings Bank, the Corporation is a unitary savings and loan holding company subject to regulation by the OTS and the provisions of the Savings and Loan Holding Company Act. As a unitary savings and loan holding company, the Corporation generally is not restricted under existing laws as to the types of business activities in which it may engage so long as the Savings Bank continues to meet the qualified thrift lender test (the "QTL Test"). If the Corporation ceased to be a unitary savings and loan holding company as a result of its acquisition of an additional savings institution or as a result of the failure of the Savings Bank to meet the QTL Test, the types of activities that the Corporation and its non-savings association subsidiaries would be able to engage in would generally be limited to those eligible for bank holding companies.

The Corporation is also registered as a financial institution holding company under Virginia law and as such is subject to periodic examination by the Bureau of Financial Institutions.

### Dividends and Transfers of Funds

The principal source of funds for the Corporation to pay dividends on stock, make payments on debt securities and meet other obligations is dividends from its direct and indirect subsidiaries. There are various federal and Virginia law limitations on the extent to which the Bank and the Savings Bank can finance or otherwise supply funds to the Corporation through dividends, loans or otherwise. These limitations include minimum regulatory capital requirements, Federal Reserve, OTS and Virginia law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act governing transactions between an insured depository institution and its affiliates and general federal and Virginia regulatory oversight to prevent unsafe or unsound practices. In general, federal banking laws prohibit an insured depository institution, such as the Bank



and the Savings Bank, from making dividend distributions if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards. In addition, the Savings Bank is required to give the OTS at least 30 days' advance notice of any proposed dividend. Under OTS regulations, other limitations apply to the Savings Bank's ability to pay dividends, the magnitude of which depends upon the extent to which the Savings Bank meets its regulatory capital requirements. In addition, under Virginia law, the Bureau of Financial Institutions may limit the payment of dividends by the Bank if the Bureau of Financial Institutions determines that such a limitation would be in the public interest and necessary for the Bank's safety and soundness.

#### Capital Adequacy

The Bank and the Savings Bank are currently subject to capital adequacy guidelines adopted by the Federal Reserve and the OTS, respectively. For a further discussion of the capital adequacy guidelines, see page 29 of the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations--Capital Adequacy" and Note K to Consolidated Financial Statements on page 51, which are incorporated herein by reference.

#### FDICIA

Among other things, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires federal bank regulatory authorities to take "prompt corrective action" ("PCA") in respect of insured depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital ratio levels: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, an insured depository institution is considered to be well-capitalized if it maintains a Tier 1 risk-based capital ratio (or core capital to risk-adjusted assets in the case of the Savings Bank) of at least 6.00%, a total risk-based capital ratio of at least 10.00% and a Tier 1 leverage capital ratio (or core capital ratio in the case of the Savings Bank) of at least 5.00%, and is not otherwise in a "troubled condition" as specified by its appropriate federal regulatory agency. An insured depository institution is considered to be adequately-capitalized if it maintains a Tier 1 risk-based capital ratio (or core capital to risk-adjusted assets in the case of the Savings Bank) of at least 4.00%, a total risk-based capital ratio of at least 8.00% and a Tier 1 leverage capital ratio (or core capital ratio in the case of the Savings Bank) of at least 4.00% (3.00% for certain highly rated institutions), and does not otherwise meet the well-capitalized definition. The three undercapitalized categories are based upon the amount by which the insured depository institution falls below the ratios applicable to adequately-capitalized institutions. The capital categories are determined solely for the purposes of applying FDICIA's PCA provisions, as discussed below, and such capital categories may not constitute an accurate representation of the overall financial condition or prospects of the Bank or the Savings Bank.

As of December 31, 1998, each of the Bank and the Savings Bank met the requirements for a "well-capitalized" institution. A "well-capitalized" classification should not necessarily be viewed as describing the condition or future prospects of a depository institution, including the Bank and the Savings Bank.

Under FDICIA's PCA system, an insured depository institution in the "undercapitalized category" must submit a capital restoration plan guaranteed by its parent company. The liability of the parent company under any such guarantee is limited to the lesser of 5.00% of the insured depository institution's assets at the time it became undercapitalized, or the amount needed to comply with the plan. An insured depository institution in the undercapitalized category also is subject to limitations in numerous areas including, but not limited to, asset growth, acquisitions, branching, new business lines, acceptance of brokered deposits and borrowings from the Federal Reserve. Progressively more burdensome restrictions are applied to insured depository institutions in the undercapitalized category that fail to submit or implement a capital plan and to insured depository institutions that are in the significantly undercapitalized or critically undercapitalized categories. In addition, an insured depository institution's primary federal banking agency is authorized to downgrade the institution's capital category to the next lower category upon a determination that the institution is in an unsafe or unsound condition or is engaged in an unsafe or unsound practice. An unsafe or unsound practice can include receipt by the institution of a less than satisfactory rating on its most recent examination with respect to its capital, asset quality, management, earnings or liquidity.

"Critically undercapitalized" insured depository institutions (which are defined to include institutions that still have a positive net worth) may not, beginning 60 days after becoming "critically undercapitalized," make any payment of principal or interest on their subordinated debt (subject to certain limited exceptions). Thus, in the event an institution became "critically undercapitalized," it would generally be prohibited from making payments on its subordinated debt securities. In addition, "critically undercapitalized" institutions are subject to appointment of a receiver or conservator.

FDICIA requires the federal banking agencies to review the risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities. The OTS amended its risk-based capital rules to incorporate interest rate risk requirements under which a savings bank must hold additional capital if it projects an excessive decline in "net portfolio value" in the event interest rates increase or decrease by two percentage points. These standards are not yet in effect.

FDICIA also requires the FDIC to implement a system of risk-based premiums for deposit insurance pursuant to which the premiums paid by a depository institution will be based on the probability that the FDIC will incur a loss in respect of such institution. The FDIC has since adopted a system that imposes insurance premiums based upon a matrix that takes into account an institution's capital level and supervisory rating.

The Bank and the Savings Bank may accept brokered deposits as part of their funding. Under FDICIA, only "well-capitalized" and "adequately-capitalized" institutions may accept brokered deposits. "Adequately-capitalized" institutions, however, must first obtain a waiver from the FDIC before accepting brokered deposits, and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar maturity from the institution's normal market area or the national rate on deposits of comparable maturity, as determined by the FDIC, for deposits from outside the institution's normal market area.

#### Liability for Commonly-Controlled Institutions

Under the "cross-guarantee" provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), insured depository institutions such as the Bank and the Savings Bank may be liable to the FDIC in respect of any loss or reasonably anticipated loss incurred by the FDIC resulting from the default of, or FDIC assistance to, any commonly controlled insured depository institution. The Bank and the Savings Bank are commonly controlled within the meaning of the FIRREA cross-guarantee provision.

#### Investment Limitation and Qualified Thrift Lender Test

Federally-chartered savings banks such as the Savings Bank are subject to certain investment limitations. For example, federal savings banks are not permitted to make consumer loans (i.e., certain open-end or closed-end loans for personal, family or household purposes, excluding credit card loans) in excess of 35% of the savings bank's assets. Federal savings banks are also required to meet the QTL Test, which generally requires a savings bank to maintain at least 65% "portfolio assets" (total assets less (i) specified liquid assets up to 20% of total assets, (ii) intangibles, including goodwill and (iii) property used to conduct business) in certain "qualified thrift investments" (residential mortgages and related investments, including certain mortgage backed and mortgage related investments, small business related securities, certain state and federal housing investments, education loans and credit card loans) on a monthly basis in nine out of every 12 months. Failure to qualify under the QTL Test could subject the Savings Bank to substantial restrictions on its activities and to certain other penalties, and could subject the Company to the provisions of the BHCA, including the activity restrictions that apply generally to bank holding companies and their affiliates. As of December 31, 1998, 86.07% of the Savings Bank's portfolio assets were held in qualified thrift investments, and the Savings Bank was in compliance with the QTL Test.

#### Lending Activities

The activities of the Bank and the Savings Bank as consumer lenders are also subject to extensive regulation under various federal laws including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Community Reinvestment Act and the Soldiers' and Sailors' Civil Relief Act, as well as to various state laws. Regulators are authorized to impose penalties for violations of these statutes and, in certain cases, to order the Bank and the Savings Bank to pay restitution to injured borrowers. Borrowers may also bring actions for certain violations. Federal bankruptcy and state debtor relief and collection laws also affect the ability of the Bank and the Savings Bank to collect outstanding balances owed by borrowers who seek relief under these statutes.

## Year 2000

On October 15, 1998, the Office of the Comptroller of the Currency -- Department of Treasury, the Federal Reserve, the FDIC and the OTS -- Department of Treasury, together published Interagency Guidelines establishing Year 2000 Standards for Safety and Soundness. These were made effective November 2, 1998, by the Federal Reserve (Amendments to Regulation H Membership of State Banking Institutions in the Federal Reserve System, Appendix D-2 -- Interagency Guidelines Establishing Year 2000 Standards for Safety and Soundness) (the "Standards"). Among other things, the Standards require components and timetables for the review of mission critical systems for year 2000 readiness, renovation of internal and external mission critical systems, testing of mission critical systems, business resumption contingency planning, remediation contingency planning, customer risk assessment and involvement of the board of directors and management. The Company's year 2000 plan is subject to and in compliance with the Standards. For a further discussion of the Company's preparation for the year 2000, see pages 33-34 of the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Business Outlook -- Year 2000."

## Legislation

From time to time legislation has been proposed in Congress to limit interest rates and fees that could be charged on credit card accounts or otherwise restrict practices of credit card issuers. Various bills have also been introduced that would eliminate a separate savings bank charter, possibly requiring that existing savings banks become banks; eliminate or restrict the authority of a unitary savings and loan holding company to engage in activities ineligible for bank holding companies; and repeal in some respects the provisions of the Glass-Steagall Act prohibiting certain banking organizations from engaging in certain securities activities and the provisions of the BHCA prohibiting affiliations between banking organizations and non-banking organizations. Legislation has also been proposed to change existing federal bankruptcy laws. It is unclear at this time whether and in what form any such legislation will be adopted or, if adopted, what its impact on the Bank, the Savings Bank or the Company would be. Congress may in the future consider other legislation that would materially affect the banking or credit card industries.

## Investment in the Corporation, the Bank and the Savings Bank

Certain acquisitions of capital stock may be subject to regulatory approval or notice under federal or Virginia law. Investors are responsible for insuring that they do not, directly or indirectly, acquire shares of capital stock of the Company in excess of the amount which can be acquired without regulatory approval.

The Bank and the Savings Bank are each "insured depository institutions" within the meaning of the Change in Bank Control Act. Consequently, federal law and regulations prohibit any person or company from acquiring control of the Company without, in most cases, prior written approval of the Federal Reserve or the OTS, as applicable. Control is conclusively presumed if, among other things, a person or company acquires more than 25% of any class of voting stock of the Corporation. A rebuttable presumption of control arises if a person or company acquires more than 10% of any class of voting stock and is subject to any of a number of specified "control factors" as set forth in the applicable regulations.

Although the Bank is not a "bank" within the meaning of Virginia's reciprocal interstate banking legislation (Chapter 15 of Title 6.1 of the Code of Virginia), it is a "bank" within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions (the "Financial Institution Holding Company Act"). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Bureau of Financial Institutions.

## Interstate Taxation

Several states have passed legislation which attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. Based on the volume of its business in these states and the nature of the legislation passed to date, the Company currently believes that this development will not materially affect the financial condition of the Bank, the Savings Bank or the Company. The states may also consider legislation to tax income derived from transactions conducted through the Internet. The Company currently solicits accounts and takes account information via the Internet. It is unclear at this time, however, whether and in what form any such legislation will be adopted or, if adopted, what its impact on the Company would be.

## RISK FACTORS

This Annual Report on form 10-K contains forward-looking statements. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-Q and 8-K, in our annual report to shareholders, in our proxy statements, in our offering circulars and prospectuses, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include information relating to growth in diluted earnings per share, return on equity, growth in managed loans outstanding and customer accounts, net interest margins, funding costs, operations costs and employment growth, marketing expense, delinquencies and charge-offs. Forward-looking statements also include statements using words such as "expect," "anticipate," "intend," "plan," "believe," "estimate" or similar expressions. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them.

Although the Company has tried to discuss all important factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and it is not possible for the Company to predict such risks or to estimate the extent to which they may affect the Company's financial performance.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risks discussed below. The Company's future performance and actual results may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. This section highlights specific risks that could affect the Company and its business.

### Intense Competition

The Company faces intense competition from many other providers of credit cards and other financial products and services. In particular, the Company competes with national, regional and local bank card issuers, and with other general purpose credit or charge card issuers. The Company also competes, to a lesser extent, with "smart card" and debit card providers and with single purpose card issuers, such as department stores. Many of these companies are substantially larger than the Company and have more capital and other resources than the Company does. Additionally, other credit card companies compete with the Company for customers by offering lower interest rates and fees. Because customers generally choose credit card issuers based on price (mostly interest rates and fees), credit limit and other product features, customer loyalty is limited. The Company may lose entire accounts, or may lose account balances, to competing card issuers.

In the past, the Company has faced intense competition primarily with its low introductory rate credit cards. Recently, however, the competition with the Company's other credit card products, such as its low fixed rate cards, secured cards and other customized cards, has also become more intense. The Company expects that competition will continue to grow more intense with respect to all of its products, including the Company's products in the United Kingdom and Canada, the telecommunications services offered by America One and the automobile loans offered by Summit.

### Accounts and Loan Balances Will Fluctuate

The Company's accounts and loan balances and the rate at which they grow are affected by a number of factors, including how the Company allocates its marketing investment among different products and the rate at which customers transfer their accounts and loan balances to competing card issuers. Accounts and loan balances are also affected by general economic conditions, which may increase or decrease the amount of spending by customers and their ability to repay their loans, and other factors beyond the control of the Company.

Because the Company designed its IBS to take advantage of market opportunities, it is difficult for the Company to forecast how it will spend its marketing funds and on which products. Likewise, the Company's account and loan balance growth is affected by many factors, including the ones mentioned above. The Company's results, therefore, will vary as marketing investments, accounts and loan balances fluctuate.

## Difficulty of Sustaining and Managing Growth

The Company's growth strategy is threefold. First, the Company seeks to continue to grow its domestic credit card business. Second, the Company desires to grow its lending business internationally, in the United Kingdom, Canada and beyond. Third, the Company hopes to identify and pursue new business opportunities, both financial and non-financial. The Company's management believes that, through IBS, the Company can grow its credit card portfolio both domestically and internationally and develop new products and services. However, there are a number of factors that can affect the Company's ability to do so including:

- . the Company's ability to retain existing customers and to attract new customers;
- . the growth of existing and new account balances;
- . the delinquency and charge off levels of accounts;
- . the availability of funding on favorable terms;
- . the amount of funds available for marketing investment used to solicit new customers;
- . general economic and other factors;
- . a favorable interest rate environment;
- . the Company's ability to build or acquire the necessary operational and organizational infrastructure; and
- . the Company's ability to recruit experienced management and operations personnel.

The Company's expansion internationally is affected by additional factors such as limited access to information, differences in cultural attitudes toward credit, new regulatory and legislative environments and differences from the United States historical experience of portfolio performance in different countries.

Difficulties or delays in the development, production, testing and marketing of new products or services will affect the success of such products or services. Such difficulties could include:

- . failure to implement new product or service programs on time;
- . failure of customers to accept these products or services;
- . operational difficulties or delays;
- . losses arising from the testing of new products or services; and
- . legal and other difficulties.

In addition, the Company's new product and services may not achieve the same financial results as the Company has achieved in the past from its credit card business.

## Limited Availability of Financing and Variable Funding Costs

Like most credit card companies, the Company's primary source of funding is the securitization of consumer loans. Securitization transactions involve the sale of beneficial interests in consumer loan balances. Until now, the Company has completed securitization transactions on terms that it believes are favorable. The availability of securitization funding, however, depends on how difficult and expensive such funding is. Securitizations can be affected by many factors, such as whether a third party will guarantee the Company's obligations and the rates at which accountholders have repaid their balances in the past. In addition, legal, regulatory, accounting and tax changes can make securitization funding more difficult, more expensive or unavailable on any terms. Securitizations may not always offer the Company attractive funding, and the Company may have to seek other more expensive funding sources in the future.

In general, the amount, type and cost of the Company's financing affects the Company's financial results. Changes within the Company's organization, changes in the activities of parties the Company has agreements or understandings with, and changes affecting the Company's investments could all make the financing available to the Company more difficult, more expensive or unavailable on any terms. In addition, banks, savings banks and similar companies compete with the Company for funding. Some of these institutions are publicly traded. Many of these institutions are substantially larger, have more capital and other resources and have better financial ratings than the Company. Competition from these other borrowers may increase the Company's cost of funds. Events that disrupt capital markets and other reasons beyond the Company's control could also make the Company's funding sources more expensive or unavailable.

## Risk of Increased Delinquencies and Credit Losses

The Company, like other consumer lenders, faces the risk that accountholders will not repay their loans, resulting in accounts becoming uncollectible. Consumers who miss payments on their loans often fail to repay them, and consumers who file for protection under the bankruptcy laws generally do not repay their loans. Therefore, the rate of missed payments, or "delinquencies," on the Company's portfolio of loans, and the rate at which consumers may be expected to file for bankruptcy, can be used to predict the future rate at which the Company charges off its consumer loans. A high charge-off rate would hurt the Company's financial performance and the performance of the Company's securitizations.

Widespread increases in past-due payments and nonpayment are most likely to occur if the country or a regional area encounters an economic downturn, such as a recession, but they could also occur for other reasons. For example, fraud can cause loss. In addition, the age and rate of growth, or "seasoning," of a consumer loan portfolio also affects the rate of missed payments and loans charged off as uncollectible. If the Company makes fewer loans than it has in the past, the proportion of new loans in its portfolio will decrease and the delinquency rate and charge-off rate may increase. Therefore, the seasoning of accounts may require higher loan loss provisions and reserves. This would result in lower earnings unless offset by other changes.

In addition, the Company markets many of its secured card products and other customized credit card products to consumers with limited credit histories. As a result, these underserved markets sometimes have less experience with credit risk and performance. These markets, in some cases, also have higher delinquency and charge-off rates. Although the Company believes that its IBS can help it to effectively price these products in relation to their risk, the Company may not set high enough fees and rates for these accounts to offset the higher delinquency and loss rates that the Company expects.

## Risk of Economic Downturns and Social Factors

Delinquencies and credit losses in the credit card industry generally increase during periods of an economic downturn or recession. Likewise, consumer demand may decline during an economic downturn or recession. Accordingly, an economic downturn or recession (either local or national) can hurt the Company's financial performance as accountholders default on their loans or carry lower balances. As the Company increasingly markets its cards internationally, an economic downturn or recession outside the United States could also hurt the Company's financial performance. A variety of social factors may also cause changes in credit card use, payment patterns and the rate of defaults by accountholders. Social factors include changes in consumer confidence levels, the public's perception of the use of credit cards and changing attitudes about incurring debt and the stigma of personal bankruptcy. The Company believes that it can manage these risks through its underwriting criteria and product design. Nevertheless, underwriting criteria and design may not be enough to protect the Company's growth and profitability during a sustained period of economic downturn or recession or a material shift in social attitudes.

## Risk of Interest Rate Fluctuations

The Company, like other financial institutions, borrows money from institutions and depositors in order to lend money to customers. The Company earns interest on the consumer loans it makes, and pays interest on the deposits and borrowings it uses to fund those loans. The difference between these two rates affects the value of the Company's assets and liabilities. If the rate of interest the Company pays on its borrowings increases more than the rate of interest the Company earns on its loans, the Company's earnings could fall. The Company's earnings could also be hurt if the rates on its consumer loans fall more quickly than those on its borrowings.

The Company manages these risks partly by changing the interest rates it charges on its customer accounts. The success of repricing accounts to match an increase or decrease in the Company's borrowing rates depends on the overall product mix of such accounts, the actual amount of accounts repriced, the rate at which the Company is originating new accounts, and the Company's ability to retain accounts (and the related loan balances) after being repriced. For example, if the Company increases the interest rate it charges on its consumer loan accounts and the accountholders close their accounts as a result, then the Company won't be able to match its increased borrowing costs as quickly.

The Company also manages the risk of interest rate fluctuations through various financial instruments and techniques, such as interest rate swaps and similar financial instruments, hedging and other techniques. The goal is to maintain an interest rate neutral or "matched" position, where interest rates on loans and borrowings go up or down by the same amount and at the same time. The Company cannot, however, always achieve this position at a reasonable cost. Furthermore, if these techniques become unavailable or impractical, then the Company's earnings could be hurt.

## Regulation and Legislation Can Change

Federal and state laws and rules significantly limit the types of activities in which the Company engages. For example, federal and state consumer protection laws and rules limit the manner in which the Company may offer and extend credit. From time to time, the United States Congress and the states consider changing these laws and may enact new laws or amend existing laws to regulate further the consumer lending industry. Such new laws or rules could limit the amount of interest or fees the Company can charge or restrict its ability to collect on account balances, or materially affect the Company or the banking or credit card industries in some other manner. Various bills have also been introduced that would eliminate a separate savings bank charter, possibly requiring that existing savings banks become banks; eliminate or restrict the authority of a unitary savings and loan holding company to engage in activities ineligible for bank holding companies; and repeal in some respects the provisions of the Glass-Steagall Act prohibiting certain banking organizations from engaging in certain securities activities and the provisions of the BHCA prohibiting affiliations between banking organizations and non-banking organizations. The laws governing bankruptcy and debtor relief also could change, making it more expensive or more difficult for the Company to collect from its customers. Congress is currently considering legislation that would change the existing federal bankruptcy laws. Because it is not clear whether or in what form Congress may adopt this legislation, the Company cannot predict how this legislation may affect the Company, the Bank or the Savings Bank.

In addition, the existing laws and rules are complex. If the Company fails to comply with them it might not be able to collect its loans in full, or it might be required to pay damages or penalties to its customers. For these reasons, new or changes in existing laws or rules could hurt the Company's profits.

## Expenses and Other Costs Will Fluctuate

The Company's expenses and other costs, such as associate and marketing expenses, directly effect its earnings results. Many factors can influence the amount of the Company's expenses, as well as how quickly they grow. As the Company's business develops, changes or expands, additional expenses can arise from asset purchases, structural reorganization or a reevaluation of business strategies. Other factors that can affect expenses include legal and administrative cases and proceedings, which can be expensive to pursue or defend. In addition, accounting policies that change can significantly effect how the Company calculates its expenses and earnings.

## Risk of Technology Delays and Year 2000 Compliance

The Company uses its sophisticated computer systems in all aspects of its business, from IBS to payment processing to customer service. The Company also uses various outside vendors of computer systems and products. System delays, malfunctions and errors in these systems could cause delays and additional costs in most areas in which the Company relies on computers. In addition, if computer problems are not corrected quickly, customers could become dissatisfied. This could affect the Company's customer base and the level of service it provides.

The "Year 2000 Issue," for example, has arisen because many computer systems around the world use two digits instead of four digits to define a year. As a result, many computers will read the year 2000 as 1900 unless these computers are modified or replaced. The Company's preparations for the year 2000 are described on pages 33-34 of the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Outlook - Year 2000." The Company expects to have all of its system modifications completed and tested extensively by the end of 1999, but unforeseen problems could arise if the Company, or the companies with which it does business, are not prepared for the year 2000. The Company relies heavily on its computers and any delays or malfunctions could hurt the Company's financial results. In addition, vendors used by the Company might not be year 2000 compliant. If these vendors don't provide the products, services or systems that the Company needs, the Company's business and operations could be hurt. For example, if the United States postal service or the Company's telephone carriers are not year 2000 compliant, the Company's ability to solicit new customers and service the accounts of its existing customers could be disrupted or delayed.

## Statistical Information

The statistical information required by Item 1 is in the Annual Report, and is incorporated herein by reference, as follows:

### GUIDE 3 DISCLOSURE

PAGE IN THE COMPANY'S ANNUAL  
REPORT TO ITS STOCKHOLDERS FOR  
THE YEAR ENDED DECEMBER 31, 1998

I.	Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential.....	20-24
II.	Investment Portfolio.....	45
III.	Loan Portfolio.....	19-20, 25-28, 30, 53
IV.	Summary of Loan Loss Experience.....	26-28, 46
V.	Deposits.....	23, 28-29
VI.	Return on Equity and Assets.....	17
VII.	Other Borrowings.....	28-29

### ITEM 2. PROPERTIES.

The Company leases its principal executive office at 2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia, consisting of approximately 43,400 square feet. The lease commenced January 1, 1995 and the Company has exercised its option to extend the lease until February 28, 2005.

The Company owns administrative offices and credit card facilities in Richmond, Virginia, consisting of approximately 470,000 square feet, from which it conducts its credit, collections, customer service and other operations. The Company also leases additional facilities consisting of an aggregate of approximately 1,800,000 square feet (excluding the principal executive office) from which credit, collections, customer service and other operations are conducted, primarily in Virginia, Florida, Texas and London. The Company also owns a facility in Nottingham, Great Britain, consisting of approximately 267,000 square feet. The Company expects to lease or purchase additional facilities in Florida, Texas, Virginia, Washington and the United Kingdom consisting of an aggregate of approximately 1,180,000 square feet.

### ITEM 3. LEGAL PROCEEDINGS.

During 1995, a lawsuit was filed against the Bank on behalf of a putative class of California debtors alleging that certain collection practices engaged in by Signet Bank and, subsequently, by the Bank violated certain California state laws and constitutional and common law duties. Specifically, plaintiffs allege that filing lawsuits in Virginia against California debtors who had defaulted on their credit card agreements, obtaining judgments in Virginia and enforcing those judgments using Virginia garnishments proceedings was improper.

In early 1997, the Superior Court of California in the County of Alameda entered judgment in favor of the Bank on all of the plaintiffs' claims. The plaintiffs appealed the ruling to the California Court of Appeals. In early 1999, the California Court of Appeals affirmed the trial court's ruling in favor of the Bank on six counts, but reversed the trial court's ruling on two counts of the plaintiffs' complaint. The Bank intends to petition for further appellate review of the California Court of Appeals ruling on the two remaining counts.

Because no specific measure of damages is demanded in the complaint of the California case and the trial court entered judgment in favor of the Bank before the parties completed any significant discovery, an informed assessment of the ultimate outcome of this case cannot be made at this time. Management believes, however, that there are meritorious defenses to this lawsuit and intends to defend it vigorously.

The Company is commonly subject to various other pending and threatened legal actions arising from the conduct of its normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of any pending or threatened action will not have a material adverse effect on the consolidated financial condition of the Company. At the present time, however, management is not in a position to determine whether the resolution of any pending or threatened litigation will have a material adverse effect on the Company's results of operations in any future reporting period.



ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of the Company's fiscal year ending December 31, 1998, no matters were submitted to a vote of the stockholders of the Company.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The information required by Item 5 is included under "Supervision and Regulation-Dividends and Transfers of Funds" herein and in the Annual Report on pages 28-29 under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations--Funding" and "--Capital Adequacy," on page 35 under the heading "Selected Quarterly Financial Data" and on page 51 in Note K to Consolidated Financial Statements, and is incorporated herein by reference and filed as part of Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by Item 6 is included in the Annual Report on page 17 under the heading "Selected Financial and Operating Data," and is incorporated herein by reference and filed as part of Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by Item 7 is included in the Annual Report on pages 18-34 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by reference and filed as part of Exhibit 13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required by Item 7A is included in the Annual Report on pages 30-31 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations--Interest Rate Sensitivity," and is incorporated herein by reference and filed as part of Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by Item 8 is included in the Annual Report on page 37 under the heading "Report of Independent Auditors," on pages 38-54 under the headings "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Changes in Stockholders' Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" and on page 35 under the heading "Selected Quarterly Financial Data," and is incorporated herein by reference and filed as part of Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.

The information required by Item 10 is included in the Company's 1999 Proxy Statement (the "Proxy Statement") on pages 5-7 under the heading "Information About Our Directors and Executive Officers" and on page 4 under the heading "Information About Capital One's Common Stock Ownership--Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of the Corporation's 1998 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is included in the Proxy Statement on pages 8-9 under the heading "Information About Our Directors and Executive Officers--Compensation of the Board," on pages 10-16 under the heading "Compensation of Executive Officers" and on pages 17-20 under the heading "Report on Executive Compensation of the Compensation Committee," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 is included in the Proxy Statement on page 3 under the heading "Information About Capital One's Common Stock Ownership," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 is included in the Proxy Statement on page 9 under the heading "Information About Our Directors and Executive Officers--Related Party Transactions with Directors," and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following consolidated financial statements of Capital One Financial Corporation, included in the Annual Report, are incorporated herein by reference in Item 8:

Report of Independent Auditors, Ernst & Young LLP

Consolidated Balance Sheets--As of December 31, 1998 and 1997

Consolidated Statements of Income--Years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Changes in Stockholders' Equity--Years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows--Years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data--As of and for the years ended December 31, 1998 and 1997

(2) All schedules are omitted since the required information is either not applicable, not deemed material, or is shown in the respective financial statements or in notes thereto.

(3) Exhibits:

The following exhibits are incorporated by reference or filed herewith. References to (i) the "1994 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 1994; (ii) the "1995 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 1995; (iii) the "1996 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 1996; and (iv) the "1997 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

EXHIBIT ----- NUMBER	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation (incorporated by reference to Exhibit 3.1 of the 1994 Form 10-K).
3.2	Restated Bylaws of Capital One Financial Corporation (as amended January 24, 1995) (incorporated by reference to Exhibit 3.2 of the 1994 Form 10-K).
4.1	Specimen certificate representing the Common Stock (incorporated by reference to Exhibit 4.1 of the 1997 Form 10-K).
4.2	Rights Agreement dated as of November 16, 1995 between Capital One Financial Corporation and Mellon Bank, N.A. (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 8-K, filed November 16, 1995).
4.3	Amended and Restated Issuing and Paying Agency Agreement dated as of April 30, 1996 between Capital One Bank and Chemical Bank (including exhibits A-1, A-2, A-3 and A-4 thereto) (incorporated by reference to Exhibit 4.1 of the Company's quarterly report on Form 10-Q for the period ending June 30, 1996).
4.4	Issuing and Paying Agency Agreement dated as of April 30, 1996 between Capital One Bank and Chemical Bank (including exhibits A-1 and A-2 thereto) (incorporated by reference to Exhibit 4.2 of the Company's quarterly report on Form 10-Q for the period ending June 30, 1996).
4.5.1	Senior Indenture and Form T-1 dated as of November 1, 1996 among the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 8-K, filed November 13, 1996).
4.5.2	Copy of 7.25% Notes Due 2003 (incorporated by reference to Exhibit 4.5.2 of the 1996 Form 10-K).
4.6.1	Declaration of Trust, dated as of January 28, 1997, between the Bank and The First National Bank of Chicago, as trustee (including the Certificate of Trust executed by First Chicago Delaware Inc., as Delaware trustee) (incorporated by reference to Exhibit 4.6.1 of the 1996 Form 10-K).
4.6.2	Copies of Certificates Evidencing Capital Securities (incorporated by reference to Exhibit 4.6.2 of the 1996 Form 10-K).
4.6.3	Amended and Restated Declaration of Trust, dated as of January 31, 1997, by and among the Bank, The First National Bank of Chicago and First Chicago Delaware Inc. (incorporated by reference to Exhibit 4.6.3 of the 1996 Form 10-K).
4.7	Indenture, dated as of January 31, 1997, between the Bank and The First National Bank of Chicago (incorporated by reference to Exhibit 4.7 of the 1996 Form 10-K).
4.8.2	Copy of 7 1/8% Notes due 2008.

- 4.9 Issue and Paying Agency Agreement dated as of October 24, 1997 between Capital One Bank, Morgan Guaranty Trust Company of New York, London Office, and the Paying Agents named therein.
- 10.1 Amended and Restated Distribution Agreement dated April 30, 1996 among Capital One Bank and the agents named therein (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996).
- 10.1.1 Amendment to Amended and Restated Distribution Agreement dated April 21, 1998 among Capital One Bank and the agents named therein.
- 10.2 Distribution Agreement dated April 30, 1996, among Capital One Bank and the agents named therein (incorporated by reference to Exhibit 10.2 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996).
- 10.2.1 Amendment to Distribution Agreement dated April 30, 1998, among Capital One Bank and the agents named therein.
- 10.3.1 Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.12 of the 1994 Form 10-K).
- 10.3.2 Amendment to the Change of Control Agreement between Capital One Financial Corporation and Richard D. Fairbank dated as of September 15, 1995 (incorporated by reference to Exhibit 10.12.1 of the 1995 Form 10-K).
- 10.3.3 Amended and Restated Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.3.3 of the 1997 Form 10-K).
- 10.4.1 Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and Nigel W. Morris (incorporated by reference to Exhibit 10.13 of the 1994 Form 10-K).
- 10.4.2 Amendment to the Change of Control Agreement between Capital One Financial Corporation and Nigel W. Morris dated as of September 15, 1995 (incorporated by reference to Exhibit 10.13.1 of the 1995 Form 10-K).
- 10.4.3 Amended and Restated Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and Nigel W. Morris (incorporated by reference to Exhibit 10.4.3 of the 1997 Form 10-K).
- 10.6.1 Change of Control Employment Agreement dated as of November 1, 1994, between Capital One Financial Corporation and John G. Finneran, Jr. (incorporated by reference to Exhibit 10.15 of the 1994 Form 10-K).
- 10.6.2 Amendment to Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and John G. Finneran, Jr. (incorporated by reference to Exhibit 10.15 of the 1997 Form 10-K).

10.7	Capital One Financial Corporation 1994 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the 1996 Form 10-K).
10.8	Intentionally left blank.
10.9	Form of Change of Control Agreement between Capital One Financial Corporation and certain of its senior executives.
10.10	Form of Amendment to Change of Control Agreement between Capital One Financial Corporation and certain of its senior executives.
10.11	Capital One Financial Corporation Excess Savings Plan, as amended (incorporated by reference to Exhibit 10.20 of the 1995 Form 10-K).
10.12	Capital One Financial Corporation Excess Benefit Cash Balance Plan, as amended (incorporated by reference to Exhibit 10.21 of the 1995 Form 10-K).
10.13	Capital One Financial Corporation 1994 Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.22 of the 1995 Form 10-K).
10.14	1995 Non-Employee Directors Stock Incentive Plan, (incorporated by reference to Registrant's Registration Statement on Form S-8 Commission File No. 33-91790, filed May 1, 1995).
10.15	Intentionally left blank.
10.16	Consulting Agreement dated as of April 5, 1995, by and between Capital One Financial Corporation and American Management Systems, Inc. (incorporated by reference to Exhibit 10.33 of the 1995 Form 10-K).
10.17.1	Amended and Restated Lease Agreement dated as of October 14, 1998 between First Security Bank of Utah, N.A., as owner trustee for the COB Real Estate Trust 1995-1, as lessor and Capital One Realty, Inc., as lessee.
10.17.2	Guaranty dated as of October 14, 1998 from Capital One Bank in favor of First Security Bank, N.A., as owner trustee for the COB Real Estate Trust 1995-1, First Union National Bank, as indenture trustee, Lawyers Title Realty Services, Inc., as deed of trust trustee, and the Note Purchasers, Registered Owners and LC Issuer referred to therein.
10.18	Amended and Restated Credit Agreement, dated as of November 25, 1996, among Capital One Financial Corporation, Capital One Bank, Capital One, F.S.B. and The Chase Manhattan Bank, as administrative agent (incorporated by reference to Exhibit 10.21 of the 1996 Form 10-K).
10.19	Revolving Credit Facility Agreement dated as of August 29, 1997 by and among Capital One Finance Company and Capital One Inc., as original borrowers, Capital One Financial Corporation, as original guarantor, and the agents and lenders named therein (incorporated by reference to Exhibit 10.19 of the 1997 Form 10-K).
13	The portions of Capital One Financial Corporation's 1998 Annual Report to Stockholders that are incorporated by reference herein.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP.
27	Financial Data Schedule.

(b) Reports on Form 8-K

The Company filed on October 13, 1998 a Current Report on Form 8-K dated October 13, 1998, Commission File No. 1-13300, enclosing its press release dated October 13, 1998.

The Company filed on October 21, 1998 a Current Report on Form 8-K dated October 20, 1998, Commission File No. 1-13300, enclosing its press release dated October 20, 1998.

The Company filed on December 8, 1998 a Current Report on Form 8-K dated December 7, 1998, Commission File No. 1-13300, enclosing its press release dated December 7, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ David M. Willey

-----  
David M. Willey  
Senior Vice President, Finance and Accounting,  
Treasurer and Assistant Secretary

Date: March 25, 1999

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON THE 25TH DAY OF MARCH, 1999.

SIGNATURE -----	TITLE -----
/s/ Richard D. Fairbank ----- Richard D. Fairbank	Director, Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Nigel W. Morris ----- Nigel W. Morris	Director, President and Chief Operating Officer
/s/ David M. Willey ----- David M. Willey	Senior Vice President, Finance and Accounting, Treasurer and Assistant Secretary (Principal Accounting and Financial Officer)
/s/ W. Ronald Dietz ----- W. Ronald Dietz	Director
/s/ James A. Flick, Jr. ----- James A. Flick, Jr.	Director
/s/ Patrick W. Gross ----- Patrick W. Gross	Director
/s/ James V. Kimsey ----- James V. Kimsey	Director
/s/ Stanley I. Westreich ----- Stanley I. Westreich	Director

EXHIBITS TO CAPITAL ONE FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K

DATED DECEMBER 31, 1998

COMMISSION FILE NO. 1-13300

EXHIBIT ----- NUMBER	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation (incorporated by reference to Exhibit 3.1 of the 1994 Form 10-K).
3.2	Restated Bylaws of Capital One Financial Corporation (as amended January 24, 1995) (incorporated by reference to Exhibit 3.2 of the 1994 Form 10-K).
4.1	Specimen certificate representing the Common Stock (incorporated by reference to Exhibit 4.1 of the 1997 Form 10-K).
4.2	Rights Agreement dated as of November 16, 1995 between Capital One Financial Corporation and Mellon Bank, N.A. (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 8-K, filed November 16, 1995).
4.3	Amended and Restated Issuing and Paying Agency Agreement dated as of April 30, 1996 between Capital One Bank and Chemical Bank (including exhibits A-1, A-2, A-3 and A-4 thereto) (incorporated by reference to Exhibit 4.1 of the Company's quarterly report on Form 10-Q for the period ending June 30, 1996).
4.4	Issuing and Paying Agency Agreement dated as of April 30, 1996 between Capital One Bank and Chemical Bank (including exhibits A-1 and A-2 thereto) (incorporated by reference to Exhibit 4.2 of the Company's quarterly report on Form 10-Q for the period ending June 30, 1996).
4.5.1	Senior Indenture and Form T-1 dated as of November 1, 1996 among the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 8-K, filed November 13, 1996).
4.5.2	Copy of 7.25% Notes Due 2003 (incorporated by reference to Exhibit 4.5.2 of the 1996 Form 10-K).
4.6.1	Declaration of Trust, dated as of January 28, 1997, between the Bank and The First National Bank of Chicago, as trustee (including the Certificate of Trust executed by First Chicago Delaware Inc., as Delaware trustee) (incorporated by reference to Exhibit 4.6.1 of the 1996 Form 10-K).
4.6.2	Copies of Certificates Evidencing Capital Securities (incorporated by reference to Exhibit 4.6.2 of the 1996 Form 10-K).
4.6.3	Amended and Restated Declaration of Trust, dated as of January 31, 1997, by and among the Bank, The First National Bank of Chicago and First Chicago Delaware Inc. (incorporated by reference to Exhibit 4.6.3 of the 1996 Form 10-K).



- 4.7 Indenture, dated as of January 31, 1997, between the Bank and The First National Bank of Chicago (incorporated by reference to Exhibit 4.7 of the 1996 Form 10-K).
- 4.8.2 Copy of 7 1/8% Notes due 2008.
- 4.9 Issue and Paying Agency Agreement dated as of October 24, 1997 between Capital One Bank, Morgan Guaranty Trust Company of New York, London Office, and the Paying Agents named therein.
- 10.1 Amended and Restated Distribution Agreement dated April 30, 1996 among Capital One Bank and the agents named therein (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996).
- 10.1.1 Amendment to Amended and Restated Distribution Agreement dated April 21, 1998 among Capital One Bank and the agents named therein.
- 10.2 Distribution Agreement dated April 30, 1996, among Capital One Bank and the agents named therein (incorporated by reference to Exhibit 10.2 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996).
- 10.2.1 Amendment to Distribution Agreement dated April 30, 1998, among Capital One Bank and the agents named therein.
- 10.3.1 Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.12 of the 1994 Form 10-K).
- 10.3.2 Amendment to the Change of Control Agreement between Capital One Financial Corporation and Richard D. Fairbank dated as of September 15, 1995 (incorporated by reference to Exhibit 10.12.1 of the 1995 Form 10-K).
- 10.3.3 Amended and Restated Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.3.3 of the 1997 Form 10-K).
- 10.4.1 Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and Nigel W. Morris (incorporated by reference to Exhibit 10.13 of the 1994 Form 10-K).
- 10.4.2 Amendment to the Change of Control Agreement between Capital One Financial Corporation and Nigel W. Morris dated as of September 15, 1995 (incorporated by reference to Exhibit 10.13.1 of the 1995 Form 10-K).
- 10.4.3 Amended and Restated Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and Nigel W. Morris (incorporated by reference to Exhibit 10.4.3 of the 1997 Form 10-K).
- 10.6.1 Change of Control Employment Agreement dated as of November 1, 1994, between Capital One Financial Corporation and John G. Finneran, Jr. (incorporated by reference to Exhibit 10.15 of the 1994 Form 10-K).

10.6.2	Amendment to Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and John G. Finneran, Jr. (incorporated by reference to Exhibit 10.15 of the 1997 Form 10-K).
10.7	Capital One Financial Corporation 1994 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the 1996 Form 10-K).
10.8	Intentionally left blank.
10.9	Form of Change of Control Agreement between Capital One Financial Corporation and certain of its senior executives.
10.10	Form of Amendment to Change of Control Agreement between Capital One Financial Corporation and certain of its senior executives.
10.11	Capital One Financial Corporation Excess Savings Plan, as amended (incorporated by reference to Exhibit 10.20 of the 1995 Form 10-K).
10.12	Capital One Financial Corporation Excess Benefit Cash Balance Plan, as amended (incorporated by reference to Exhibit 10.21 of the 1995 Form 10-K).
10.13	Capital One Financial Corporation 1994 Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.22 of the 1995 Form 10-K).
10.14	1995 Non-Employee Directors Stock Incentive Plan (incorporated by reference to Registrant's Registration Statement on Form S-8 Commission File No. 33-91790, filed May 1, 1995).
10.15	Intentionally left blank.
10.16	Consulting Agreement dated as of April 5, 1995, by and between Capital One Financial Corporation and American Management Systems, Inc. (incorporated by reference to Exhibit 10.33 of the 1995 Form 10-K).
10.17.1	Amended and Restated Lease Agreement dated as of October 14, 1998 between First Security Bank of Utah, N.A., as owner trustee for the COB Real Estate Trust 1995-1, as lessor and Capital One Realty, Inc., as lessee.
10.17.2	Guaranty dated as of October 14, 1998 from Capital One Bank in favor of First Security Bank, N.A., as owner trustee for the COB Real Estate Trust 1995-1, First Union National Bank, as indenture trustee, Lawyers Title Realty Services, Inc., as deed of trust trustee, and the Note Purchasers, Registered Owners and LC Issuer referred to therein.
10.18	Amended and Restated Credit Agreement, dated as of November 25, 1996, among Capital One Financial Corporation, Capital One Bank, Capital One, F.S.B. and The Chase Manhattan Bank, as administrative agent (incorporated by reference to Exhibit 10.21 of the 1996 Form 10-K).
10.19	Revolving Credit Facility Agreement dated as of August 29, 1997 by and among Capital One Finance Company and Capital One Inc., as original borrowers, Capital One Financial Corporation, as original guarantor, and the agents and lenders named therein (incorporated by reference to Exhibit 10.19 of the 1997 Form 10-K).
13	The portions of Capital One Financial Corporation's 1998 Annual Report to Stockholders that are incorporated by reference herein.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP.
27	Financial Data Schedule.

[Face of Note]

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR THE INDIVIDUAL SECURITIES REPRESENTED HEREBY, THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TRUST COMPANY OR ANY SUCCESSOR DEPOSITORY APPOINTED AS SUCH PURSUANT TO THE SENIOR INDENTURE (THE "DEPOSITORY") TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO SUCH A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF THE DEPOSITORY OR ITS NOMINEE OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY AND ANY PAYMENT IS MADE TO THE DEPOSITORY OR ITS NOMINEE, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF HAS AN INTEREST HEREIN.

CUSIP No. 14040HAD7  
No. R-001

\$200,000,000

CAPITAL ONE FINANCIAL CORPORATION

7 1/8% NOTES DUE 2008

Capital One Financial Corporation, a corporation duly organized and existing under the laws of Delaware (the "Company"), for value received, hereby promises to pay to Cede & Co. or registered assigns the principal sum of TWO HUNDRED MILLION United States Dollars at the Company's office or agency for said purpose in the Borough of Manhattan, The City of New York, on August 1, 2008 in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semi-annually in arrears on February 1 and August 1 of each year (each an "interest payment date"), commencing February 1, 1999, on said principal sum in like coin or currency at the rate per annum set forth above at said office or agency from July 27, 1998 or from the most recent February 1 or August 1, as the case may be, to which interest on the Securities has been paid or duly provided for, until payment of said principal sum has been made or duly provided for; provided that, unless this Security is a Security issued in global form (a "Global Security"), interest may be paid, at the option of the company, by mailing a check therefor payable to the Holder entitled thereto at his last address as it appears on the Security Register. The interest so payable will be paid to the Person in whose name this Global Security (or one or more Predecessor Securities) is registered at the close of business on the January 15 or July 15, as the case may be, next preceding such interest payment date, unless the Company shall default in the payment of interest due on such interest payment date after taking into account any applicable grace period, in which case such defaulted interest shall be paid as set forth in the Senior Indenture. Notwithstanding the foregoing, as long as this Security is a Global Security, the Company shall pay or cause to be paid the principal of, and interest on, this Security to the

Holder hereof or a single nominee of the Holder, or, at the option of the Company, to such other Persons as the Holder hereof may designate, by wire transfer of immediately available funds on the date such payments are due.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee acting under the Senior Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: July \_\_\_\_, 1998

CAPITAL ONE FINANCIAL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

[CORPORATE SEAL]

Attest By: \_\_\_\_\_  
Name:  
Title:

This is one of the Securities issued under the within-mentioned Senior Indenture.

Dated: July \_\_\_\_, 1998

HARRIS TRUST AND SAVINGS BANK

By: \_\_\_\_\_  
Authorized Officer

[Reverse of Note]

Capital One Financial Corporation

7 1/8 % Notes Due 2008

This Security is one of a duly authorized issue of debt securities of the Company, of the series hereinafter specified, all issued or to be issued under an Indenture, dated as of November 1, 1996 (the "Senior Indenture"), and duly executed and delivered by the Company to Harris Trust and Savings Bank, as trustee (hereinafter, the "Trustee"), to which reference to the Senior Indenture is hereby made for a description of the respective rights and duties thereunder of the Trustee, the Company and the Holders of the Securities. This Security is one of a series designated as the "7 1/8 % Notes due 2008" of the Company (hereinafter called the "Notes"), issued under the Senior Indenture and limited in aggregate principal amount to \$200,000,000.

Neither the Senior Indenture nor the Notes limit or otherwise restrict the amount of indebtedness which may be incurred or other securities which may be issued by the Company. The Notes issued under the Senior Indenture will be direct, unsecured obligations of the Company and will mature on August 1, 2008. The Notes rank on parity with all other unsecured, unsubordinated indebtedness of the Company.

The Notes will bear interest at the rate of 7 1/8 % per annum. The Notes will be redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to the greater of (i) 100% of the principal amount of such Notes, and (ii) as determined by the Quotation Agent (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below) plus 25 basis points plus, in each case, accrued interest thereon to the date of redemption.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption price.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding

the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

"Quotation Agent" means the Reference Treasury Dealer appointed by the Company.

"Reference Treasury Dealer" means (i) each of J.P. Morgan Securities Inc., Chase Securities Inc., Donaldson, Lufkin & Jenrette Securities Corporation, Lehman Brothers Inc. and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer; and (ii) any other Primary Treasury Dealer selected by the Company.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

The Notes are not entitled to any sinking fund.

In case an Event of Default shall have occurred and be continuing with respect to the Notes, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Senior Indenture. The Senior Indenture provides that in certain circumstances such declaration and its consequences may be waived by the Holders of a majority in aggregate principal amount of the Notes then Outstanding. However, any such consent or waiver by the Holder shall not affect any subsequent default or impair any right consequent thereon.

The Senior Indenture permits the Company and the Trustee, without the consent of the Holders of the Notes for certain situations and with the consent of not less than two-thirds of the Holders in aggregate principal amount of the Outstanding Notes in other situations, to execute supplemental indentures adding to, modifying or changing various provisions to the Senior Indenture; provided that no such supplemental indenture, without the consent of the Holder of each Outstanding Security affected thereby, shall (i) change the Stated Maturity of the principal of, or any installment of interest on the Notes, or reduce the principal amount thereof or the interest thereon, or change the place or currency of payment of principal of, or interest on, the Notes, or impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity thereof, or change the Company's obligation to pay additional amounts (except as otherwise contemplated in the Senior Indenture); (ii) reduce the percentage in principal amount of the Outstanding Notes, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of the Senior Indenture or certain defaults hereunder and their consequence) provided

for in the Senior Indenture; or (iii) modify any of the provisions of Sections 902, 513 or 1008 of the Senior Indenture, except to increase any such percentage or provide that certain other provisions of the Senior Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Section 1005, 1006 or 1007 of the Senior Indenture, if before the time for such compliance, the Holders of at least a majority in principal amount of the Outstanding Notes, by act of such Holders, either shall waive such compliance in such instance or generally shall have waived compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

No reference herein to the Senior Indenture and no provision of this Note or of the Senior Indenture shall alter or impair the obligations of the Company, which are absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the place, at the respective times, at the rate and in the coin and currency herein prescribed.

The Notes are issuable in registered form without coupons in denominations of \$1,000 and any multiple thereof.

At the office or agency of the Company referred to on the face hereof and in the manner and subject to the limitations provided in the Senior Indenture, the Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

Upon due presentment for registration of transfer of the Notes at the above-mentioned office or agency of the Company, a new Note or Notes of authorized denominations, for a like aggregate principal amount, will be issued to the transferee as provided in the Senior Indenture. No service charge shall be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Prior to due presentation of this Note for registration of transfer, the Company, the Trustee, and any authorized agent of the Company or the Trustee, may deem and treat the Holder hereof as the absolute owner of the Note (whether or not this Note shall be overdue and made by anyone other than the Company or the Trustee or any authorized agent of the Company or the Trustee), for the purpose of receiving payment of, or on account of, the principal hereof and, subject to the provisions on the face hereof, interest hereon and for all other purposes, and neither the Company nor the Trustee nor any authorized agent of the Company or the Trustee shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of, or the interest on,

this Note, for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Senior Indenture or any indenture supplemental thereto, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

THIS NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE  
 -----  
 STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH  
 -----  
 THE LAWS OF SAID STATE, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW.  
 -----

All terms used in this Note (and not otherwise defined in this Note) that are defined in the Senior Indenture shall have the meanings assigned to them in the Senior Indenture.



CONFORMED COPY

CAPITAL ONE BANK

PROGRAMME FOR THE ISSUANCE  
OF DEBT INSTRUMENTS

---

ISSUE AND PAYING AGENCY AGREEMENT

---

24 October, 1997

CLIFFORD CHANCE  
NEW YORK AND LONDON

## TABLE OF CONTENTS

SECTION 1.	INTERPRETATION.....	1
SECTION 2.	APPOINTMENT OF THE PAYING AGENTS.....	5
SECTION 3.	THE INSTRUMENTS.....	5
SECTION 4.	ISSUANCE OF INSTRUMENTS.....	6
SECTION 5.	REPLACEMENT INSTRUMENTS.....	10
SECTION 6.	PAYMENTS TO THE ISSUE AND PAYING AGENT.....	10
SECTION 7.	PAYMENTS TO HOLDERS OF INSTRUMENTS.....	11
SECTION 8.	MISCELLANEOUS DUTIES OF THE ISSUE AND PAYING AGENT AND THE PAYING AGENTS.....	13
SECTION 9.	EARLY REDEMPTION AND EXERCISE OF OPTIONS.....	17
SECTION 10.	APPOINTMENT AND DUTIES OF THE CALCULATION AGENT.....	17
SECTION 11.	FEES AND EXPENSES.....	18
SECTION 12.	TERMS OF APPOINTMENT.....	19
SECTION 13.	CHANGES IN AGENTS.....	20
SECTION 14.	NOTICES.....	22
SECTION 15.	LAW AND JURISDICTION.....	23
SECTION 16.	MODIFICATION.....	24
SECTION 17.	COUNTERPARTS.....	24
THE FIRST SCHEDULE.....		25
FORM OF TEMPORARY GLOBAL INSTRUMENT.....		25
THE SECOND SCHEDULE.....		37
FORM OF PERMANENT GLOBAL INSTRUMENT.....		37
THE THIRD SCHEDULE.....		42
FORM OF DEFINITIVE INSTRUMENT.....		42

.....	
THE FOURTH SCHEDULE.....	53
PROVISIONS FOR MEETINGS OF THE HOLDERS OF INSTRUMENTS.....	53
THE FIFTH SCHEDULE.....	60
THE SPECIFIED OFFICES OF THE PAYING AGENTS AND THE CALCULATION AGENT.....	60
THE SIXTH SCHEDULE.....	61
CALCULATION AGENT APPOINTMENT LETTER.....	61

THIS ISSUE AND PAYING AGENCY AGREEMENT is made the 24th day of October, 1997

BETWEEN:

- (1) CAPITAL ONE BANK (the "Issuer");
- (2) MORGAN GUARANTY TRUST COMPANY OF NEW YORK, LONDON OFFICE in its capacities as issue and paying agent (the "ISSUE AND PAYING AGENT", which expression shall include any successor to Morgan Guaranty Trust Company of New York, London Office in its capacity as such) and as Calculation Agent (as defined herein)); and
- (3) MORGAN GUARANTY TRUST COMPANY OF NEW YORK, BRUSSELS OFFICE and KREDIETBANK S.A. LUXEMBOURGEOISE in their capacities as paying agents (the "PAYING AGENTS", which expression shall include the Issue and Paying Agent and any substitute or additional paying agents appointed in accordance herewith).

WHEREAS:

(A) The Issuer has established a programme (the "PROGRAMME") for the issuance of debt instruments (the "INSTRUMENTS"), in connection with which it has entered into a dealership agreement (as amended, supplemented or replaced, the "DEALERSHIP AGREEMENT") dated 24 October, 1997 and made between the Issuer, Morgan Stanley & Co. International Limited, Morgan Stanley Bank AG, Morgan Stanley S.A., ABN AMRO Bank N.V., Barclays de Zoete Wedd Limited, Chase Manhattan International Limited, Deutsche Bank AG London, Goldman Sachs International, Lehman Brothers International (Europe), J.P. Morgan Securities Ltd. and Salomon Brothers International Limited (the "DEALERS", which expression shall include any substitute or additional dealers appointed in accordance with the Dealership Agreement).

(B) Instruments may be issued on a listed or unlisted basis. The Issuer has made an application to the Luxembourg Stock Exchange for Instruments issued under the Programme to be listed on the Luxembourg Stock Exchange, in connection with which application the Issuer has procured in preparation of the Information Memorandum (as defined herein). Application will be made, in certain circumstances to list French Franc Instruments (as defined in the Information Memorandum (as defined herein)) on the Paris Stock Exchange. Instruments may be listed on such other stock exchange or stock exchanges as the Issuer and the relevant Dealer(s) may agree.

(C) The parties hereto wish to record certain arrangements which they have made in relation to the Instruments to be issued under the Programme.

IT IS AGREED as follows:

#### SECTION 1. INTERPRETATION

##### 1.01 In this Agreement:

"BANKING DAY" means a day (other than Saturdays) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Issue and Paying Agent is located and in London;

"CALCULATION AGENT" means, in relation to any Series of Instruments, the institution appointed as calculation agent for the purposes of such Instruments and named as such in the relevant Pricing Supplement, in the case of the Issue and Paying Agent, pursuant to Section 10, in the case of a Dealer, pursuant to Section 4 of the Dealership Agreement and, in the case of any other institution pursuant to a letter of appointment in, or substantially in, the form set out in the Sixth Schedule and, in any case, any successor to such institution in its capacity as such;

"CEDEL BANK" means Cedel Bank, societe anonyme;

a "CLAUSE" means, unless the context indicates otherwise, a clause in a section hereof;

a "COUPON" means an interest coupon and where the context permits, a Talon, in each case appertaining to a Definitive Instrument;

"DEFINITIVE INSTRUMENT" means an Instrument in definitive form substantially in the form set out in the Third Schedule hereto;

"EUROCLEAR" means Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system;

"EVENT OF DEFAULT" means any of the circumstances or events set out as an event of default in the Terms and Conditions;

the "EXCHANGE ACT" means the United States Securities Exchange Act of 1934;

"GLOBAL INSTRUMENT" means a Temporary Global Instrument or, as the context may require, a Permanent Global Instrument;

"INFORMATION MEMORANDUM" means the information memorandum and information memorandum addendum each dated 24 October 1997 the preparation of which has been procured by the Issuer in connection with the application for Instruments to be listed on the Luxembourg and Paris Stock Exchange, and any further information memorandum and information memorandum addendum, in each case, prepared in connection with the listing of any Instruments on any other stock exchange together with any information incorporated therein by reference, as the same may be amended, supplemented, updated and/or substituted from time to time;

"INSTALMENT INSTRUMENT" means an Instrument the principal amount of which is repayable by Instalments;

"LOCAL TIME" in relation to any payment, means the time in the city or town in which the relevant bank or the relevant branch or office thereof is located, and any reference to "LOCAL BANKING DAYS" in relation thereto is to days (other than Saturdays and Sundays) on which commercial banks are open for business (including dealings in foreign exchange and foreign

currency deposits) in such city or town;

"LONDON BUSINESS DAY" means a day on which commercial banks and foreign exchange markets are open for business in London;

references to a "MASTER TEMPORARY GLOBAL INSTRUMENT" and a "MASTER PERMANENT GLOBAL INSTRUMENT" are to an Instrument substantially in the form set out in the First and Second Schedule hereto (respectively) which are complete save in that they require completion by the Issue and Paying Agent, on behalf of the Issuer, as to the details of the Tranche of Instruments to which they will relate;

"OUTSTANDING" means, in relation to any Series of Instruments, all such Instruments and any Coupons relating thereto other than:

- (i) those which have been redeemed in full or purchased and cancelled pursuant to the Terms and Conditions;
- (ii) those in respect of which the date for redemption in full (including, but not limited to, the due date for payment of the final instalment in respect of an Instalment Instrument) has occurred and the redemption moneys therefor (including all arrears of interest to such date for redemption) have been duly paid to the Issue and Paying Agent in the manner provided for in this Agreement (and, where appropriate, notice to that effect has been given in accordance with the Terms and Conditions) and remain available for payment in accordance with the Terms and Conditions;
- (iii) those which have been forfeited or have become void or claims in respect of which have become prescribed under the Terms and Conditions;
- (iv) (for the purpose only of ascertaining the amount outstanding and without prejudice to their status for any other purpose) those Instruments which are alleged to have been lost, stolen or destroyed and in respect of which replacement Instruments have been issued pursuant to the Terms and Conditions;
- (v) those Instruments which have been mutilated or defaced and which have been surrendered or cancelled and in respect of which replacement Instruments have been issued pursuant to the Terms and Conditions;
- (vi) any Temporary Global Instrument to the extent that it has been exchanged for Definitive Instruments or a Permanent Global Instrument; and
- (vii) any Permanent Global Instrument to the extent that it has been exchanged for Definitive Instruments,

"PERMANENT GLOBAL INSTRUMENT" means a Global Instrument representing Instruments in bearer form and which shall be substantially in the form set out in the Second Schedule hereto;

"RECEIPT" means a payment receipt appertaining to an Instalment Instrument in definitive form;

"RELEVANT AGREEMENT" means an Agreement between the Issuer and any Dealer(s) for the sale by the Issuer and the purchase by such Dealer(s) of any Instruments;

"RELEVANT DEALER" means, in respect of any Tranche of Instruments, the institution specified as such in the relevant Pricing Supplement or, if there is only one Dealer in respect of such Tranche of Instruments, such Dealer;

a "SCHEDULE" means, unless the context indicates otherwise, to a schedule hereto;

a "SECTION" means, unless the context indicates otherwise, to a section hereof;

the "SECURITIES ACT" is to the United States Securities Act of 1933, as amended;

"SERIES" means a Tranche or Tranches of Instruments the terms of which are identical except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches and a Series may comprise Instruments in more than one denomination;

the "SPECIFIED OFFICE" of any Paying Agent or Calculation Agent means the office specified against its name in the Fifth Schedule or, in the case of any Paying Agent or Calculation Agent not originally party hereto, specified in its terms of appointment (or, in the case of a Calculation Agent which is a Dealer, specified for the purposes of Section 6 of the Dealership Agreement) or such other office in the same city or town as such Paying Agent or, as the case may be, such Calculation Agent may specify by notice to the Issuer and the other parties hereto in accordance with Clause 13.08;

a "TALON" means a talon exchangeable for further Coupons;

"TEMPORARY GLOBAL INSTRUMENT" means a Global Instrument representing Instruments in bearer form and which shall be substantially in the form set out in the First Schedule hereto;

the "TERMS AND CONDITIONS" means, in relation to any Instruments, the terms and conditions applicable to such Instruments set out in the Information Memorandum, as amended or supplemented or replaced in the Pricing Supplement prepared in respect of such Instruments and any reference to a numbered "Condition" is to the correspondingly numbered provision thereof; and

"TRANCHE" means Instruments which are issued on the same issue date, the terms of which are identical in all respects (save that a Tranche may comprise Instruments in more than one denomination).

1.02 Terms used, but not defined, herein shall have the meanings ascribed to them in the Terms and Conditions.

1.03 Section and Schedule headings are for ease of reference only and shall not affect the

construction or interpretation of this Agreement.

1.04 In this Agreement, any reference to payments of principal or interest includes any additional amounts payable in relation thereto under the Terms and Conditions.

## SECTION 2. APPOINTMENT OF THE PAYING AGENTS

2.01 The Issuer appoints each of the Paying Agents at their respective specified offices as its agent in relation to the Instruments for the purposes specified in this Agreement and in the Terms and Conditions and all matters incidental thereto.

2.02 Each of the Paying Agents accepts its appointment as agent of the Issuer in relation to the Instruments and shall perform all matters expressed to be performed by it in, and otherwise comply with, the Terms and Conditions and the provisions of this Agreement and, in connection therewith, shall take all such action as may be incidental thereto.

## SECTION 3. THE INSTRUMENTS

3.01 Each Temporary and Permanent Global Instrument shall:

- (a) be printed, lithographed or typewritten in substantially the form (duly completed) set out in (in the case of a Temporary Global Instrument) the First Schedule and (in the case of a Permanent Global Instrument) the Second Schedule but with such modifications, amendments and additions as the Relevant Dealer and the Issuer shall have agreed to be necessary;
- (b) have attached thereto or incorporated by reference therein the Terms and Conditions;
- (c) be executed manually or in facsimile by a duly authorised officer of the Issuer or shall be a duplicate of the relevant master Temporary Global Instrument or, as the case may be, master Permanent Global Instrument supplied by the Issuer under Clause 4.02 hereof and, in any case, shall be authenticated manually by or on behalf of the Issue and Paying Agent; and
- (d) bear a unique serial number.

3.02 Each Definitive Instrument shall:

- (a) be in substantially the form (duly completed) set out in the Third Schedule but with such modifications, amendments and additions as the Relevant Dealer and the Issuer shall have agreed to be necessary;
- (b) unless the contrary is specified in the relevant Pricing Supplement, be in the format from time to time specified by the International Primary Market Association or any successor body thereto;
- (c) have a unique serial number printed thereon;



- (d) if so specified in the relevant Pricing Supplement, have Coupons attached thereto at the time of its initial delivery;
- (e) if so specified in the relevant Pricing Supplement, have a Talon attached thereto at the time of its initial delivery;
- (f) in the case of an Instalment Instrument, if so specified in the relevant Pricing Supplement, have a Receipt attached thereto at the time of its initial delivery;
- (g) have the Terms and Conditions endorsed thereon, or attached thereto or incorporated by reference therein;
- (h) be executed manually or in facsimile by a duly authorised officer of the Issuer and authenticated manually by or on behalf of the Issue and Paying Agent;
- (i) be printed in accordance with the requirements of any clearing system, by which such Instruments are intended to be accepted;
- (j) be printed in accordance with the requirements of any stock exchange, on which such Instruments may be listed; and
- (k) be printed in accordance with, and otherwise satisfy, any other applicable legal and/or regulatory requirements.

3.03 Each master Temporary Global Instrument and master Permanent Global Instrument, if any, will be signed manually by a duly authorised officer of the Issuer. A master Temporary Global Instrument or master Permanent Global Instrument may be used provided that the person(s) whose signature(s) appear thereon was an authorised signatory at the date of signing such master Temporary Global Instrument or master Permanent Global Instrument notwithstanding that any such person may, for any reason (including death), have ceased to be such authorised signatory at the time of the creation and issue of the relevant Tranche or the issue and delivery of the relevant Instrument.

3.04 Any facsimile signature affixed to an Instrument may be that of a person who is at the time of the creation and issue of the relevant Tranche an authorised signatory for such purpose of the Issuer notwithstanding that such person may for any reason (including death) have ceased to be such an authorised signatory at the time at which the relevant Instrument may be delivered.

3.05 The Issuer shall promptly notify in writing the Issue and Paying Agent of any change in the names of the person or persons whose signatures are to be used.

#### SECTION 4. ISSUANCE OF INSTRUMENTS

4.01 Upon the conclusion of any Relevant Agreement, the Issuer shall, as soon as practicable but in any event, not later than 2.00 p.m. (London time) on the third Banking Day prior to the proposed Issue Date:

- (a) confirm by tested telex or tested facsimile to the Issue and Paying Agent all such information as the Issue and Paying Agent may reasonably require to carry out its

functions under this Agreement and in particular, whether customary eurobond or medium term note settlement and payment procedures will apply to the relevant Tranche and (if a master Global Instrument is to be used), such details as are necessary to enable it to complete a duplicate or duplicates of the master Global Instrument and (if medium term note settlement and payment procedures are to apply) the account of the Issuer to which payment should be made;

- (b) deliver a copy, duly executed, of the Pricing Supplement in relation to the relevant Tranche to the Issue and Paying Agent; and
- (c) unless a master Global Instrument is to be used and the Issuer shall have provided such document to the Issue and Paying Agent pursuant to Clause 4.02, ensure that there is delivered to the Issue and Paying Agent an appropriate Global Instrument (in unauthenticated form but executed on behalf of the Issuer and otherwise complete) in relation to the relevant Tranche.

4.02 The Issuer may, at its option, deliver from time to time to the Issue and Paying Agent a stock of master Temporary Global Instruments and master Permanent Global Instruments (in unauthenticated form but executed on behalf of the Issuer).

4.03 The Issue and Paying Agent shall on behalf of the Issuer, where the relevant Instruments are to be listed on the Luxembourg Stock Exchange, deliver a copy of the Pricing Supplement in relation to the relevant Tranche to the Luxembourg Stock Exchange as soon as practicable but in any event not later than 2.00 p.m. (local time) no later than three Luxembourg business days prior to the proposed issue date therefor.

4.04 Except in the case of issues of Instruments which are syndicated among two or more Dealers, in which event this Clause 4.04 shall not apply, on or before 10.00 a.m. (London time) on the Banking Day prior to the issue date in relation to each Tranche, the Issue and Paying Agent shall authenticate and deliver the relevant Global Instrument to the relevant depositary for Euroclear and/or Cedel Bank and/or any other relevant clearing system. The Issue and Paying Agent shall give instructions to Euroclear and/or Cedel Bank and/or any other relevant clearing system to credit Instruments represented by a Global Instrument to the Issue and Paying Agent's distribution account and to hold each such Instrument to the order of the Issuer pending delivery to the relevant Dealer(s) on a delivery against payment basis (or on such other basis as shall have been agreed between the Issuer and the Relevant Dealer and notified to the Issue and Paying Agent) in accordance with the normal procedures of Euroclear or Cedel Bank or such other clearing system, as the case may be and, following payment, to credit the Instruments represented by such Global Instrument to such securities account(s) as shall have been notified to the Issue and Paying Agent by the Issuer. The Issue and Paying Agent shall on the issue date in respect of the relevant Tranche and against receipt of funds from the relevant Dealer(s) transfer the proceeds of issue to the Issuer to the account notified in accordance with Clause 4.01 above.

If no such securities account(s) shall have been specified, or the relevant Tranche is not intended to be cleared through any clearing system, the Issue and Paying Agent shall authenticate and make available at its specified office on the issue date in respect of the relevant Tranche the relevant Global Instrument.

4.05 If the Issue and Paying Agent should pay an amount (an "ADVANCE") to the Issuer in the belief that a payment has been or will be received from a Dealer, and if such payment is not received by the Issue and Paying Agent on the date that the Issue and Paying Agent pays the Issuer, the Issuer shall forthwith repay the advance (unless prior to such repayment the payment is received from the Dealer) and shall pay interest on such amount which shall accrue (as well after as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an advance paid in sterling) and the actual number of days elapsed from the date of payment of such advance until the earlier of (i) repayment of the advance or (ii) receipt by the Issue and Paying Agent of the payment from the Dealer, and at the rate per annum which is the aggregate of one per cent. per annum and the rate reasonably determined and certified by the Issue and Paying Agent and expressed as a rate per annum as reflecting its cost of funds for the time being in relation to the unpaid amount.

4.06 The Issuer shall, in relation to each Tranche of Instruments which is represented by a Temporary Global Instrument, ensure that there is delivered to the Issue and Paying Agent not less than ten (five, in the case of an exchange for the Permanent Global Instrument) Banking Days before the relevant Temporary Global Instrument becomes exchangeable therefor, the Permanent Global Instrument (in unauthenticated form, but executed by the Issuer and otherwise complete) in relation thereto unless a master Permanent Global Instrument is to be used and the Issuer has provided the relevant document to the Issue and Paying Agent pursuant to Clause 4.02 or, as the case may be, the Definitive Instruments (in unauthenticated form, but executed by the Issuer and otherwise complete) in relation thereto. The Issue and Paying Agent shall authenticate and deliver such Permanent Global Instrument or, as the case may be, Definitive Instruments in accordance with the terms hereof and of the relevant Temporary Global Instrument.

4.07 The Issuer shall, in relation to each Tranche of Instruments which is represented by a Permanent Global Instrument in relation to which an exchange notice has been given in accordance with the terms of such Permanent Global Instrument or which is due to be exchanged in accordance with its terms, ensure that there is delivered to the Issue and Paying Agent not less than ten Banking Days before the latest date on which the relevant notice period expires or, in any event, on which such Permanent Global Instrument may be exchanged prior to becoming void, the Definitive Instruments (in unauthenticated form but executed by the Issuer and otherwise complete) in relation thereto. The Issue and Paying Agent shall authenticate and deliver such Definitive Instruments in accordance with the terms hereof and of the relevant Permanent Global Instrument.

4.08 Where any Definitive Instruments are to be delivered in exchange for a Temporary Global Instrument or a Permanent Global Instrument, the Issue and Paying Agent shall ensure that (i) in the case of Definitive Instruments with Coupons attached, such Definitive Instruments shall have attached thereto only such Coupons as shall ensure that neither loss nor gain of interest shall accrue to the bearer thereof; (ii) in the case of Instalment Instruments which are Definitive Instruments with Receipts, such Definitive Instruments shall have attached thereto only such Receipts in respect of Instalment Amounts as shall not then have been paid; and (iii) in the case of Instalment Instruments which are Definitive Instruments without Receipts, any Instalment Amounts that shall have then been paid shall be noted on the grid endorsed on such Definitive Instruments.

4.09 The Issue and Paying Agent shall hold in safe custody all unauthenticated Temporary Global Instruments, Permanent Global Instruments or Definitive Instruments (including any Coupons attached thereto) delivered to it in accordance with this Section 4 and Section 5 and shall ensure that the same (or, in the case of a master Global Instrument copies thereof) are authenticated and

delivered only in accordance with the terms hereof and, if applicable, the relevant Instrument. The Issuer shall ensure that each of the Issue and Paying Agent and the Replacement Agent (as defined in Clause 5.01) holds sufficient Instruments, Receipts or Coupons to fulfil its respective obligations under Section 4 and Section 5 and each of the Issue and Paying Agent and the Replacement Agent undertakes to notify the Issuer if it holds insufficient Instruments, Receipts or Coupons for such purposes.

4.10 The Issue and Paying Agent is authorised by the Issuer to authenticate such Temporary Global Instruments, Permanent Global Instruments, or, as the case may be, Definitive Instruments as may be required to be authenticated hereunder by the signature of any of its officers or any other person duly authorised for the purpose by the Issue and Paying Agent.

4.11 On each occasion on which a portion of a Temporary Global Instrument or a Permanent Global Instrument is exchanged for a portion of a Permanent Global Instrument or, as the case may be, for Definitive Instruments, the Issue and Paying Agent shall note or procure that there is noted on the Schedule to the Temporary Global Instrument or, as the case may be, Permanent Global Instrument the aggregate principal amount thereof so exchanged and the remaining principal amount of the Temporary Global Instrument or, as the case may be, Permanent Global Instrument (which shall be the previous principal amount thereof less (or, in the case of a Permanent Global Instrument in respect of an exchange of a portion of a Temporary Global Instrument for a Permanent Global Instrument, plus) the aggregate principal amount so exchanged) and shall procure the signature of such notation on its behalf. The Issue and Paying Agent shall cancel or procure the cancellation of each Temporary Global Instrument or, as the case may be, Permanent Global Instrument against surrender of which it has made full exchange for a Permanent Global Instrument or Definitive Instruments.

4.12 The Issuer shall, in relation to any Definitive Instruments to which a Talon is attached upon the initial delivery thereof, on each occasion on which a Talon becomes exchangeable for further Coupons, not less than five Banking Days before the date on which the final Coupon comprised in any Coupon sheet (which includes a Talon) matures ("TALON EXCHANGE DATE"), ensure that there is delivered to the Issue and Paying Agent such number of Coupon sheets as may be required in order to enable the Paying Agents to fulfil their obligation under Clause 4.13 hereof.

4.13 The relevant Paying Agent shall, against the presentation and surrender of any Talon, on or after the Talon Exchange Date in respect of such Talon, deliver a Coupon sheet provided that if any Talon is presented and surrendered for exchange to a Paying Agent and the Replacement Agent (as defined in Clause 5.01) has delivered a replacement therefor such Paying Agent shall forthwith notify the Issuer of such presentation and surrender and shall not exchange against the same unless and until it is so instructed by the Issuer. After making such exchange, the Paying Agent shall cancel each Talon surrendered to it and in respect of which a Coupon sheet shall have been delivered and shall (if such Paying Agent is not the Issue and Paying Agent) deliver the same to the Issue and Paying Agent.

4.14 The Issuer undertakes to notify the Issue and Paying Agent of any changes in the identity of the Dealers appointed generally in respect of the Programme and the Issue and Paying Agent agrees to notify the other Paying Agents thereof as soon as reasonably practicable thereafter.

4.15 In the case of Partly Paid Instruments, on each occasion that payment is made to the Issuer in accordance with the Terms and Conditions of any Partly Paid Instalment in respect of any

Instruments, the Issue and Paying Agent shall note or procure that there is noted on the Schedule to the relevant Global Instrument (i) the aggregate principal amount of such payment, and (ii) the increased principal amount of the relevant Instrument (which shall be the previous principal amount plus the amount referred to at (i) above) and shall procure the signature of such notation on its behalf.

4.16 In the case of Partly Paid Instruments, on each occasion on which any Instruments are to be forfeited, the Issuer will give notice thereof to the Issue and Paying Agent of the aggregate principal amount of Instruments which are to be forfeited.

4.17 In the case of Partly Paid Instruments, on each occasion on which any Instruments are forfeited, the Issue and Paying Agent shall note or procure that there is noted on the Schedule to the Temporary Global Instrument or Permanent Global Instrument, the aggregate principal amount so forfeited and the remaining principal amount of the Temporary Global Instrument or Permanent Global Instrument and shall procure the signature of such notation on its behalf. The Issue and Paying Agent shall cancel or procure the cancellation of each Temporary Global Instrument or, as the case may be, Permanent Global Instrument in respect of which all the Instruments represented thereby have been forfeited.

## SECTION 5. REPLACEMENT INSTRUMENTS

5.01 The Issue and Paying Agent or, as the case may be in respect of any Instruments, the Paying Agent named in the relevant Pricing Supplement (in such capacity "REPLACEMENT AGENT") shall, upon and in accordance with the instructions (which instructions may, without limitation, include terms as to the payment of expenses and as to evidence, security and indemnity) of the Issuer but not otherwise, authenticate and deliver a Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon, as the case may be, as a replacement for any of the same which has been mutilated or defaced or which has or has been alleged to have been destroyed, stolen or lost Provided that no Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon, as the case may be, shall be delivered as a replacement for any of the same which has been mutilated or defaced otherwise than against surrender of the same.

5.02 Each replacement Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon delivered hereunder shall bear a unique serial number and be in a form otherwise identical to the Instrument it so replaces.

5.03 The Replacement Agent shall cancel each mutilated or defaced Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon surrendered to it and in respect of which a replacement has been delivered.

5.04 The Replacement Agent shall notify the Issuer and the other Paying Agents of the delivery by it in accordance herewith of any replacement Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon, specifying the serial number thereof and the serial number (if any and if known) of the Instrument which it replaces and confirming (if such be the case) that the Instrument which it replaces has been cancelled.

5.05 Unless the Issuer instructs otherwise, the Replacement Agent shall destroy each mutilated or defaced Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon surrendered to and cancelled by it and in respect of which a replacement has been

delivered and shall, as soon as reasonably practicable but not later than three months after such destruction, furnish the Issuer with a certificate as to such destruction and specifying the serial numbers of the Temporary Global Instrument, Permanent Global Instrument and Definitive Instruments (distinguishing between different denominations) in numerical sequence and the total number by payment or maturity date of Receipts and Coupons (distinguishing Talons) as destroyed.

#### SECTION 6. PAYMENTS TO THE ISSUE AND PAYING AGENT

6.01 In order to provide for the payment of interest and principal or, as the case may be, any other amount payable in respect of the Instruments of each Series as the same shall become due and payable, the Issuer shall pay to the Issue and Paying Agent on or before the date on which such payment becomes due an amount equal to the amount of principal or, as the case may be, interest (including for this purpose any amounts remaining payable in respect of uncanceled Coupons pertaining to Definitive Instruments which have been cancelled following their purchase in accordance with the Terms and Conditions) then becoming due in respect of such Instruments or any other amount payable.

6.02 Each amount payable by the Issuer under Clause 6.01 shall be paid unconditionally by credit transfer in the currency in which the Instruments of the relevant Series are denominated or, if different, payable and in immediately available, freely transferable funds not later than 10.00 a.m. (local time) on the relevant day to such account with such bank as the Issue and Paying Agent may by notice to the Issuer have specified for the purpose. The Issuer shall, before 10.00 a.m. (local time) on the second local banking day before the due date of each payment by it under Clause 6.01, confirm to the Issue and Paying Agent by tested telex that it has given irrevocable instructions for the transfer of the relevant funds to the Issue and Paying Agent and the name and the account of the bank through which such payment is being made.

6.03 The Issue and Paying Agent shall be entitled to deal with each amount paid to it hereunder in the same manner as other amounts paid to it as a banker by its customers provided that:

- (a) it shall not against the Issuer exercise any lien, right of set-off or similar claim in respect thereof; and
- (b) it shall not be liable to any person for interest thereon.

6.04 All moneys paid to the Issue and Paying Agent by the Issuer in respect of any Instrument shall be held by the Issue and Paying Agent from the moment when such moneys are received until the time of actual payment thereof, for the persons entitled thereto, to apply the same in accordance with Section 7 and it shall not be obliged to repay any such amount unless or until claims against the Issuer in respect of the relevant Instruments are prescribed or the obligation to make the relevant payment becomes void or ceases in accordance with the Terms and Conditions, in which event it shall repay, as soon as practicable, to the Issuer such portion of such amount as relates to such claim or payment by paying the same by credit transfer to such account with such bank as the Issuer may by notice to the Issue and Paying Agent have specified for the purpose.

6.05 If the Issue and Paying Agent has not, (a) by 1.00 p.m. (local time) on the second local banking day before the due date of any payment to it under Clause 6.01, received notification of the relevant payment confirmation referred to in Clause 6.02 it shall forthwith notify the Issuer or (b) by

10.00 (a.m.) (local time) on the due date of any payment received the full amount payable under Clause 6.01 it shall forthwith notify the Issuer and the Paying Agents thereof. If the Issue and Paying Agent subsequently receives notification of such payment instructions or payment of the amount due, it shall forthwith notify the Issuer and the Paying Agents thereof.

#### SECTION 7. PAYMENTS TO HOLDERS OF INSTRUMENTS

7.01 Each Paying Agent acting through its specified office shall make payments of interest or, as the case may be, principal in respect of Instruments in accordance with the Terms and Conditions applicable thereto (and, in the case of a Temporary Global Instrument or a Permanent Global Instrument, the terms thereof) Provided that:

- (a) if any Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt or Coupon is presented or surrendered for payment to any Paying Agent and such Paying Agent has delivered a replacement therefor or has been notified that the same has been replaced, such Paying Agent shall forthwith notify the Issuer of such presentation or surrender and shall not make payment against the same until it is so instructed by the Issuer and has received the amount to be so paid;
- (b) a Paying Agent shall not be obliged (but shall be entitled) to make such payments if it is not able to establish that the Issue and Paying Agent has received (whether or not at the due time) the full amount of the relevant payment due to it under Clause 6.01;
- (c) each Paying Agent shall cancel or procure the cancellation of each Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument (in the case of early redemption, together with such unmatured Receipts or Coupons or unexchanged Talons as are attached to or are surrendered with it at the time of such redemption), Receipt or, as the case may be, Coupon against surrender of which it has made full payment and shall (if such Paying Agent is not the Issue and Paying Agent) deliver or procure the delivery of each Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument (together with as aforesaid) Receipt or Coupon so cancelled by it to the Issue and Paying Agent; and
- (d) in the case of payment of principal or, as the case may be, interest against presentation of a Temporary Global Instrument or a Permanent Global Instrument or in the case of payment of an Instalment Amount in respect of an Instalment Instrument against presentation of a Definitive Instrument without Receipts, the relevant Paying Agent shall note or procure that there is noted on the Schedule thereto (or, in the absence of a Schedule, on the face thereof) the amount of such payment and, in the case of payment of principal, the remaining principal amount of the relevant Instrument (which shall be the previous principal amount less the principal amount in respect of which payment has then been paid) and shall procure the signature of such notation on its behalf.

7.02 None of the Paying Agents shall exercise any lien, right of set-off or similar claim against any person to whom it makes any payment under Clause 7.01 in respect thereof, nor shall any commission or expense be charged by it to any such person in respect thereof.

7.03 If a Paying Agent other than the Issue and Paying Agent makes any payment in accordance with Clause 7.01:

- (a) it shall notify the Issue and Paying Agent of the amount so paid by it, the serial number of the Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument or Coupon against presentation or surrender of which payment of principal or interest was made and the number of Coupons by maturity against which payment of interest was made; and
- (b) subject to and to the extent of compliance by the Issuer with Clause 6.01 (whether or not at the due time), the Issue and Paying Agent shall reimburse such Paying Agent for the amount so paid by it by payment out of the funds received by it under Clause 6.01 of an amount equal to the amount so paid by it by paying the same by credit transfer to such account with such bank as such Paying Agent may by notice to the Issue and Paying Agent have specified for the purpose.

7.04 If the Issue and Paying Agent makes any payment in accordance with Clause 7.01, it shall be entitled to appropriate for its own account out of the funds received by it under Clause 6.01 an amount equal to the amount so paid by it.

7.05 If any Paying Agent makes a payment in respect of Instruments at a time at which the Issue and Paying Agent has not received the full amount of the relevant payment due to it under Clause 6.01, and the Issue and Paying Agent is not able out of the funds received by it under Clause 6.01 to reimburse such Paying Agent therefor (whether by payment under Clause 7.03 or appropriation under Clause 7.04), the Issuer shall from time to time on demand pay to the Issue and Paying Agent for the account of such Paying Agent:

- (a) the amount so paid out by such Paying Agent and not so reimbursed to it; and
- (b) interest on such amount from the date on which such Paying Agent made such payment until the date of reimbursement of such amount,

Provided that any payment made under paragraph (a) above shall satisfy pro tanto the Issuer's obligations under Clause 6.01.

7.06 Interest shall accrue for the purpose of paragraph (b) of Clause 7.05 (as well after as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an amount in sterling) and the actual number of days elapsed and at the rate per annum which is the aggregate of one per cent. per annum and the rate per annum specified by the Issue and Paying Agent as reflecting its cost of funds for the time being in relation to the unpaid amount.

7.07 If at any time and for any reason a Paying Agent makes a partial payment in respect of any Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument or Coupon surrendered for payment to it, such Paying Agent shall endorse thereon (and, in the case of an Instalment Instrument which is a Definitive Instrument, on the relevant Receipt) a statement indicating the amount and date of such payment.



SECTION 8. MISCELLANEOUS DUTIES OF THE ISSUE AND PAYING AGENT AND THE PAYING AGENTS

CANCELLATION, DESTRUCTION AND RECORDS

8.01 The Issue and Paying Agent shall:

- (a) separately in respect of each Series of Instruments, maintain a record of all Temporary Global Instruments, Permanent Global Instruments, Definitive Instruments, Receipts and Coupons delivered hereunder and of their redemption, payment, exchange, forfeiture (in the case of Partly Paid Instruments), cancellation, mutilation, defacement, alleged destruction, theft or loss or replacement Provided that no record need be maintained of the serial numbers of Receipts or Coupons (save insofar as that a record shall be maintained of the serial numbers of unmatured Receipts and Coupons and/or unexchanged Talons missing at the time of redemption or other cancellation of the relevant Definitive Instruments and, in the case of Coupons, of any subsequent payments against such Coupons) and shall send forthwith to the other Paying Agents a list of any unmatured Receipts and Coupons and/or unexchanged Talons missing upon redemption of the relevant Definitive Instrument;
- (b) separately in respect of each Series of Instruments, maintain a record of all certifications received by it in accordance with the provisions of any Temporary Global Instrument;
- (c) upon request by the Issuer, inform the Issuer of the spot rate of exchange quoted by it for the purchase of the currency in which the relevant Instruments are denominated against payment of United States dollars (or such other currency specified by the Issuer) on the date on which the Relevant Agreement (as defined in the Dealership Agreement) in respect of such Instruments was made; and
- (d) make such records available for inspection at all reasonable times by the Issuer and the other Paying Agents.

8.02 The Paying Agents shall make available to the Issue and Paying Agent such information as may reasonably be required for the maintenance of the records referred to in Clause 8.01.

8.03 The Issuer may from time to time deliver to the Issue and Paying Agent Definitive Instruments and unmatured Coupons appertaining thereto for cancellation, whereupon the Issue and Paying Agent shall cancel such Definitive Instruments and Coupons. The Issuer may from time to time procure the delivery to the Issue and Paying Agent of a Temporary Global Instrument or a Permanent Global Instrument with instructions to cancel a specified aggregate principal amount of Instruments represented thereby (which instructions shall be accompanied by evidence satisfactory to the Issue and Paying Agent that the Issuer is entitled to give such instructions) whereupon the Issue and Paying Agent shall note or procure that there is noted on the Schedule to such Temporary Global Instrument or Permanent Global Instrument the aggregate principal amount of Instruments so to be cancelled and the remaining principal amount thereof (which shall be the previous principal amount thereof less the aggregate principal amount of the Instruments so cancelled) and shall procure the

signature of such notation on its behalf.

8.04 As soon as practicable (but in any event not later than three months) after each interest or other payment date in relation to any Series of Instruments, after each date on which Instruments are cancelled in accordance with Clause 8.03, and after each date on which the Instruments fall due for redemption, the Issue and Paying Agent shall notify the Issuer and the other Paying Agents (on the basis of the information available to it and distinguishing between the Instruments of each Series) of the serial numbers of any Definitive Instruments and/or the number of Coupons (by reference to maturity) against presentation or surrender of which payment has been made and of the serial numbers of any Definitive Instruments (distinguishing between different denominations) or, as the case may be, Coupons which have not yet been presented or surrendered for payment.

8.05 The Issue and Paying Agent may destroy each Temporary Global Instrument, Permanent Global Instrument, Definitive Instrument, Receipt and Coupon delivered to or cancelled by it in accordance with Clause 4.11, Clause 4.13, Clause 4.17, paragraph (c) of Clause 7.01 or (where there is no principal amount remaining of such Temporary Global Instrument or Permanent Global Instrument) delivered to and cancelled by it in accordance with Clause 8.03, in which case it shall as soon as reasonably practicable (but not later than 3 months after such destruction) furnish the Issuer with a certificate as to such destruction distinguishing between the Instruments of each Series and specifying the serial numbers of the Temporary Global Instrument, Permanent Global Instrument and Definitive Instruments in numerical sequence (and containing particulars of any unmatured Receipts or Coupons and unexchanged Talons attached thereto or surrendered therewith) and the total number by payment or maturity date of Receipts and Coupons (distinguishing Talons) so destroyed.

#### MEETINGS OF HOLDERS OF INSTRUMENTS

8.06 Each Paying Agent shall, at the request of the Holder of any Instrument held in a clearing system issue voting certificates and block voting instructions in a form and manner which comply with the provisions of the Fourth Schedule (except that it shall not be required to issue the same less than forty-eight hours before the time fixed for any meeting therein provided for) and shall perform and comply with the provisions of the Fourth Schedule. Each Paying Agent shall keep a full record of voting certificates and block voting instructions issued by it and will give to the Issuer not less than twenty-four hours before the time appointed for any meeting or adjourned meeting full particulars of all voting certificates and block voting instructions issued by it in respect of such meeting or adjourned meeting.

#### DOCUMENTS AVAILABLE FOR INSPECTION

8.07 The Issuer shall provide to the Issue and Paying Agent for distribution among the Paying Agents:

- (a) specimen Instruments;
- (b) sufficient copies of all documents required to be available for inspection as provided in the Information Memorandum or, in relation to any Instruments, the Terms and Conditions or Pricing Supplement in respect of such Instruments; and
- (c) in the event that the provisions of such Condition become relevant in relation to any

Instruments, the documents required under the Condition headed "Early Redemption for Taxation Reasons".

8.08 Each Paying Agent shall make available for inspection during normal business hours at its specified office such documents as may be specified as so available at the specified office of such agent in the Information Memorandum or, in relation to any Instruments, the Terms and Conditions or Pricing Supplement in respect of such Instruments, or as may be required by any stock exchange on which the Instruments may be listed and, without prejudice to the generality of the foregoing, the Issue and Paying Agent and the Paying Agent with its specified office in Luxembourg shall make available for inspection during normal business hours at its specified office copies of the Information Memorandum and all other documents listed in paragraph 4 of the General Information section of the information memorandum addendum dated 24 October 1997 and, in the event that the provisions of such Condition become relevant, the certificate required in the Condition headed "Early Redemption for Taxation Reasons".

#### NOTIFICATIONS AND FILINGS

8.9 The Issue and Paying Agent shall (on behalf of the Issuer) make all necessary notifications and filings as may be required from time to time in relation to the issue, purchase and redemption of Instruments by all applicable laws, regulations and guidelines and, in particular but without limitation, those promulgated by, Japanese governmental or regulatory authorities, in the case of Instruments denominated in or linked to Japanese Yen, the Bank of England, in the case of Instruments denominated in or linked to Pounds Sterling, the Tresor, in the case of Instruments denominated in or linked to French Francs and the Deutsche Bundesbank, in the case of Instruments denominated in or linked to Deutsche Marks.

Save as aforesaid, the Issuer shall be solely responsible for ensuring that each Instrument to be issued or other transactions to be effected hereunder shall comply with all applicable laws and regulations of any governmental or other regulatory authority in connection with any Instrument and that all necessary consents and approvals of, notifications to and registrations and filings with, any such authority in connection therewith are effected, obtained and maintained in full force and effect.

#### INDEMNITY

8.10 Each of the Paying Agents shall severally indemnify the Issuer against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it may incur, otherwise than by reason of the Issuer's own negligence or wilful misconduct, as a result or arising out of or in relation to any breach by such Paying Agent of the terms of this Agreement or such Paying Agent's own negligence or wilful misconduct.

#### NOTICES

8.11 The Issue and Paying Agent agrees with the Issuer that, to the extent that it is notified by each relevant Dealer that the distribution of the Instruments of any Tranche is complete, it will notify the relevant Dealers of the completion of distribution of the Instruments of any Tranche which are sold to or through more than one Dealer.

8.12 The Issue and Paying Agent shall immediately notify the Issuer of any notice delivered to it declaring an Instrument due and payable by reason of an Event of Default or requiring any breach of any provision of the Issue and Paying Agency Agreement or the Terms and Conditions applicable to any Tranche of Instruments to be remedied.

8.13 The Issue and Paying Agent shall, upon and in accordance with the instructions of the Issuer but not otherwise, arrange for the publication in accordance with the Terms and Conditions of any notice which is to be given to the Holders of any Instruments and shall supply a copy thereof to each other Paying Agent.

ECU

8.14 If, in respect of any Series of Instruments denominated in ECU, a payment is to be made in the Selected Currency, the Issue and Paying Agent shall:

- (a) without liability on its part, choose the Selected Currency as provided in Condition 9C and shall forthwith notify the Issuer and the Paying Agents thereof; and
- (b) promptly perform the other duties required of it under Condition 9C.

#### SECTION 9. EARLY REDEMPTION AND EXERCISE OF OPTIONS

9.01 If the Issuer intends (other than consequent upon an Event of Default) to redeem all or any of the Instruments prior to their stated maturity date or to exercise any other option under the Terms and Conditions, it shall, not less than 14 days prior to the latest date for the publication of the notice of redemption or of exercise of the Issuer's option required to be given to the Holders of any Instruments, give notice of such intention to the Issue and Paying Agent stating the date on which such Instruments are to be redeemed or such option is to be exercised.

9.02 In respect of any Instruments which carry any right of redemption or other right exercisable at the option of the Holders of such Instruments, the Issuer will provide the Paying Agents with copies of the form of the current redemption notice or exercise notice and the Paying Agents will make available forms of the current redemption notice or exercise notice to Holders of Instruments upon request during usual business hours at their respective specified offices. Upon receipt of any Instrument deposited in the exercise of such option, the Paying Agent with which such Instrument is deposited shall hold such Instrument (together with, in the case of a Definitive Instrument, any Receipts and/or Coupons relating to it deposited with it) on behalf of the depositing Holder of such Instrument (but shall not, save as provided below, release it) until the due date for redemption of the relevant Instrument consequent upon the exercise of such option, or, as the case may be, the date upon which the exercise of such option takes effect when, in the case of redemption and subject as provided below, it shall present such Instrument (and any such Receipts and/or Coupons) to itself for payment in accordance with the Terms and Conditions and shall pay such moneys in accordance with the directions of the Holder of the Instrument contained in the relevant redemption notice. In the case of an exercise of any other option, the relevant Paying Agent shall take such steps as may be required to be taken by it in the Terms and Conditions. If, prior to such due date for its redemption or the date upon which the exercise of such option takes effect, an Event of Default occurs in respect of such Instrument or if upon due presentation payment of such redemption moneys is improperly withheld or refused, the Paying Agent concerned shall, without prejudice to the exercise of such

option, mail such Instrument (together with any such Receipts and/or Coupons) by uninsured post to, and at the risk of, the Holder of the relevant Instrument at such address as may have been given by such Holder in the relevant redemption notice.

9.03 At the end of any applicable period for the exercise of such option or, as the case may be, not later than 7 days after the latest date for the exercise of such option in relation to a particular date, each Paying Agent shall promptly notify the Issue and Paying Agent of the principal amount of the Instruments in respect of which such option has been exercised with it together with their serial numbers and the Issue and Paying Agent shall promptly notify such details to the Issuer.

#### SECTION 10. APPOINTMENT AND DUTIES OF THE CALCULATION AGENT

##### APPOINTMENT

10.01 The Issuer appoints the Issue and Paying Agent at its specified office as Calculation Agent in relation to each Series of Instruments in respect of which it is named as such in the relevant Pricing Supplement(s) for the purposes specified in this Agreement and in the Terms and Conditions and all matters incidental thereto.

10.02 The Issue and Paying Agent accepts its appointment as Calculation Agent in relation to each Series of Instruments in respect of which it is named as such in the relevant Pricing Supplement(s) and shall perform all matters expressed to be performed by it in, and otherwise comply with, the Terms and Conditions and the provisions of this Agreement and, in connection therewith, shall take all such action as may be incidental thereto. The Issue and Paying Agent acknowledges and agrees that it shall be named in the relevant Pricing Supplement(s) as Calculation Agent in respect of each Series of Instruments unless the Dealer (or one of the Dealers) through whom such Instruments are issued has agreed with the Issuer to act as Calculation Agent or the Issuer otherwise agrees to appoint another institution as Calculation Agent.

##### CALCULATIONS AND DETERMINATIONS

10.03 The Calculation Agent shall in respect of each Series of Instruments in relation to which it is appointed as such:

- (a) obtain such quotes and rates and/or make such determinations, calculations, adjustments, notifications and publications as may be required to be made by it by the Terms and Conditions at the times and otherwise in accordance with the Terms and Conditions; and
- (b) maintain a record of all quotations obtained by it and of all amounts, rates and other items determined or calculated by it and make such record available for inspection at all reasonable times by the Issuer and the Paying Agents.

##### INDEMNITY

10.04 The Calculation Agent shall indemnify the Issuer against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value

added tax) which it may incur, otherwise than by reason of the Issuer's own negligence or wilful misconduct, as a result or arising out of or in relation to any breach by the Calculation Agent of the terms of this Agreement or the Calculation Agent's own negligence or wilful misconduct.

#### SECTION 11. FEES AND EXPENSES

11.01 The Issuer shall pay to the Issue and Paying Agent for account of the Paying Agents such fees as may have been agreed between the Issuer and the Issue and Paying Agent in respect of the services of the Paying Agents hereunder (plus any applicable value added tax). The Issuer shall pay to any Calculation Agent such fees as may have been agreed between the Issuer and such Calculation Agent in respect of its services hereunder (plus any applicable value added tax).

11.02 The Issuer shall on demand reimburse the Issue and Paying Agent, each Paying Agent and each Calculation Agent for all expenses (including, without limitation, legal fees and any publication, advertising, communication, courier, postage and other out-of-pocket expenses) incurred in connection with its services hereunder (plus any applicable value added tax).

11.03 The Issuer shall pay all stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which may be payable upon or in connection with the execution and delivery of this Agreement and any letters of appointment under which any Paying Agent or Calculation Agent is appointed as agent hereunder, and shall indemnify each Paying Agent and each Calculation Agent (each an "INDEMNIFIED PARTY") against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it may incur as a result or arising out of or in relation to any failure to pay or delay in paying any of the same. The foregoing indemnity shall extend also to the employees, officers, directors and agents of such indemnified party and to any person controlling any indemnified party (within the meaning of the Securities Act).

#### SECTION 12. TERMS OF APPOINTMENT

12.01 Each of the Paying Agents and (in the case of (d), (e) and (f)) each Calculation Agent may, in connection with its services hereunder:

- (a) except as ordered by a court of competent jurisdiction or as required by law or opposition procedures for Instruments registered with SICOVAM, in particular French Decree No. 56-27 of 11 January 1956 as amended by French Decree No. 93-225 of 16 February 1993 relating to lost and stolen securities and notwithstanding any notice to the contrary or any memorandum thereon, treat the bearer of any Instrument or Coupon as the absolute owner thereof and make payments thereon accordingly;
- (b) assume that the terms of each Instrument, Receipt or Coupon as issued are correct;
- (c) refer any question relating to the ownership of any Instrument, Receipt or Coupon or the adequacy or sufficiency of any evidence supplied in connection with the replacement of any Instrument, Receipt or Coupon to the Issuer for determination by the Issuer and rely upon any determination so made;

- (d) rely upon the terms of any notice, communication or other document reasonably believed by it to be genuine;
- (e) engage and pay for the advice or services of any lawyers or other experts whose advice or services may to it seem necessary and rely upon any advice so obtained (and such Paying Agent or, as the case may be, such Calculation Agent shall be protected and shall incur no liability as against the Issuer in respect of any action taken, or suffered to be taken, in accordance with such advice and in good faith); and
- (f) treat itself as being released from any obligation to take any action hereunder which it reasonably expects will result in any expense or liability to it, the payment of which within a reasonable time is not, in its reasonable opinion, assured to it.

12.02 Notwithstanding anything to the contrary expressed or implied herein (other than in Clause 6.04 hereof) or in the Terms and Conditions applicable to any Instruments, none of the Paying Agents nor any Calculation Agent shall, in connection with their or its services hereunder, be under any fiduciary duty towards any person other than the Issuer, be responsible for or liable in respect of the authorisation, validity or legality of any Instrument, Receipt or Coupon issued or paid by it hereunder or any act or omission of any other person (including, without limitation, any other party hereto and, in the case of the Calculation Agent, any bank from whom any quote may have been obtained) or be under any obligation towards any person other than the Issuer and, in the case of the Paying Agents, the other Paying Agents.

12.03 Each Paying Agent and Calculation Agent may purchase, hold and dispose of Instruments or Coupons and may enter into any transaction (including, among other transactions, any depository, trust or agency transaction) with any Holders or owners of any Instruments or Coupons or with any other party hereto in the same manner as if it had not been appointed as the agent of the Issuer in relation to the Instruments.

12.04 The Issuer shall indemnify each Paying Agent and each Calculation Agent (each, an "INDEMNIFIED PARTY") against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it may incur, other than such costs and expenses as are separately agreed to be reimbursed out of the fees payable under Clause 11.01 and otherwise than by reason of its own negligence or wilful misconduct or breach of the terms of this Agreement, as a result or arising out of or in relation to its acting as the agent of the Issuer in relation to the Instruments. The foregoing indemnity shall extend also to the employees, officers, directors and agents of such indemnified party and to any person controlling any indemnified party (within the meaning of the Securities Act).

#### SECTION 13. CHANGES IN AGENTS

13.01 Any Paying Agent or Calculation Agent may resign its appointment as the agent of the Issuer hereunder and/or in relation to any Series of Instruments upon the expiration of not less than thirty days' notice to that effect by such Paying Agent or Calculation Agent to the Issuer (with a copy, if necessary, to the Issue and Paying Agent) Provided, however, that:

- (a) in relation to any Series of Instruments any such notice which would otherwise expire within thirty days before or after the maturity date of such Series or any interest or

other payment date in relation to any such Series shall be deemed, in relation to such Series only, to expire on the thirtieth day following such maturity date or, as the case may be, such interest or other payment date; and

- (b) in respect of any Series of Instruments, in the case of the Issue and Paying Agent or the Calculation Agent, the only remaining Paying Agent with its specified office in a continental European city or, so long as such Instruments are listed on the Luxembourg Stock Exchange and/or any other stock exchange, the Paying Agent with its specified office in Luxembourg and/or in such other place as may be required by such other stock exchange, in the circumstances described in Condition 9A.04, the Paying Agent with its specified office in New York City, such resignation shall not be effective until a successor thereto has been appointed by the Issuer as the agent of the Issuer in relation to such Series of Instruments or in accordance with Clause 13.05 and notice of such appointment has been given in accordance with the Terms and Conditions.

13.02 The Issuer may revoke its appointment of any Paying Agent or Calculation Agent as its agent hereunder and/or in relation to any Series of Instruments by not less than thirty days' notice to that effect to such Paying Agent or, as the case may be, Calculation Agent Provided, however, that in respect of any Series of Instruments, in the case of the Issue and Paying Agent or the Calculation Agent, the only remaining Paying Agent with its specified office in a continental European city or, so long as such Instruments are listed on the Luxembourg Stock Exchange and/or any other stock exchange, the Paying Agent with its specified office in Luxembourg and/or in such other place as may be required by such other stock exchange, in the circumstances described in Condition 9A.04, the Paying Agent with its specified office in New York City, such revocation shall not be effective until a successor thereto has been appointed by the Issuer as the agent of the Issuer in relation to such Series of Instruments and notice of such appointment has been given in accordance with the Terms and Conditions.

13.03 The appointment of any Paying Agent or Calculation Agent as the agent of the Issuer hereunder and in relation to each relevant Series of Instruments shall terminate forthwith if any of the following events or circumstances shall occur or arise, namely: such Paying Agent or, as the case may be, Calculation Agent becomes incapable of acting; such Paying Agent or, as the case may be, Calculation Agent is adjudged bankrupt or insolvent; such Paying Agent or, as the case may be, Calculation Agent files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the appointment of a receiver, administrator or other similar official of all or any substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof; a resolution is passed or an order is made for the winding-up or dissolution of such Paying Agent or, as the case may be, Calculation Agent; a receiver, administrator or other similar official of such Paying Agent or, as the case may be, Calculation Agent or of all or any substantial part of its property is appointed; an order of any court is entered approving any petition filed by or against such Paying Agent or, as the case may be, Calculation Agent under the provisions of any applicable bankruptcy or insolvency law; or any public officer takes charge or control of such Paying Agent or, as the case may be, Calculation Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation.

13.04 The Issuer may (and shall where necessary to comply with the Terms and Conditions) appoint substitute or additional agents in relation to the Instruments and shall forthwith notify the other parties



hereto thereof, whereupon the parties hereto and such substitute or additional agents shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of this Agreement.

13.05 If, in relation to any Series of Instruments, any Paying Agent or Calculation Agent gives notice of its resignation in accordance with Clause 13.01, the provisions of paragraph (b) of Clause 13.01 apply and by the tenth day before the expiration of such notice a successor to such Paying Agent or, as the case may be, Calculation Agent as the agent of the Issuer in relation to such Instruments has not been appointed by the Issuer, such Paying Agent or, as the case may be, Calculation Agent may itself, following such consultation with the Issuer as may be practicable in the circumstances, appoint as its successor any reputable and experienced bank or financial institution (which will ensure compliance with the Terms and Conditions) and give notice of such appointment in accordance with the Terms and Conditions, whereupon the parties hereto and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of this Agreement.

13.06 Upon any resignation or revocation becoming effective under this Section 13, the relevant Paying Agent or, as the case may be, Calculation Agent shall:

- (a) be released and discharged from its obligations under this Agreement (save that it shall remain entitled to the benefit of and subject to and bound by (as appropriate) the provisions of Clause 8.10, Clause 10.04, Clause 11.03, Section 12 and this Section 13);
- (b) repay to the Issuer such part of any fee paid to it in accordance with Clause 11.01 as may be agreed between the relevant Paying Agent or, as the case may be, Calculation Agent and the Issuer;
- (c) in the case of the Issue and Paying Agent, deliver to the Issuer and to the successor Issue and Paying Agent a copy, certified as true and up-to-date by an officer of the Issue and Paying Agent, of the records maintained by it in accordance with Section 8;
- (d) in the case of a Calculation Agent, deliver to the Issuer and to the successor Calculation Agent a copy, certified as true and up-to-date by an officer of such Calculation Agent of the records maintained by it in accordance with Clause 10.03; and
- (e) forthwith (upon payment to it of any amount due to it in accordance with Section 11 or Clause 12.04) transfer all moneys and papers (including any unissued Temporary Global Instruments, Permanent Global Instruments, Definitive Instruments, Receipts, Coupons or Talons) held by it hereunder to its successor in that capacity and, upon appropriate notice, provide reasonable assistance to such successor for the discharge by it of its duties and responsibilities hereunder.

13.07 Any corporation into which any Paying Agent or Calculation Agent may be merged or converted, any corporation with which any Paying Agent or Calculation Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which any Paying Agent or Calculation Agent shall be a party, shall, to the extent permitted by applicable law, be the

successor to such Paying Agent or, as the case may be, Calculation Agent as agent of the Issuer hereunder and in relation to the Instruments without any further formality, whereupon the parties hereto and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of this Agreement. Notice of any such merger, conversion or consolidation shall forthwith be given by such successor to the Issuer and the other parties hereto and in accordance with Condition 14.

13.08 If any Paying Agent or Calculation Agent decides to change its specified office (which may only be effected within the same city) it shall give notice to the Issuer (with a copy, if necessary, to the Issue and Paying Agent) of the address of the new specified office stating the date on which such change is to take effect, which date shall be not less than thirty days after the date of such notice. The relevant Paying Agent or Calculation Agent shall at its own expense not less than fourteen days prior to the date on which such change is to take effect (unless the appointment of the relevant Paying Agent or Calculation Agent is to terminate pursuant to any of the foregoing provisions of this Section 13 on or prior to the date of such change) publish or cause to be published notice thereof in accordance with the Terms and Conditions.

#### SECTION 14. NOTICES

All notices and communications hereunder shall be made in writing (by letter, telex or fax), shall be effective upon receipt by the addressee and shall be sent as follows:

(a) if to the Issuer to it at:

Address: c/o Capital One Services, Inc.  
2980 Fairview Park Drive  
Suite 1400  
Falls Church  
Virginia 22042

Fax: + 703 205 1748  
Attention: Director of Capital Markets

(b) if to a Paying Agent, to the Issue and Paying Agent at:

Address: 60 Victoria Embankment  
London EC4Y 4JP

Telex: 896631 MGT G  
Fax: +44 171 325 0522  
Attention: Global Trust & Agency Services

(or in the case of a Issue and Paying Agent not originally a party hereto, specified by notice to the other parties hereto at or about the time of its appointment as the agent of the Issuer)

(c) if to a Calculation Agent to it at the address, fax or telex number specified by notice to the other parties hereto at or about the time of its appointment as the agent of the

Issuer

or, in any case, to such other address, telex number or fax number or for the attention of such other person or department as the addressee has by prior notice to the sender specified for the purpose.

#### SECTION 15. LAW AND JURISDICTION

15.01 This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York and, to the extent applicable, U.S. Federal law.

15.02 Each of the parties hereto irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (respectively, "PROCEEDINGS" and "DISPUTES") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

15.03 Each of the parties hereto further agrees that the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York shall have jurisdiction to hear and determine any Proceedings and to settle any Disputes and, for such purposes, irrevocably submits to the jurisdiction of such courts.

15.04 The Issuer irrevocably waives any objection which it might now or hereafter have to the courts referred to in Clauses 15.02 and 15.03 being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.

15.05 The Issuer agrees that the process by which any Proceedings are begun may be served on it by being delivered (a) in connection with any Proceedings in England, to Capital One Bank, 18 Hanover Square, third floor, London W1R 9DA and (b) in connection with any Proceedings in New York, to CSC - The United States Corporation Company, 80 State Street, Sixth Floor, Albany, NY 12207 or other its principal place of business in New York from time to time being. If the appointment of either of the persons mentioned in this Clause ceases to be effective, the Issuer shall forthwith appoint a further person in England or, as the case may be, in New York, to receive service of process on its behalf and, failing such appointment within fifteen days, the Issue and Paying Agent, shall be entitled to appoint such a person by notice to the Issuer. Nothing contained herein shall affect the right of any party to serve process in any other manner permitted by applicable law.

15.06 The submission to the jurisdiction of the courts referred to in Clauses 15.02 and 15.03 shall not (and shall not be construed so as to) limit the right of any Paying Agent or Calculation Agent to take Proceedings against the Issuer in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

#### SECTION 16. MODIFICATION

For the avoidance of doubt, this Agreement may be amended by further agreement among the parties hereto and without the consent of the Holders of any of the Instruments.

#### SECTION 17. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

THE FIRST SCHEDULE

FORM OF TEMPORARY GLOBAL INSTRUMENT

Series Number:[            ]

Serial Number:[            ]

[Tranche Number:[            ]]

THIS TEMPORARY GLOBAL NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"). NEITHER THIS GLOBAL NOTE NOR ANY PORTION HEREOF MAY BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO ANY U.S. PERSON UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

CAPITAL ONE BANK  
(Incorporated in the State of Virginia, United States of America)

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

TEMPORARY GLOBAL INSTRUMENT

representing up to

[AGGREGATE PRINCIPAL AMOUNT OF TRANCHE]  
[TITLE OF INSTRUMENTS]

This global Instrument is a Temporary Global Instrument without interest coupons issued in respect of an issue of [aggregate principal amount of Tranche] in aggregate principal amount of [title of Instruments] (the "INSTRUMENTS") by Capital One Bank (the "ISSUER").

This Temporary Global Instrument is issued pursuant to an Issue and Paying Agency Agreement (as supplemented, amended or replaced, the "ISSUE AND PAYING AGENCY AGREEMENT") dated 24 October 1997 and made between the Issuer and Morgan Guaranty Trust Company of New York, London office in its capacity as fiscal agent (the "ISSUE AND PAYING AGENT", which expression shall include any successor to Morgan Guaranty Trust Company of New York, London office in its capacity as such), and certain other financial institutions named therein. Words and expressions defined in the Terms and Conditions (as defined in the Issue and Paying Agency Agreement) and the Issue and Paying Agency Agreement shall have the same meanings in this Temporary Global Instrument.

The Issuer for value received promises, all in accordance with the "Terms and Conditions" to pay to the bearer upon presentation or, as the case may be, surrender hereof in respect of each Instrument for the time being from time to time represented hereby, on the maturity date specified in the Terms and Conditions or on such earlier date as any such Instrument may become due and payable in accordance with the Terms and Conditions, the Redemption Amount or, in the case of Instalment Instruments, in respect of each such Instrument for the time being from time to time represented

hereby, such Instalment Amounts on such dates as may be specified in the Terms and Conditions or, if any such Instrument shall become due and payable on any other date, the Redemption Amount and, in respect of each such Instrument, to pay interest and all other amounts as may be payable pursuant to the Terms and Conditions, all subject to and in accordance therewith.

Except as specified herein, the bearer of this Temporary Global Instrument is entitled to the benefit of the Terms and Conditions and of the same obligations on the part of the Issuer as if such bearer were the bearer of the Instruments represented hereby and to the benefit of those provisions of the Terms and Conditions (and the obligations on the part of the Issuer contained therein) applicable specifically to Temporary Global Instruments, and all payments under and to the bearer of this Temporary Global Instrument shall be valid and effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments.

Subject as provided in the Terms and Conditions with respect to Partly Paid Instruments, this Temporary Global Instrument is exchangeable in whole or in part for a Permanent Global Instrument or for Definitive Instruments. An exchange for a Permanent Global Instrument or, as the case may be, Definitive Instruments will be made only on or after the Exchange Date (specified in the Terms and Conditions) and upon presentation or, as the case may be, surrender of this Temporary Global Instrument to the Issue and Paying Agent at its specified office and upon and to the extent of delivery to the Issue and Paying Agent of a certificate or certificates issued by Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (the "EUROCLEAR SYSTEM") or Cedel Bank, societe anonyme ("CEDEL BANK") or by any other relevant clearing system and dated not earlier than the Exchange Date in substantially the form set out in Annex I hereto or, as the case may be, in the form that is customarily issued in such circumstances by such other clearing system. Any Definitive Instruments will be made available for collection by the persons entitled thereto at the specified office of the Issue and Paying Agent.

The Issuer undertakes to procure that the relevant Permanent Global Instrument or Definitive Instruments will be duly issued in accordance with the Terms and Conditions, the provisions hereof and of the Issue and Paying Agency Agreement.

The bearer of this Temporary Global Instrument shall not (unless, upon due presentation of this Temporary Global Instrument for exchange (in whole or in part) for a Permanent Global Instrument or for delivery of Definitive Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by this Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

Payments of interest otherwise falling due before the Exchange Date will be made only upon presentation of this Temporary Global Instrument at the specified office of any of the Paying Agents outside (unless Condition 9A.04 of the Terms and Conditions applies) the United States and upon and to the extent of delivery to the relevant Paying Agent of a certificate or certificates issued by the Euroclear System or Cedel Bank or by any other relevant clearing system and dated not earlier than the relevant interest payment date in substantially the form set out in Annex II hereto or, as the case may be, in the form that is customarily issued in such circumstances by such other clearing system.

In the event that (i) this Temporary Global Instrument is not duly exchanged, whether in whole or in

part, for a Permanent Global Instrument or, as the case may be, Definitive Instruments by 6.00 p.m. (London time) on the thirtieth day after the time at which the preconditions to such exchange are first satisfied or (ii) an Event of Default occurs in respect of any Instruments of the relevant Series and such Instruments are not duly redeemed (or the funds required for such redemption are not available to the Issue and Paying Agent for the purposes of effecting such redemption and remain available for such purpose) by 6.00 p.m. (London time) on the thirtieth day after the day on which such Instrument became immediately redeemable, each Holder or its successors or assigns may, without the consent and to the exclusion of the bearer hereof, file any claim, take any action or institute any proceeding to enforce, directly against the Issuer, the obligation of the Issuer hereunder to pay any amount due in respect of each Instrument represented by this Temporary Global Instrument which is credited to such Holder's securities account with a clearing agent as fully as though such Instrument were evidenced by a Definitive Instrument without the production of this Temporary Global Instrument, provided that the bearer hereof shall not theretofore have filed a claim, taken action or instituted proceedings to enforce the same in respect of such Instrument. The face amount of this Temporary Global Instrument shall be reduced by the face amount, if any, of each Instrument represented hereby in respect of which full settlement has occurred as a result of any such claim, action or proceeding by such relevant accountholders or their successors or assigns.

On any occasion on which a payment of interest is made in respect of this Temporary Global Instrument, the Issuer shall procure that the same is noted on the Schedule hereto.

On any occasion on which a payment of principal is made in respect of this Temporary Global Instrument or on which this Temporary Global Instrument is exchanged in whole or in part as aforesaid or on which Instruments represented by this Temporary Global Instrument are to be cancelled or (in the case of Partly Paid Instruments) forfeited, the Issuer shall procure that (i) the aggregate principal amount of the Instruments in respect of which such payment is made (or, in the case of a partial payment, the corresponding part thereof) or which are delivered in definitive form or which are to be exchanged for a permanent global instrument or which are to be cancelled or forfeited and (ii) the remaining principal amount of this Temporary Global Instrument (which shall be the previous principal amount hereof less the amount referred to at (i) above) are noted on the Schedule hereto, whereupon the principal amount of this Temporary Global Instrument shall for all purposes be as most recently so noted.

On each occasion on which an option is exercised in respect of any Instruments represented by this Temporary Global Instrument, the Issuer shall procure that the appropriate notations are made on the Schedule hereto.

In the case of Partly Paid Instruments, on each occasion that payment is made to the Issuer in accordance with the Terms and Conditions of any Partly Paid Instalment in respect of the Instruments represented by this Temporary Global Instrument, the Issuer shall procure that (i) the aggregate principal amount of such payment and (ii) the increased principal amount of this Temporary Global Instrument (which shall be the previous principal amount hereof plus the amount referred to at (i) above) are noted on the Schedule hereto, whereupon the principal amount of this Temporary Global Instrument shall for all purposes be as most recently so noted.

This Temporary Global Instrument is governed by, and shall be construed in accordance with, the laws of the State of New York and, to the extent applicable, U.S. Federal law.

This Temporary Global Instrument shall not be valid for any purpose until authenticated for and on behalf of Morgan Guaranty Trust Company of New York, London office as fiscal agent.

AS WITNESS the [facsimile/manual] signature of a duly authorised officer [a duly authorised attorney on behalf] of the Issuer.



[illegible]

CAPITAL ONE BANK

By: [manual/facsimile signature]  
(duly authorised)

ISSUED in London as of [            ] 19[    ]

AUTHENTICATED for and on behalf of  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK, LONDON OFFICE  
as fiscal agent without recourse,  
warranty or liability

By: [manual signature]  
(duly authorised)

ANNEX I

[Form of certificate to be given in relation to exchanges of this Temporary Global Instrument for the Permanent Global Instrument or Definitive Instruments:]

CAPITAL ONE BANK

[AGGREGATE PRINCIPAL AMOUNT AND TITLE OF INSTRUMENTS]  
(THE "SECURITIES")

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organisations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "MEMBER ORGANISATIONS") substantially to the effect set forth in the Issue and Paying Agency Agreement as of the date hereof, [ ] principal amount of the above-captioned Securities (i) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("UNITED STATES PERSONS"), (ii) is owned by United States persons that (a) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v) ("FINANCIAL INSTITUTIONS")) purchasing for their own account or for resale, or (b) acquired the Securities through and are holding through on the date hereof (as such terms "acquired through" and "holding through" are described in U.S. Treasury Regulations Section 1.163-5(c) (2)(i)(D)(6)) foreign branches of United States financial institutions (and in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "UNITED STATES" means the United States of America (including the States and the District of Columbia); and its "POSSESSIONS" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We further certify (i) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the Temporary Global security excepted in such certifications and (ii) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisations with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as at the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if

administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Date: [                    ]/1/

Morgan Guaranty Trust Company of New York, Brussels office, as Operator of the Euroclear System/Cedel Bank, societe anonyme]

By: [authorised signature]

---

/1/ To be dated not earlier than the Exchange Date.

ANNEX II

[Form of certificate to be given in relation to payments of interest falling due before the Exchange Date:]

CAPITAL ONE BANK

[AGGREGATE PRINCIPAL AMOUNT AND TITLE OF INSTRUMENTS]  
(THE "SECURITIES")

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organisations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "MEMBER ORGANISATIONS") substantially to the effect set forth in the Issue and Paying Agency Agreement as of the date hereof, [ ] principal amount of the above-captioned Securities (i) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source ("UNITED STATES PERSONS"), (ii) is owned by United States persons that (a) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v) ("FINANCIAL INSTITUTIONS")) purchasing for their own account or for resale, or (b) acquired the Securities through and are holding through on the date hereof (as such terms "acquired through" and "holding through" are described in U.S. Treasury Regulations Section 1.163-5(c) (2)(i)(D)(6)) foreign branches of United States financial institutions (and in either case (a) or (b), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

[As used herein, "UNITED STATES" means the United States of America (including the States and the District of Columbia); and its "POSSESSIONS" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.]

We further certify (i) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the Temporary Global security excepted in such certifications and (ii) that as of the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisations with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as at the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if

administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Date: [                    ]/2/

[MORGAN GUARANTY TRUST COMPANY OF NEW YORK, BRUSSELS OFFICE, as Operator of the Euroclear System/Cedel Bank, societe anonyme]

By: [authorised signature]

---

/2/ To be dated not earlier than the relevant interest payment date.

ANNEX III

[Form of account holder's certification referred to in the preceding certificates:]

CAPITAL ONE BANK

[AGGREGATE PRINCIPAL AMOUNT AND TITLE OF INSTRUMENTS]  
(THE "SECURITIES")

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (i) are owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to the United States Federal income taxation regardless of its source ("UNITED STATES PERSONS"), (ii) are owned by United States person(s) that (a) are foreign branches of a United States financial institution (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(v)) ("FINANCIAL INSTITUTIONS") purchasing for their own account or for resale, or (b) acquired the Securities through and are holding through on the date hereof (as such terms "acquired through" and "holding through" are described in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6)) foreign branches of United States financial institutions (and in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the issuer or the issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owner of the Securities is a United States or foreign financial institution described in clause (iii) above (whether or not also described in clause (i) or (ii)) this is further to certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "UNITED STATES" means the United States of America (including the States and the District of Columbia); and its "POSSESSIONS" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the Securities held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certification excepts and does not relate to [ ] of such interest in the above Securities in respect of which we are not able to certify and as to which we understand exchange and delivery of definitive Securities (or, if relevant, exercise of any rights or collection of any interest) cannot be made until we do so certify.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this

certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Date: [                    ]/3/

[ACCOUNT HOLDER] AS OR AS AGENT FOR THE BENEFICIAL OWNER OF THE INSTRUMENTS.

By: [authorised signature]

---

/3/ To be dated not earlier than fifteen days before the Exchange Date or, as the case may be the relevant interest payment date.



THE SECOND SCHEDULE  
FORM OF PERMANENT GLOBAL INSTRUMENT

Series Number: [            ]

Serial Number: [    ]

[Tranche Number: [        ]]

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO  
LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS  
PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

CAPITAL ONE BANK  
(incorporated in the State of Virginia, United States of America)

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

PERMANENT GLOBAL INSTRUMENT

representing up to

[AGGREGATE PRINCIPAL AMOUNT OF TRANCHE]  
[TITLE OF INSTRUMENTS]

This global instrument is a Permanent Global Instrument without interest coupons issued in respect of an issue of [aggregate principal amount of Tranche] in aggregate principal amount of [title of Instruments] (the "INSTRUMENTS") by Capital One Bank (the "ISSUER").

This Permanent Global Instrument is issued pursuant to an Issue and Paying Agency Agreement (as supplemented, amended or replaced, the "ISSUE AND PAYING AGENCY AGREEMENT") dated 24 October 1997 and made between the Issuer and Morgan Guaranty Trust Company of New York, London office in its capacity as fiscal agent (the "ISSUE AND PAYING AGENT", which expression shall include any successor to Morgan Guaranty Trust Company of New York, London Office in its capacity as such), and certain other financial institutions named therein. Words and expressions defined in the Terms and Conditions (as defined in the Issue and Paying Agency Agreement) and the Issue and Paying Agency Agreement shall have the same meanings in this Permanent Global Instrument.

The Issuer for value received promises, all in accordance with the Terms and Conditions, to pay to the bearer upon presentation or, as the case may be, surrender hereof in respect of each Instrument for the time being from time to time represented hereby, on the maturity date specified in the Terms and Conditions or on such earlier date as any such Instrument may become due and payable in accordance with the Terms and Conditions, the Redemption Amount or, in the case of Instalment Instruments, in respect of each such Instrument for the time being from time to time represented hereby, such Instalment Amounts on such dates as may be specified in the Terms and Conditions or,

if any such Instrument shall become due and payable on any other date, the Redemption Amount and, in respect of each such Instrument, to pay interest and all other amounts as may be payable pursuant to the Terms and Conditions, all subject to and in accordance therewith.

Except as specified herein, the bearer of this Permanent Global Instrument is entitled to the benefit of the Terms and Conditions and of the same obligations on the part of the Issuer as if such bearer were the bearer of the Instruments represented hereby and to the benefit of those Terms and Conditions (and the obligations on the part of the Issuer contained therein) applicable specifically to Permanent Global Instruments, and all payments under and to the bearer of this Global Instrument shall be valid and effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments.

Interests in this Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the bearer hereof, for Definitive Instruments (a) if Euroclear or Cedel Bank or any other relevant clearing system including SICOVAM is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 7 occurs or, (c) if so requested by the bearer hereof. Whenever this Permanent Global Instrument is to be exchanged for Definitive Instruments, the Issuer shall procure the prompt delivery of such Definitive Instruments, duly authenticated and where and to the extent applicable, with Receipts, Coupons and Talons attached in an aggregate principal amount equal to the principal amount of this Permanent Global Instrument to the bearer hereof against its surrender at the specified office of the Issue and Paying Agent within 30 days of the bearer requesting such exchange. Furthermore, if,

- (i) Definitive Instruments have not been delivered in accordance with the foregoing by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange, or
- (ii) the Permanent Global Instrument (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Instrument has occurred and, in either case, payment in full of the amount of the Redemption Amount (as defined in Condition 6.10) together with all accrued interest thereon has not been made to the bearer in accordance with the Conditions on the due date for payment,

then each Holder or its successors or assigns may, without the consent and to the exclusion of the bearer hereof, file any claim, take any action or institute any proceeding to enforce, directly against the Issuer, the obligation of the Issuer hereunder to pay any amount due in respect of each Instrument represented by this Permanent Global Instrument which is credited to such Holder's securities account with a clearing agent as fully as though such Instrument were evidenced by a Definitive Instrument without the production of this Permanent Global Instrument, provided that the bearer hereof shall not theretofore have filed a claim, taken action or instituted proceedings to enforce the same in respect of such Instrument. The face amount of this Permanent Global Instrument shall be reduced by the face amount, if any, of each Instrument represented hereby in respect of which full settlement has occurred as a result of any such claim, action or proceeding by such relevant account holders or their successors or assigns.

On any occasion on which a payment of interest is made in respect of this Permanent Global

Instrument, the Issuer shall procure that the same is noted on the Schedule hereto.

On any occasion on which a payment of principal is made in respect of this Permanent Global Instrument or on which this Permanent Global Instrument is exchanged as aforesaid or on which any Instruments represented by this Permanent Global Instrument are to be cancelled or (in the case of Partly Paid Instruments) forfeited, the Issuer shall procure that (i) the aggregate principal amount of the Instruments in respect of which such payment is made (or, in the case of a partial payment, the corresponding part thereof) or which are delivered in definitive form or which are to be cancelled or forfeited and (ii) the remaining principal amount of this Permanent Global Instrument (which shall be the previous principal amount hereof less the amount referred to at (i) above) are noted on the Schedule hereto, whereupon the principal amount of this Permanent Global Instrument shall for all purposes be as most recently so noted.

In the case of Partly Paid Instruments, on each occasion that payment is made to the Issuer in accordance with the Terms and Conditions of any Partly Paid Instalment in respect of the Instruments represented by this Permanent Global Instrument, the Issuer shall procure that (i) the aggregate principal amount of such payment and (ii) the increased principal amount of this Permanent Global Instrument (which shall be the previous principal amount hereof plus the amount referred to at (i) above) are noted on the Schedule hereto, whereupon the principal amount of this Permanent Global Instrument shall for all purposes be as most recently so noted.

On each occasion on which an option is exercised in respect of any Instruments represented by this Permanent Global Instrument, the Issuer shall procure that the appropriate notations are made on the Schedule hereto.

Insofar as the Temporary Global Instrument by which the Instruments were initially represented has been exchanged in part only for this Permanent Global Instrument and is then to be further exchanged as to the remaining principal amount or part thereof for this Permanent Global Instrument, then upon presentation of this Permanent Global Instrument to the Issue and Paying Agent at its specified office and to the extent that the aggregate principal amount of such Temporary Global Instrument is then reduced by reason of such further exchange, the Issuer shall procure that (i) the aggregate principal amount of the Instruments in respect of which such further exchange is then made and (ii) the new principal amount of this Permanent Global Instrument (which shall be the previous principal amount hereof plus the amount referred to at (i) above) are noted on the Schedule hereto, whereupon the principal amount of this Permanent Global Instrument shall for all purposes be as most recently noted.

This Permanent Global Instrument is governed by, and shall be construed in accordance with the laws of the State of New York and, to the extent applicable, U.S. Federal law.

This Permanent Global Instrument shall not be valid for any purpose until authenticated for and on behalf of Morgan Guaranty Trust Company of New York, London office as fiscal agent.

AS WITNESS the [facsimile/manual] signature of a duly authorised officer of the Issuer.

THE SCHEDULE

PAYMENTS, DELIVERY OF DEFINITIVE INSTRUMENTS, FURTHER EXCHANGES OF  
THE TEMPORARY GLOBAL INSTRUMENT, EXERCISE OF OPTIONS, FORFEITURE  
(IN THE CASE OF PARTLY PAID INSTRUMENTS) AND CANCELLATION OF INSTRUMENTS

Date of payment, delivery, further exchange of Temporary Global Instrument, exercise of option (and date upon which exercise is effective), forfeiture or cancellation	Amount of interest then paid	Amount of principal then paid	Aggregate amount of Partly Paid Instalments, then paid (in the case of Partly Paid Instruments)	Aggregate principal amount of Definitive Instruments then delivered	Aggregate principal amount of Instruments then cancelled or, in the case of Partly Paid Instruments, forfeited
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					
=====					
-----					

Aggregate principal amount of further exchanges of Temporary Global Instrument	Aggregate principal amount in respect of which option is exercised	Current principal amount of this Global Instrument	Authorized signature of the issue and Paying Agent

CAPITAL ONE BANK

By: [manual/facsimile signature]  
(duly authorised)

ISSUED in London as of [ ] 19[ ]

AUTHENTICATED for and on behalf of  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK, LONDON OFFICE  
as fiscal agent without recourse,  
warranty or liability

By: [manual signature]  
(duly authorised)

EXCHANGE NOTICE

....., being the bearer of this Global Instrument at the  
time of its deposit with the Issue and Paying Agent at its specified office for  
the purposes of the Instruments, hereby exercises the option set out above to  
have this Global Instrument exchanged in whole for Definitive Instruments and  
directs that such Definitive Instruments be made available for collection by it  
from the Issue and Paying Agent's specified office.

By: .....  
(duly authorised)

THE THIRD SCHEDULE  
FORM OF DEFINITIVE INSTRUMENT

[On the face of the Instrument:]

Series Number: [                      ]

Serial Number: [        ]

[Tranche Number: [                ]]

[Denomination]

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

CAPITAL ONE BANK  
(incorporated in the State of Virginia, United States of America)

Programme for the Issuance of Debt Instruments

[AGGREGATE PRINCIPAL AMOUNT OF TRANCHE]  
[TITLE OF INSTRUMENTS]

Capital One Bank (the "ISSUER") for value received promises, all in accordance with the terms and conditions endorsed hereon (the "TERMS AND CONDITIONS") to pay to the bearer upon presentation or, as the case may be, surrender hereof on the maturity date specified in the Terms and Conditions or on such earlier date as the same may become payable in accordance therewith the Redemption Amount or, if this Instrument is an Instalment Instrument, such Instalment Amounts on such dates as may be specified in the Terms and Conditions or if this Instrument shall become due and payable on any other date, the Redemption Amount and to pay interest and all other amounts as may be payable pursuant to the Terms and Conditions, all subject to and in accordance therewith.

Words and expressions defined in the Terms and Conditions shall have the same meanings when used on the face of this Instrument.

This Instrument is issued pursuant to an Issue and Paying Agency Agreement (as supplemented, amended or replaced, the "ISSUE AND PAYING AGENCY AGREEMENT") dated 24 October 1997 and made between the Issuer and Morgan Guaranty Trust Company of New York, London office in its capacity as fiscal agent (the "ISSUE AND PAYING AGENT" which expression shall include any successor to Morgan Guaranty Trust Company of New York, London office in its capacity as such) and certain other financial institutions named therein.

[This Instrument shall not/Neither this Instrument nor any of the interest coupons[, talons or receipts] appertaining hereto shall] be valid for any purpose until this Instrument has been authenticated for and on behalf of the Issue and Paying Agent.

This Instrument is governed by, and shall be construed in accordance with, the laws of the State of New York and, to the extent applicable, U.S. Federal law.

AS WITNESS the manual/facsimile signature of a duly authorised officer on behalf of the Issuer.

CAPITAL ONE BANK

By: [manual/facsimile signature]  
(duly authorised)

ISSUED in London as of [                      ] 19[    ]

AUTHENTICATED for and on behalf of  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK, LONDON OFFICE  
as fiscal agent  
without recourse, warranty or liability

By: [manual signature]  
[(duly authorised)]

[On the reverse of the Instruments:]

TERMS AND CONDITIONS

[As contemplated in the Information Memorandum and as amended supplemented or replaced by the relevant Pricing Supplement]

[At the foot of the Terms and Conditions:]

ISSUE AND PAYING AGENT

MORGAN GUARANTY TRUST COMPANY OF NEW YORK  
60 Victoria Embankment  
London EC4Y 0JP

PAYING AGENTS

MORGAN GUARANTY TRUST COMPANY OF NEW YORK      KREDIETBANK S.A. LUXEMBOURGEOISE

35 Avenue de Arts  
Brussels B-10

43 Boulevard Royal



FORMS OF COUPONS

[Attached to the Instruments (interest-bearing, fixed rate or fixed coupon amount and having Coupons):]

[On the front of Coupon:]

CAPITAL ONE BANK  
PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

[AMOUNT AND TITLE OF INSTRUMENTS]

Series No: [     ]

Serial Number of Instrument: [     ]

Tranche No: [     ]

Coupon for [set out the amount due] due on [date] [Interest Payment Date falling in [month, year]]/4/

Such amount is payable (subject to the Terms and Conditions applicable to the Instrument to which this Coupon appertains, which shall be binding on the Holder of this Coupon whether or not it is for the time being attached to such Instrument) against surrender of this Coupon at the specified office of the Issue and Paying Agent or any of the Paying Agents set out on the reverse hereof (or any other or further fiscal or paying agents and/or specified offices from time to time designated for the purpose by notice duly given in accordance with such Terms and Conditions).

[The attention of Couponholders is drawn to Condition 9A.05(i) of the Terms and Conditions. The Instrument to which this Coupon appertains may, in certain circumstances specified in such Terms and Conditions, fall due for redemption before the due date in relation to this Coupon. In such event the Paying Agent to which such Instrument is presented for redemption may determine, in accordance with the aforesaid Condition 9A.05(i) that this Coupon is to become void.]/5/

AS WITNESS the Issuer has caused this Coupon to be duly executed by the manual/facsimile signature of a duly authorised officer on behalf of the Issuer.

[             ]  
By: [manual/facsimile signature]  
(duly authorised)

---

/4/ Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention.

/5/ This wording is only required if the provisions of paragraph (i) of Condition 9A.05 apply and the aggregate amount of interest payments due in respect of the relevant Instrument exceeds the Redemption Amount due in respect of such Instrument.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[Attached to the Instrument (interest-bearing, floating rate or variable coupon amount and having Coupons):]

CAPITAL ONE BANK  
PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

[AMOUNT AND TITLE OF INSTRUMENTS]

Series No: [ ]

Serial Number of Instrument: [ ]

Tranche No: [ ]

Coupon for the amount due on [date] [Interest Payment Date falling in [month, year]]/6/

[Coupon relating to the Instrument in the principal amount of [ ]]/7/

Such amount is payable (subject to the Terms and Conditions applicable to the Instrument to which this Coupon appertains, which shall be binding on the Holder of this Coupon whether or not it is for the time being attached to such Instrument) against surrender of this Coupon at the specified office of the Issue and Paying Agent or any of the Paying Agents set out on the reverse hereof (or any other or further fiscal or paying agents and/or specified offices from time to time designated for the purpose by notice duly given in accordance with such Terms and Conditions).

[The Instrument to which this Coupon appertains may, in certain circumstances specified in such Terms and Conditions, fall due for redemption before the due date in relation to this Coupon. In such event, this Coupon will become void and no payment will be made in respect hereof.]/8/

AS WITNESS the Issuer has caused this Coupon to be duly executed by the manual/facsimile signature of a duly authorised officer on behalf of the Issuer.

[ ]  
By: [manual/facsimile signature]  
(director/duly authorised)

/6/ Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention.

/7/ This wording is only required for Instruments which are issued in more than one denomination.

/8/ Delete if the provisions of paragraph (ii) of Condition 9A.05 do not apply.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO  
LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS  
PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[On the reverse of each Coupon:]

ISSUE AND PAYING AGENT:	MORGAN GUARANTY TRUST COMPANY OF NEW YORK 60 Victoria Embankment London EC4Y 0JP
----------------------------	----------------------------------------------------------------------------------------

PAYING AGENTS:	MORGAN GUARANTY TRUST COMPANY OF NEW YORK 35 Avenue de Arts Brussels B-1040
-------------------	-----------------------------------------------------------------------------------

KREDIETBANK S.A. LUXEMBOURGEOISE  
43 Boulevard Royal  
L-2955 Luxembourg

FORM OF TALON

CAPITAL ONE BANK  
PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

[AMOUNT AND TITLE OF INSTRUMENTS]

Series No: [       ]

Serial Number of Instrument: [       ]

Tranche No: [       ]

Talon for further Coupons

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

After all the Coupons appertaining to the Instrument to which this Talon appertains have matured, further Coupons [(including, where appropriate, a Talon for further Coupons)] will be issued at the specified office of the Issue and Paying Agent or any of the Paying Agents set out in the reverse hereof (or any other or further paying agents and/or specified offices from time to time designated by notice duly given in accordance with the Terms and Conditions applicable to the Instrument to which this Talon appertains (which shall be binding on the Holder of this Talon whether or not it is for the time being attached to such Instrument)) upon production and surrender of this Talon upon and subject to such Terms and Conditions.

Under the said Terms and Conditions, such Instrument may, in certain circumstances, fall due for redemption before the original due date for exchange of this Talon and in any such event this Talon shall become void and no exchange shall be made in respect hereof.

[On the reverse of each Talon:]

ISSUE AND PAYING AGENT:	MORGAN GUARANTY TRUST COMPANY OF NEW YORK 60 Victoria Embankment London EC4Y 0JP
PAYING AGENTS:	MORGAN GUARANTY TRUST COMPANY OF NEW YORK 35 Avenue de Arts Brussels B-1040  KREDIETBANK S.A. LUXEMBOURGEOISE 43 Boulevard Royal L-2955 Luxembourg

FORM OF RECEIPT

CAPITAL ONE BANK  
PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

[AMOUNT AND TITLE OF INSTRUMENTS]

Series No: [       ]

Serial Number of Instrument: [       ]

Tranche No: [       ]

Receipt for the sum of [               ] being the instalment of principal payable in accordance with the Terms and Conditions endorsed on the Instrument to which this Receipt appertains on [               ].

This Receipt is issued subject to and in accordance with the Terms and Conditions applicable to the Instrument to which this Receipt appertains which shall be binding on the Holder of this Receipt whether or not it is for the time being attached to such Instrument.

This Receipt must be presented for payment together with the Instrument to which it appertains in accordance with the Terms and Conditions.

This Receipt is not and shall not in any circumstances be deemed to be a document of title and if separated from the Instrument to which it appertains will not represent any obligation of the Issuer. Accordingly, the presentation of such Instrument without this Receipt or the presentation of this Receipt without such Instrument will not entitle the Holder to any payment in respect of the relevant instalment of principal.

If the Instrument to which this Receipt appertains shall have become due and payable before the due date for payment of the instalment of principal relating to this Receipt, this Receipt shall become void and no payment shall be made in respect of it.



THE FOURTH SCHEDULE

PROVISIONS FOR MEETINGS OF THE HOLDERS OF INSTRUMENTS

1. DEFINITIONS: In this Agreement and the Conditions, the following expressions have the following meanings:

"BLOCK VOTING INSTRUCTION" means, in relation to any Meeting, a document in the English language issued by a Paying Agent:

- (a) certifying that certain specified Instruments (the "DEPOSITED INSTRUMENTS") have been deposited with such Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system and will not be released until the earlier of:
  - (i) the conclusion of the Meeting; and
  - (ii) the surrender to such Paying Agent, not less than 48 hours before the time fixed for the Meeting (or, if the Meeting has been adjourned, the time fixed for its resumption), of the receipt for the deposited or blocked Instruments and notification thereof by such Paying Agent to the Issuer;
- (b) certifying that the depositor of each deposited Instrument or a duly authorised person on its behalf has instructed the relevant Paying Agent that the votes attributable to such deposited Instrument are to be cast in a particular way on each resolution to be put to the Meeting and that, during the period of 48 hours before the time fixed for the Meeting, such instructions may not be amended or revoked;
- (c) listing the total number and (if in definitive form) the certificate numbers of the deposited Instruments, distinguishing for each resolution between those in respect of which instructions have been given to vote for, or against, the resolution; and
- (d) authorising a named individual or individuals to vote in respect of the deposited Instruments in accordance with such instructions;

"CHAIRMAN" means, in relation to any Meeting, the individual who takes the chair in accordance with paragraph 7 (Chairman);

"EXTRAORDINARY RESOLUTION" means a resolution passed at a Meeting duly convened and held in accordance with this Schedule by a majority of not less than three quarters of the votes cast;

"MEETING" means a meeting of Holders (whether originally convened or resumed following an adjournment);

"PROXY" means, in relation to any Meeting, a person appointed to vote under a Block Voting Instruction other than:

- 0.1 any such person whose appointment has been revoked and in relation to whom the Issue and Paying Agent has been notified in writing of such revocation by the time which is 48 hours before the time fixed for such Meeting; and
- (b) any such person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;

"RELEVANT FRACTION" means:

- (a) for all business other than voting on an Extraordinary Resolution, one tenth;
- (b) for voting on any Extraordinary Resolution other than one relating to a Reserved Matter, one more than half; and
- (c) for voting on any Extraordinary Resolution relating to a Reserved Matter, three quarters;

provided, however, that, in the case of a Meeting which has resumed after adjournment for want of a quorum it means:

- (i) for all business other than voting on an Extraordinary Resolution relating to a Reserved Matter, the fraction of the Outstanding Principal Amount of the Instruments represented or held by the Voters actually present at the Meeting; and
- (ii) for voting on any Extraordinary Resolution relating to a Reserved Matter, one quarter;

"RESERVED MATTER" means any proposal:

- 0.1 to change any date fixed for payment of principal or interest in respect of the Instruments, to reduce the amount of principal or interest payable on any date in respect of the Instruments or to alter the method of calculating the amount of any payment in respect of the Instruments on redemption or maturity or the date for any such payment;
- (b) to effect the exchange or substitution of the Instruments for, or the conversion of the Instruments into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Instruments are payable;
- (d) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or
- (e) to amend this definition;

"VOTER" means, in relation to any Meeting, the bearer of a Voting Certificate, a Proxy or the bearer of a Definitive Instrument who produces such Definitive Instrument at the Meeting;

"VOTING CERTIFICATE" means, in relation to any Meeting, a certificate in the English language issued by a Paying Agent and dated in which it is stated:

(a) that certain specified Instruments (the "DEPOSITED INSTRUMENTS") have been deposited with such Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system and will not be released until the earlier of:

(i) the conclusion of the Meeting; and

(ii) the surrender of such certificate to such Paying Agent; and

(b) that the bearer of such certificate is entitled to attend and vote at the Meeting in respect of the deposited Instruments;

"WRITTEN RESOLUTION" means a resolution in writing signed by or on behalf of all Holders of Instruments who for the time being are entitled to receive notice of a Meeting in accordance with the provisions of this Schedule, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Instruments;

"24 HOURS" means a period of 24 hours including all or part of a day upon which banks are open for business in both the places where the relevant Meeting is to be held and in each of the places where the Paying Agents have their Specified Offices (disregarding for this purpose the day upon which such Meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and

"48 HOURS" means 2 consecutive periods of 24 hours.

2. ISSUE OF VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS: The Holder of an Instrument may obtain a Voting Certificate from any Paying Agent or require any Paying Agent to issue a Block Voting Instruction by depositing such Instrument with such Paying Agent or arranging for such Instrument to be (to its satisfaction) held to its order or under its control or blocked in an account with a clearing system not later than 48 hours before the time fixed for the relevant Meeting. A Voting Certificate or Block Voting Instruction shall be valid until the release of the deposited Instruments to which it relates. So long as a Voting Certificate or Block Voting Instruction is valid, the bearer thereof (in the case of a Voting Certificate) or any Proxy named therein (in the case of a Block Voting Instruction) shall be deemed to be the Holder of the Instruments to which it relates for all purposes in connection with the Meeting. A Voting Certificate and a Block Voting Instruction cannot be outstanding simultaneously in respect of the same Instrument.

3. REFERENCES TO DEPOSIT/RELEASE OF INSTRUMENTS: Where Instruments are represented by a Global Instrument or are held in definitive form within a clearing system, references to the deposit, or release, of Instruments shall be construed in accordance with the usual practices (including

blocking the relevant account) of such clearing system.

4. **VALIDITY OF BLOCK VOTING INSTRUCTIONS:** A Block Voting Instruction shall be valid only if it is deposited at the Specified Office of the Issue and Paying Agent, or at some other place approved by the Issue and Paying Agent, at least 24 hours before the time fixed for the relevant Meeting or the Chairman decides otherwise before the Meeting proceeds to business. If the Issue and Paying Agent requires, a notarised copy of each Block Voting Instruction and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but the Issue and Paying Agent shall not be obliged to investigate the validity of any Block Voting Instruction or the authority of any Proxy.

5. **CONVENING OF MEETING:** The Issuer may convene a Meeting at any time, and shall be obliged to do so upon the request in writing of Holder holding not less than one tenth of the Outstanding Principal Amount of the Instruments.

6. **NOTICE:** At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the Holder and the Paying Agents (with a copy to the Issuer). The notice shall set out the full text of any resolutions to be proposed and shall state that the Instruments may be deposited with, or to the order of, any Paying Agent for the purpose of obtaining Voting Certificates or appointing Proxies not later than 48 hours before the time fixed for the Meeting.

7. **CHAIRMAN:** An individual (who may, but need not, be a Holder) nominated in writing by the Issuer may take the chair at any Meeting but, if no such nomination is made or if the individual nominated is not present within 15 minutes after the time fixed for the Meeting, those present shall elect one of themselves to take the chair failing which, the Issuer may appoint a Chairman. The Chairman of an adjourned Meeting need not be the same person as was the Chairman of the original Meeting.

8. **QUORUM:** The quorum at any Meeting shall be at least two Voters representing or holding not less than the Relevant Fraction of the Outstanding Principal Amount of the Instruments; provided, however, that, so long as at least the Relevant Fraction of the Outstanding Principal Amount of the Instruments is represented by a Global Instrument, a single Proxy representing the Holder thereof shall be deemed to be two Voters for the purpose of forming a quorum.

9. **ADJOURNMENT FOR WANT OF QUORUM:** If within 15 minutes after the time fixed for any Meeting a quorum is not present, then:

- (a) in the case of a Meeting requested by Holder, it shall be dissolved; and
- (b) in the case of any other Meeting, it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines; provided, however, that:
  - (i) the Meeting shall be dissolved if the Issuer so decides; and
  - (ii) no Meeting may be adjourned more than once for want of a quorum.

10. **ADJOURNED MEETING:** The Chairman may, with the consent of (and shall if directed by) any

Meeting, adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which might lawfully have been transacted at the Meeting from which the adjournment took place.

11. NOTICE FOLLOWING ADJOURNMENT: Paragraph 6 (Notice) shall apply to any Meeting which is to be resumed after adjournment for want of a quorum save that:

- (a) 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be sufficient; and
- (b) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

It shall not be necessary to give notice of the resumption of a Meeting which has been adjourned for any other reason.

12. PARTICIPATION: The following may attend and speak at a Meeting:

- (a) Voters;
- (b) representatives of the Issuer and the Issue and Paying Agent;
- (c) the financial advisers of the Issuer;
- (d) the legal counsel to the Issuer and the Issue and Paying Agent; and
- (e) any other person approved by the Meeting.

13. SHOW OF HANDS: Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution.

14. POLL: A demand for a poll shall be valid if it is made by the Chairman, the Issuer or one or more Voters representing or holding not less than one fiftieth of the Outstanding Principal Amount of the Instruments. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.

15. VOTES: Every Voter shall have:

- (a) on a show of hands, one vote; and
- (b) on a poll, the number of votes obtained by dividing that fraction of the Outstanding Principal of the Instruments represented or held by him by the lowest denomination of the Instruments.

In the case of a voting tie the Chairman shall have a casting vote.

Unless the terms of any Block Voting Instruction state otherwise, a Voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

16. VALIDITY OF VOTES BY PROXIES: Any vote by a Proxy in accordance with the relevant Block Voting Instruction shall be valid even if such Block Voting Instruction or any instruction pursuant to which it was given has been amended or revoked, provided that the Issue and Paying Agent has not been notified in writing of such amendment or revocation by the time which is 24 hours before the time fixed for the relevant Meeting. Unless revoked, any appointment of a Proxy under a Block Voting Instruction in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment; provided, however, that no such appointment of a Proxy in relation to a Meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such Meeting when it is resumed. Any person appointed to vote at such a Meeting must be re-appointed under a Block Voting Instruction Proxy to vote at the Meeting when it is resumed.

17. POWERS: A Meeting shall have power (exercisable by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:

- (a) to approve any Reserved Matter;
- (b) to approve any proposal by the Issuer for any modification, abrogation, variation or compromise of any of the Conditions or any arrangement in respect of the obligations of the Issuer under or in respect of the Instruments;
- (c) to approve the substitution of any person for the Issuer (or any previous substitute) as principal obligor under the Instruments;
- (d) to waive any breach or authorise any proposed breach by the Issuer of its obligations under or in respect of the Instruments or any act or omission which might otherwise constitute an event of default under the Instruments;
- (e) to authorise the Issue and Paying Agent or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- (f) to give any other authorisation or approval which is required to be given by Extraordinary Resolution; and
- (g) to appoint any persons as a committee to represent the interests of the Holder and to confer upon such committee any powers which the Holder could themselves exercise by Extraordinary Resolution.

17. EXTRAORDINARY RESOLUTION BINDS ALL HOLDERS: An Extraordinary Resolution shall be binding upon all Holders and Holders of Coupons, Talons and Receipts whether or not present at such Meeting and each of the Holders shall be bound to give effect to it accordingly. Notice of the result

of every vote on an Extraordinary Resolution shall be given to the Holders and the Paying Agents (with a copy to the Issuer) within 14 days of the conclusion of the Meeting.

18. MINUTES: Minutes shall be made of all resolutions and proceedings at each Meeting. The Chairman shall sign the minutes, which shall be prima facie evidence of the proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings of which minutes have been summarised and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

19. WRITTEN RESOLUTION: A Written Resolution shall take effect as if it were an Extraordinary Resolution.

THE FIFTH SCHEDULE

THE SPECIFIED OFFICES OF THE PAYING AGENTS AND THE CALCULATION AGENT

The Issue and Paying Agent and Calculation Agent:

Morgan Guaranty Trust Company of New York  
60 Victoria Embankment  
London EC4Y 0JP

Telex: 896631 MGT G  
Fax: +44 171 325 0522

Attention: Global Trust & Agency Services

The other Paying Agents:

Morgan Guaranty Trust Company of New York  
35 Avenue de Arts  
Brussels B-1040

Telex: 61025 MTE CB  
Fax: + 322 224 1431

Attention: Global Trust & Agency Services

Kredietbank S.A. Luxembourgeoise  
43 Boulevard Royal  
L-2955 Luxembourg

Telex: 3418 KBLUX LU  
Fax: + 352 4797 5270  
Attention: Division Coupons



THE SIXTH SCHEDULE

[ON LETTERHEAD OF THE ISSUER]

CALCULATION AGENT APPOINTMENT LETTER  
[for use if the Calculation Agent is NOT a Dealer]

[Date]

[Name of Calculation Agent]  
[Address]

Dear Sirs,

CAPITAL ONE BANK  
PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

We refer to the Issue and Paying Agency Agreement dated 24 October 1997 entered into in respect of the above Programme for the Issuance of Debt Instruments (such agreement, as modified or amended from time to time, the "ISSUE AND PAYING AGENCY AGREEMENT") between ourselves as Issuer, Morgan Guaranty Trust Company of New York, London office as fiscal agent and certain other financial institutions named therein, a copy of which has been supplied to you by us.

Words and expressions defined in the Issue and Paying Agency Agreement shall have the same meanings when used herein.

EITHER

[We hereby appoint you as Calculation Agent at your specified office detailed in the Confirmation as our agent in relation to [specify relevant Series of Instruments] (the "INSTRUMENTS") upon the terms of the Issue and Paying Agency Agreement for the purposes specified in the Issue and Paying Agency Agreement and in the Terms and Conditions and all matters incidental thereto.]/9/

OR

[We hereby appoint you as Calculation Agent at your specified office detailed in the Confirmation set out below as our agent in relation to each Series of Instruments in respect of which you are named as Calculation Agent in the relevant Pricing Supplement upon the terms of the Issue and Paying Agency

---

/9/ The Appointment Letter may either be used to appoint an institution as Calculation Agent in respect of a particular Series of Instruments (first alternative wording) or in respect of more than one Series of Instruments (second alternative wording). Under the second alternative wording, the Calculation Agent agrees to act as such in relation to any Series of Instruments in respect of which it is named as Calculation Agent in the relevant Pricing Supplement.

Agreement and (in relation to each such Series of Instruments) in the Terms and Conditions and all matters incidental thereto.]

We hereby agree that, notwithstanding the provisions of the Issue and Paying Agency Agreement or the Terms and Conditions, your appointment as Calculation Agent may only be revoked in accordance with Condition 11.01 thereof if you have been negligent in the exercise of your obligations thereunder or have failed to exercise or perform your obligations thereunder.

Please complete and return to us the Confirmation on the copy of this letter duly signed by an authorised signatory confirming your acceptance of this appointment.

This letter is governed by and construed in accordance with English law and the provisions of Section 15 of the Issue and Paying Agency Agreement shall apply to this letter as if set out herein in full.

Yours faithfully

CAPITAL ONE BANK

CONFIRMATION

EITHER

We hereby accept our appointment as Calculation Agent of the Issuer in relation to the Instruments, and shall perform all matters expressed to be performed by the Calculation Agent in, and shall otherwise comply with, the Terms and Conditions and the provisions of the Issue and Paying Agency Agreement and, in connection therewith, shall take all such action as may be incidental thereto.

OR

We hereby accept our appointment as Calculation Agent of the Issuer in relation to each Series of Instruments in respect of which we are named as Calculation Agent in the relevant Pricing Supplement, and shall perform all matters expressed to be performed by the Calculation Agent in, and shall otherwise comply with (in relation to each such Series of Instruments) the Terms and Conditions and the provisions of the Issue and Paying Agency Agreement and, in connection therewith, shall take all such action as may be incidental thereto.

For the purposes of [the Instruments] [each such Series of Instruments] and the Issue and Paying Agency Agreement our specified office and communication details are as follows:

Address: [ ]  
  
Telex: [ ]  
Fax: [ ]  
Attention: [ ]

[Calculation Agent]

By:

Date:

[For the purposes of Article 1 of the Protocol annexed to the Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters signed at Brussels on 27 September 1968, the undersigned expressly and specifically agrees in the terms of Clause 15.02 and 15.03 of the Issue and Paying Agency Agreement as it is incorporated into this letter agreement.]/10/

[ ]

/10/ Insert only where Calculation Agent is domiciled in Luxembourg.

By:

SIGNATURES

CAPITAL ONE BANK

By:           /s/  
-----  
S. TISA

MORGAN GUARANTY TRUST  
COMPANY OF NEW YORK, LONDON OFFICE  
as Issue and Paying Agent,  
and Calculation Agent

By:           /s/  
-----  
R. THOROGOOD

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, BRUSSELS OFFICE  
as Paying Agent

By:           /s/  
-----  
R. THOROGOOD

KREDIETBANK S.A. LUXEMBOURGEOISE  
as Paying Agent

By:           /s/  
-----  
R. THOROGOOD

For the purposes of Article 1 of the Protocol annexed to the Convention on  
Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters  
signed at Brussels on 27 September 1968, the undersigned expressly and  
specifically agrees in the terms of Clause 15.02 and 15.03.]

KREDIETBANK S.A. LUXEMBOURGEOISE

By:           /s/  
-----  
R. THOROGOOD

Capital One Bank  
Senior and Subordinated Bank Notes  
Due From 30 Days to 30 Years from Date of Issue

AMENDMENT TO AMENDED AND RESTATED  
DISTRIBUTION AGREEMENT DATED APRIL 30, 1996

April 21, 1998

MERRILL LYNCH & CO.  
MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED  
BANCAMERICA ROBERTSON STEPHENS  
CHASE SECURITIES INC.  
CREDIT SUISSE FIRST BOSTON CORPORATION  
DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
LEHMAN BROTHERS  
LEHMAN BROTHERS INC.  
J.P. MORGAN SECURITIES INC.  
NATIONSBANC MONTGOMERY SECURITIES LLC  
SALOMON BROTHERS INC

c/o Merrill Lynch & Co.  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
World Financial Center  
North Tower, 10th Floor  
New York, New York 10281-1310

Ladies and Gentlemen:

Capital One Bank, a banking association chartered under the laws of  
the Commonwealth of Virginia (the "Bank"), desires to amend the Amended and  
Restated

Distribution Agreement, dated April 30, 1996, entered into with respect to the distribution of the Bank's Senior and Subordinated Bank Notes due from 30 days to 30 years from date of issue (the "Notes"), and made between the Bank and the Agents party thereto (which agreement, as amended from time to time, is herein referred to as the "Distribution Agreement") to add BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC (the "Additional Agents") as Agents pursuant to Section 1(e) of the Distribution Agreement and to remove Goldman, Sachs & Co. as an Agent under, and a party to, the Distribution Agreement.

Each of the Additional Agents will serve as an Agent and be a party to the Distribution Agreement in connection with the Notes, and will be vested with all of the authority, rights, powers, duties and obligations of an Agent as if originally named as an Agent under the Distribution Agreement.

Except as modified hereby, all of the terms and conditions of the Distribution Agreement shall remain in full force and effect and are hereby confirmed in all respects.

Unless otherwise defined herein, capitalized terms used herein shall have the meanings attributed thereto in the Distribution Agreement.

#### Section 1. Amendments to the Distribution Agreement.

The Distribution Agreement is hereby amended as follows:

(a) From and after the date hereof, each of BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC (the "Additional Agents") shall be an Agent for all purposes of the Distribution Agreement, the term "Agent" shall be deemed to include BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC whenever used in the Distribution Agreement, with such conforming changes as may be necessary, and Goldman, Sachs & Co. shall no longer be an Agent under, or a party to, the Distribution Agreement. By its execution of this Amendment, each of the Additional Agents agrees to be bound by, and comply with, all of the provisions of the Distribution Agreement applicable to the Agents thereunder. The obligations of the Agents under the Distribution Agreement are several and not joint, and no Agent shall be responsible for the obligations of any other Agent, nor will the failure of any Agent to perform its obligations under the Distribution Agreement relieve any other Agent from performance of its obligations under the Distribution Agreement.

(b) In consideration of the Bank appointing each of the Additional Agents as an Agent under the Distribution Agreement in connection with the Notes, each of the Additional Agents hereby agrees to perform all of the duties and obligations assumed by an Agent under the Distribution Agreement and agrees to be bound by, and comply with, all of the provisions of the Distribution Agreement as fully as though such Additional Agent were a signatory to the Distribution Agreement.

(c) The address of each of the Additional Agents for the purposes of giving notices under Section 13 of the Distribution Agreement is:

If to BancAmerica Robertson Stephens:

231 S. LaSalle Street, 18th Floor  
Chicago, Illinois 60697  
Attention: Matthew Carey/MTN Product  
Management  
Facsimile Number: (312) 974-8936

If to Chase Securities Inc.:

270 Park Avenue  
New York, New York 10017  
Attention: Medium-Term Note Desk  
Facsimile Number: (212) 834-6170

If to NationsBanc Montgomery Securities LLC:

NationsBank Corporate Center  
100 N. Tryon Street  
Charlotte, North Carolina 28255  
Attention: Steve Austen  
Facsimile Number: (704) 388-9939

Section 2. Representations and Warranties.  
-----

The Bank hereby repeats and reaffirms the representations and warranties contained in Section 2 of the Distribution Agreement, with the same force and effect as though such representations and warranties had been made as of the date hereof, provided that all references in such representations and warranties to (i) the Distribution Agreement shall refer to the Distribution Agreement as amended by this Amendment, (ii) the Offering Circular shall refer to the Offering Circular dated April 21, 1998, (iii) the Letters of Representation shall refer to the Short-Term and Medium-Term Letters of Representation dated April 30, 1997, and (iv) the Call Reports shall refer to the Call Reports beginning with and including the Call Report for the period ended December 31, 1995.

Section 3. Governing Law.  
-----

This Amendment shall be governed by and construed and interpreted in accordance with the laws of the State of New York.

Section 4. Severability of Provisions.  
-----

Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or



unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 5. Captions.  
-----

The captions in this Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

[Remainder of this page intentionally left blank]

If the foregoing is agreeable to you, please sign and return to the Bank a counterpart hereof, whereupon this instrument along with all counterparts will become a binding agreement between each of the Agents and the Bank in accordance with its terms.

Very truly yours,

CAPITAL ONE BANK

By: /s/ Susanna K. Tisa  
-----  
Name: Susanna K. Tisa  
Title: Director of Capital Market

CONFIRMED AND ACCEPTED,  
as of the date first written above:

MERRILL LYNCH & CO.  
MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By: /s/  
-----  
Name:  
Title:

BANCAMERICA ROBERTSON STEPHENS

By: /s/  
-----  
Name:  
Title:

CHASE SECURITIES INC.

By: /s/  
-----  
Name:  
Title:

CREDIT SUISSE FIRST BOSTON CORPORATION

By:           /s/  
-----  
Name:  
Title:

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

By:           /s/  
-----  
Name:  
Title:

LEHMAN BROTHERS  
LEHMAN BROTHERS INC.

By:           /s/  
-----  
Name:  
Title:

J.P. MORGAN SECURITIES INC.

By:           /s/  
-----  
Name:  
Title:

NATIONSBANC MONTGOMERY SECURITIES LLC

By:           /s/  
-----  
Name:  
Title:

SALOMON BROTHERS INC

By:           /s/  
-----  
Name:  
Title:

Capital One Bank  
Deposit Notes  
Due From 30 Days to 30 Years from Date of Issue

AMENDMENT TO DISTRIBUTION AGREEMENT  
DATED APRIL 30, 1996

April 30, 1998

MERRILL LYNCH & CO.  
MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED  
BANCAMERICA ROBERTSON STEPHENS  
CHASE SECURITIES INC.  
CREDIT SUISSE FIRST BOSTON CORPORATION  
DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
LEHMAN BROTHERS  
LEHMAN BROTHERS INC.  
J.P. MORGAN SECURITIES INC.  
NATIONSBANC MONTGOMERY SECURITIES LLC  
SALOMON BROTHERS INC

c/o Merrill Lynch & Co.  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
World Financial Center  
North Tower, 10th Floor  
New York, New York 10281-1310

Ladies and Gentlemen:

Capital One Bank, a banking association chartered under the laws of the Commonwealth of Virginia (the "Bank"), desires to amend the Distribution Agreement, dated

April 30, 1996, entered into with respect to the distribution of the Bank's Deposit Notes due from 30 days to 30 years from date of issue (the "Notes"), and made between the Bank and the Agents party thereto (which agreement, as amended from time to time, is herein referred to as the "Distribution Agreement") to add BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC (the "Additional Agents") as Agents pursuant to Section 1(e) of the Distribution Agreement and to remove Goldman, Sachs & Co. as an Agent under, and a party to, the Distribution Agreement.

Each of the Additional Agents will serve as an Agent and be a party to the Distribution Agreement in connection with the Notes, and will be vested with all of the authority, rights, powers, duties and obligations of an Agent as if originally named as an Agent under the Distribution Agreement.

Except as modified hereby, all of the terms and conditions of the Distribution Agreement shall remain in full force and effect and are hereby confirmed in all respects.

Unless otherwise defined herein, capitalized terms used herein shall have the meanings attributed thereto in the Distribution Agreement.

#### Section 1. Amendments to the Distribution Agreement.

The Distribution Agreement is hereby amended as follows:

(a) From and after the date hereof, each of BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC (the "Additional Agents") shall be an Agent for all purposes of the Distribution Agreement, the term "Agent" shall be deemed to include BancAmerica Robertson Stephens, Chase Securities Inc., and NationsBanc Montgomery Securities LLC whenever used in the Distribution Agreement, with such conforming changes as may be necessary, and Goldman, Sachs & Co. shall no longer be an Agent under, or a party to, the Distribution Agreement. By its execution of this Amendment, each of the Additional Agents agrees to be bound by, and comply with, all of the provisions of the Distribution Agreement applicable to the Agents thereunder. The obligations of the Agents under the Distribution Agreement are several and not joint, and no Agent shall be responsible for the obligations of any other Agent, nor will the failure of any Agent to perform its obligations under the Distribution Agreement relieve any other Agent from performance of its obligations under the Distribution Agreement.

(b) In consideration of the Bank appointing each of the Additional Agents as an Agent under the Distribution Agreement in connection with the Notes, each of the Additional Agents hereby agrees to perform all of the duties and obligations assumed by an Agent under the Distribution Agreement and agrees to be bound by, and comply with, all of the provisions of the Distribution Agreement as fully as though such Additional Agent were a signatory to the Distribution Agreement.

(c) The address of each of the Additional Agents for the purposes of giving notices under Section 13 of the Distribution Agreement is:

If to BancAmerica Robertson Stephens:

231 S. LaSalle Street, 18th Floor  
Chicago, Illinois 60697  
Attention: Matthew Carey/MTN Product  
Management  
Facsimile Number: (312) 974-8936

If to Chase Securities Inc.:

270 Park Avenue  
New York, New York 10017  
Attention: Medium-Term Note Desk  
Facsimile Number: (212) 834-6170

If to NationsBanc Montgomery Securities LLC:

NationsBank Corporate Center  
100 N. Tryon Street  
Charlotte, North Carolina 28255  
Attention: Steve Austen  
Facsimile Number: (704) 388-9939

## Section 2. Representations and Warranties.

-----

The Bank hereby repeats and reaffirms the representations and warranties contained in Section 2 of the Distribution Agreement, with the same force and effect as though such representations and warranties had been made as of the date hereof, provided that all references in such representations and warranties to (i) the Distribution Agreement shall refer to the Distribution Agreement as amended by this Amendment, (ii) the Offering Circular shall refer to the Offering Circular dated April 30, 1998, (iii) the Letters of Representation shall refer to the Short-Term and Medium-Term Letters of Representation dated April 30, 1996, and (iv) the Call Reports shall refer to the Call Reports beginning with and including the Call Report for the period ended December 31, 1995.

## Section 3. Governing Law.

-----

This Amendment shall be governed by and construed and interpreted in accordance with the laws of the State of New York.

## Section 4. Severability of Provisions.

-----

Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or

unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 5. Captions.  
-----

The captions in this Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

[Remainder of this page intentionally left blank]

If the foregoing is agreeable to you, please sign and return to the Bank a counterpart hereof, whereupon this instrument along with all counterparts will become a binding agreement between each of the Agents and the Bank in accordance with its terms.

Very truly yours,

CAPITAL ONE BANK

By: /s/ John G. Finneran, Jr.

-----

Name: John G. Finneran, Jr.  
Title: Senior Vice President, General  
Counsel & Corporate Secretary

CONFIRMED AND ACCEPTED,  
as of the date first written above:

MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By: /s/

-----

Name:  
Title:

BANCAMERICA ROBERTSON STEPHENS

By: /s/

-----

Name:  
Title:

CHASE SECURITIES INC.

By: /s/

-----

Name:  
Title:



CREDIT SUISSE FIRST BOSTON CORPORATION

By:       /s/  
-----  
Name:  
Title:

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

By:       /s/  
-----  
Name:  
Title:

LEHMAN BROTHERS INC.

By:       /s/  
-----  
Name:  
Title:

J.P. MORGAN SECURITIES INC.

By:       /s/  
-----  
Name:  
Title:

NATIONSBANC MONTGOMERY SECURITIES LLC

By:       /s/  
-----  
Name:  
Title:

SALOMON BROTHERS INC

By:       /s/  
-----  
Name:  
Title:

CAPITAL ONE FINANCIAL CORPORATION  
-----

[\_\_\_\_\_]

EMPLOYMENT AGREEMENT  
-----

AGREEMENT by and between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (the "Company"), and \_\_\_\_\_(the "Executive"), dated as of the 14th day of May 1996.

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions.

-----

(a) The "Effective Date" shall be the first date during the "Change of Control Period" (as defined in Section 1(b)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if the Executive's employment with the Company is terminated or the terms and conditions of the Executive's employment are adversely changed in a manner which would constitute grounds for a termination of employment by the Executive for Good Reason prior to the date on which a Change of Control occurs, and it is reasonably demonstrated that such termination of employment or adverse change (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose within six months of and in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment or adverse change.

(b) The "Change of Control Period" is the period commencing on the date hereof and ending on the third anniversary of such date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof is hereinafter referred to as the "Renewal Date"), the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

2. Change of Control. For the purpose of this Agreement, a "Change of

-----

Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of

Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% (or, if such shares are purchased from the Company, 40%) or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"), provided, however, that any

-----  
acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, immediately following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, in the aggregate by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change of Control; or

(b) Individuals who constitute the Board as of September 1, 1995 (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to September 1, 1995 whose

appointment to fill a vacancy or to fill a new Board position or whose nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(c) Approval by the shareholders of the Company of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such Business Combination do not in the aggregate, immediately following such Business Combination, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Company Voting Securities, as the case may be; or

(d) (i) a complete liquidation or dissolution of the Company or (ii) sale or other disposition of all or substantially all of the assets of the Company other than to a

corporation with respect to which, immediately following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, in the aggregate by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition.

(e) Notwithstanding the foregoing, a Change of Control shall not occur with respect to the Executive by reason of any event which would otherwise constitute a Change of Control if, immediately after the occurrence of such event, individuals including such Executive who were executive officers of the Company immediately prior to the occurrence of such event, own, directly or indirectly, on a fully diluted basis, (i) 15% or more of the then outstanding shares of common stock of the Company or any acquiror or successor to substantially all of the business of the Company or (ii) 15% or more of the combined voting power of the then outstanding voting securities of the Company or any acquiror or successor to substantially all of the business of the Company entitled to vote generally in the election of directors.

3. Employment Period. The Company hereby agrees to continue the Executive  
-----

in its employ, and the Executive hereby agrees to remain in the employ of the Company, for the period commencing on the Effective Date and ending on the second anniversary of such date (the

"Employment Period").

4. Terms of Employment.  
-----

(a) Position and Duties.  
-----

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation, sabbatical and sick or similar leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's

responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.  
-----

(i) Base Salary. During the Employment Period, the Executive  
-----

shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a monthly rate, at least equal to twelve times the highest monthly base salary paid or payable, including by reason of deferral and before any reduction for the amount of such annual base salary which the Executive may have agreed to forgo in consideration for the receipt of stock options, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after



any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" includes any company controlled by, controlling or under common control with the Company. Any payments of an Executive's Annual Base Salary made under this Section 4(b)(i) may be reduced to the extent provided in an election made by an Executive to forgo any or all base salary otherwise payable in exchange for the receipt of stock options from the Company. The Company shall maintain an account (the "Stock Option Purchase Account"), the balance of which, as of any date, shall be equal to the aggregate dollar amount of base salary and bonuses that the Executive has agreed to forgo in exchange for the receipt of such stock options, less the amount of such base salary or bonuses or other compensation (including amounts payable upon termination of employment) actually forgone.

(ii) Annual Bonus. In addition to Annual Base Salary, the

-----  
Executive shall be awarded, for each fiscal year beginning or ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the sum of the target award under the Company's Executive Annual Cash Incentive Plan and any other target awards under any other similar annual incentive plans (or, if no such target award is designated under the Company's Executive Annual Cash Incentive Plan or any similar plan, the midpoint between the high and low bonus payable to the Executive under such plan); provided, however, that

-----  
such target or midpoint, as the case may be, shall not be less than such target or midpoint under

such plans in the year immediately preceding the Change of Control (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus. Any payments of an Executive's Annual Bonus made under this Section 4(b)(ii) may be reduced to the extent provided in an election made by an Executive to forgo any or all bonus amounts otherwise payable in exchange for the receipt of stock options from the Company.

(iii) Incentive, Savings and Retirement Plans. In addition to

-----  
Annual Base Salary and Annual Bonus payable as hereinabove provided, the Executive shall be entitled to participate during the Employment Period in all incentive, profit-sharing, savings and retirement plans, practices, policies and programs (including any stock-based plans) applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive, savings and retirement benefit opportunities (including under any stock-based plans), in each case, less favorable, in the aggregate, except as required to comply with statutory requirements of general application which limit the level of benefit opportunity, than (x) the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or (y) if more favorable to the Executive, those provided at any time after the

Effective Date to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the

-----  
Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, split-dollar life insurance, accidental death and travel accident insurance plans and programs) to the extent generally applicable to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than (x) the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or (y) if more favorable to the Executive, those provided at any time after the Effective Date generally to other peer executives of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall

-----  
be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or,

if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits. During the Employment Period, the Executive

-----  
shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff. During the Employment Period, the

-----  
Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation and Other Paid Leave. During the Employment

-----  
Period, the Executive shall be entitled to paid vacation and other paid leave in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive,

as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate

-----  
automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 13(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" means the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment

-----  
during the Employment Period for Cause. For purposes of this Agreement, "Cause" means (i) an action taken by the Executive involving willful and wanton malfeasance involving specifically a wholly wrongful and unlawful act, or (ii) the Executive being convicted of a felony.

(c) Good Reason. The Executive's employment may be terminated during

-----  
the

Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" means

(i) The assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) Any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) The Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(i)(B) hereof;

(iv) Any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) Any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

(d) Notice of Termination. Any termination by the Company for

-----

Cause or by the Executive for Good Reason shall be communicated by Notice of Termination to the other

party hereto given in accordance with Section 13(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than fifteen days after the giving of such notice). In the case of a termination of the Executive's employment for Cause, a Notice of Termination shall include a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to the Executive and reasonable opportunity for the Executive, together with the Executive's counsel, to be heard before the Board prior to such vote), finding that in the good faith opinion of the Board the Executive was guilty of conduct constituting Cause. No purported termination of the Executive's employment for Cause shall be effective without a Notice of Termination. The failure by the Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing the Executive's rights hereunder.

(e) Date of Termination. "Date of Termination" means the date of

-----

receipt of the Notice of Termination or any later date specified therein, as the case may be; provided, however, that (i) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the

Executive of such termination and (ii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

(f) Transition Period. "Transition Period" means the period

commencing on the Date of Termination and ending on the twenty-four month anniversary of the Date of Termination.

6. Obligations of the Company upon Termination.

(a) Death. If the Executive's employment is terminated by reason of

the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than the following obligations: (i) payment of the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) payment of the product of (x) the greater of (A) the annual bonus paid or payable, including by reason of deferral and before any reduction for the amount of such bonus which the Executive may have agreed to forgo in consideration for the receipt of stock options, (and annualized for any fiscal year consisting of less than twelve full months or for which the Executive has been employed for less than twelve full months) for the most recently completed fiscal year and (B) the Recent Annual Bonus (such greater amount hereafter referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (iii) payment of any compensation previously deferred by the Executive (together with any accrued interest thereon) and not yet paid by the Company and any pay for vacation and sabbatical earned but not yet taken (the amounts described in paragraphs (i),



(ii) and (iii) are hereafter referred to as "Accrued Obligations"). The amount of the Company's payment obligations under paragraphs (i) and (ii) of the Accrued Obligations shall be reduced by the amount of any such Annual Base Salary or Annual Bonus, respectively, that the Executive had elected to forgo in consideration of the grant of stock options (the "Net Accrued Obligations"). All Net Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. Anything in this Agreement to the contrary notwithstanding, the Executive's estate and family shall be entitled to receive benefits at least equal to the most favorable benefits provided generally by the Company and any of its affiliated companies to the estates and surviving families of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect generally with respect to other peer executives and their estates and families at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect on the date of the Executive's death generally with respect to other peer executives of the Company and its affiliated companies and their families.

(b) Disability. If the Executive's employment is terminated by reason

-----

of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for Net Accrued Obligations. All Net Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. Anything in this Agreement to the contrary notwithstanding, the Executive shall be entitled after the Disability Effective Date to receive disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to

disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(c) Cause; Other than for Good Reason. If the Executive's employment

-----  
shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid. The amount of the Company's payment of such Annual Base Salary shall be reduced by the amount of any such Annual Base Salary that the Executive had elected to forgo in consideration of the grant of stock options. If the Executive terminates employment during the Employment Period other than for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Net Accrued Obligations. In such case, all Net Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(d) Good Reason; Other Than for Cause or Disability. If, during the

-----  
Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability, or if the Executive shall terminate employment under this Agreement for Good Reason:

(i) The Company shall pay to the Executive in a lump sum in cash

within 30 days after the Date of Termination the aggregate of the following amounts:

(A) All Net Accrued Obligations; and

(B) The product of (x) two and (y) the sum of (i) Annual Base Salary and (ii) the Highest Annual Bonus; and

(C) an amount equal to any unvested account balance in any defined contribution plan, and any supplemental and excess retirement plans with respect thereto, that would have vested had the Executive's employment with the Company continued for the duration of the Transition Period;

(D) an amount equal to the contributions and accrued earnings that would have been made under any defined contribution plan, and any supplemental and excess retirement plans with respect thereto, had the Executive's employment with the Company continued for the duration of the Transition Period and had the Executive contributed to such plans at the highest rate permitted by such plans, calculated assuming that the terms of such plans are no less favorable than those in effect during the 90-day period immediately prior to the Effective Date, or if more favorable to the Executive, those in effect generally at any time thereafter with respect to such plans for other peer executives of the Company and its affiliated companies; and

(ii) For the duration of the Transition Period, or such longer period as any

plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliated companies applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families. For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed for the duration of the Transition Period and to have retired on the last day of such period. In lieu of the benefits provided for in this Section 6(d)(ii), the Executive may elect within 60 days of the Date of Termination to be paid an amount in cash equal to the present value of such benefits on an after-tax basis. In determining present value, a discount rate equal to the federal mid-term rate under Section 1274(d) of the Internal Revenue Code of 1986, as amended (the "Code") shall be utilized. The right to continued benefits granted to Executive and/or his family pursuant to this Section 6(d)(ii) shall be in addition to any right of continued coverage under any of the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement

which Executive and/or his family may be entitled to under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") upon any loss of coverage under such plans, programs, practices and policies; and

(iii) The Company shall provide the Executive with outplacement services (including office support and secretarial services), from a vendor determined by the Company, at a cost not to exceed \$30,000.

The amount payable by the Company to the Executive pursuant to Section 6(d)(i)(B) above will be reduced by any remaining balance in the Stock Option Purchase Account.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or

-----  
limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plans, programs, policies or practices, provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other agreements with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program except as explicitly modified by this Agreement. Notwithstanding the foregoing, payment of amounts pursuant to Section 6 of this Agreement shall be in lieu of any severance benefits which would otherwise be paid or payable to the Executive under the Capital One Financial Corporation Severance Pay Plan or any successor thereto.

8. Full Settlement. The Company's obligation to make the payments

-----  
provided for in

this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of, and no amounts earned by the Executive at such other employment or otherwise shall reduce, the amounts payable to the Executive under any of the provisions of this Agreement. The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest in which there is a reasonable basis for the claims or defenses asserted by the Executive and such claims and defenses are asserted by the Executive in good faith (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to Section 9 of this Agreement), plus in each case interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that the Company shall not be obligated to pay any such fees and expenses, and the Executive shall be obligated to return any such fees and expenses that were advanced, if a court of competent jurisdiction determines that the Executive was terminated for Cause.

9. Certain Additional Payments by the Company.  
-----

(a) Anything in this Agreement to the contrary notwithstanding, in the event the Executive's employment is terminated during the Employment Period by the Company without Cause or by the Executive for Good Reason and it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or

distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to elect (i) to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments or (ii) to have the Company reduce any such Payments due hereunder to the extent and only to the extent necessary to avoid the assessment of such Excise Tax (a "Payment Reduction"). If any Payment Reduction is elected, the Payments shall be reduced in the order specified by the Executive to the extent necessary to satisfy the requirements of the preceding sentence.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether a Gross-Up Payment or a Payment Reduction is required and the amount of such Gross-Up Payment or Payment Reduction and the assumptions to be used in arriving at such determinations, shall be made by the Company's certified public accounting firm immediately prior to the Effective Date (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen business days of the Date of Termination, if applicable, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. The initial Gross-Up Payment or Payment Reduction, if any, as determined pursuant to this

Section 9(b), shall be made by the Company within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments or Payment Reductions which will not have been made by the Company should have been made ("Underpayment" or, respectively, "Overpayment"), consistent with the calculations required to be made hereunder. If it is determined that any Overpayment has been made by the Company to the Executive, the Executive shall be entitled to elect either to have the Company make a further Payment Reduction or, in the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, to have the Company make a Gross-Up Payment with regard to any Excise Tax incurred due to the original Overpayment. If it is determined that any Underpayment has been made by the Company to the Executive, in the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a



Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) Give the Company any information reasonably requested by the Company relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such

representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the

requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Payments or distributions by the Company to or for the benefit of the Executive pursuant to (i) any grants made under any performance-based plan of the Company on or after the first meeting of the Company's shareholders after September 16, 1995 or (ii) any "incentive stock options" (within the meaning of Section 422 of the Code) granted to the Executive prior to September 16, 1995 shall be "Excluded Payments." In the event that Payments which include Excluded Payments are subject to Excise Tax, the determinations made pursuant to Section 9(b) above shall be calculated with respect to all Payments (including any Excluded Payments), but any resulting Gross-Up Payment required to be made by the Company shall be reduced by the product of the Gross-Up Payment multiplied by a fraction the numerator of which is the Excluded Payments and the denominator of which is all Payments (including the Excluded Payments).

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have

been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement. The obligations of this Section 10 are in addition to and do not supersede any other confidentiality obligations of the Executive to the Company.

11. Successors.

-----

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as

hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Funding. This Agreement constitutes an unfunded, unsecured obligation

-----

of the Company and any payments made hereunder shall be made from the general assets of the Company. However, the Company either has established or will establish within 90 days of the date hereof a trust pursuant to a trust agreement in substantially the form of trust agreement attached hereto and shall make contributions to such trust in accordance with the terms and conditions of such trust agreement for the purpose of assisting the Company in meeting its payment obligations under this Agreement.

13. Miscellaneous.

-----

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

-----

To the address shown on the Company's records for tax reporting purposes.

If to the Company:

-----

Capital One Financial Corporation  
2980 Fairview Park Drive

Falls Church, Virginia 22042

Attention: Officer-in-Charge,  
Human Resources Division

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's failure to insist upon strict compliance with any provision hereof or the failure to assert any right the Executive may have hereunder, including, without limitation, the right to terminate employment for Good Reason pursuant to Section 5(c)(i)-(v), shall not be deemed to be a waiver of such provision or right or any other provision or right thereof.

(f) This Agreement contains the entire understanding of the Company and the Executive with respect to the subject matter hereof. Until the Effective Date, subject to the terms of any other employment agreement between the Executive and the Company, the Executive shall continue to be an "employee at will".

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

---

CAPITAL ONE FINANCIAL CORPORATION

By: 

---

Richard D. Fairbank  
Chief Executive Officer

-30-

Capital One Financial Corporation  
-----  
Change of Control Employment Agreement  
-----

Each of the following executive officers of Capital One Financial Corporation has entered into a Change of Control Employment Agreement in the form filed herewith:

Marjorie M. Connelly  
Matthew J. Cooper  
James P. Donehey  
Dennis H. Liberson  
William J. McDonald  
Peter Schnall  
David M. Willey



CAPITAL ONE FINANCIAL CORPORATION

FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT BETWEEN  
CAPITAL ONE FINANCIAL CORPORATION AND [ ]

---

This Amendment of Agreement is by and between Capital One Financial Corporation (the "Company") and [ ] (the "Executive") dated as of [ ].

WHEREAS, the Company entered into an Employment Agreement with the Executive dated as of [ ] (the "Agreement"), providing the Executive with compensation and benefit arrangements upon a Change of Control (as defined therein);

WHEREAS, the Company and the Executive have as of the date of this Amendment of Agreement (the "Amendment") entered into a Nonstatutory Stock Option Agreement (the "Stock Option Agreement"); and

WHEREAS, the Company and the Executive now wish to amend the Agreement, as provided in this Amendment.

NOW, THEREFORE, in consideration of the foregoing and the agreements contained herein, the Company and the Executive agree that the Agreement shall be modified as follows, effective as of [ ]:

1. The first sentence of Section 9 (e) of the Agreement is amended to read in its entirety as follows:

Payments or distributions by the Company to or for the benefit of the Executive pursuant to any "incentive stock options" (within the meaning of Section 422 of the Code) granted to the Executive prior to September 16, 1995 shall be "Excluded Payments."

2. The amendment to the Agreement set forth in paragraph 1 of this Amendment, is subject to Shareholder Approval as defined in the Stock Option Agreement. If Shareholder Approval is not obtained, (i) this Amendment and the amendment set forth in this Amendment shall be null and void; and (ii) the Company and the Executive shall be bound by the terms of the Agreement as in effect immediately before the execution of this Amendment.

IN WITNESS WHEREOF, the Company and the Executive have executed this Amendment as of the date first written above.

CAPITAL ONE FINANCIAL CORPORATION

By: \_\_\_\_\_  
John G. Finneran, Jr.  
Senior Vice President and  
General Counsel

By: \_\_\_\_\_  
Name: \_\_\_\_\_

Capital One Financial Corporation  
-----  
First Amendment to the Employment Agreement  
-----

Each of the following executive officers of Capital One Financial Corporation has entered into the First Amendment to Change of Control Employment Agreement in the form filed herewith:

Marjorie M. Connelly  
Matthew J. Cooper  
James P. Donehey  
Dennis H. Liberson  
William J. McDonald  
Peter Schnall  
David M. Willey

AMENDED AND RESTATED LEASE AGREEMENT

between

FIRST SECURITY BANK, N.A.  
and Val T. Orton,  
not individually but solely in their capacities  
as owner trustee under that certain  
Amended and Restated Trust Agreement  
dated as of October 14, 1998,  
the trust thereunder being referred to as the  
COB Real Estate Trust 1995-1,

as Lessor

and

CAPITAL ONE REALTY, INC.,  
as Lessee

Dated as of October 14, 1998

# TABLE OF CONTENTS

	PAGE
1. Demise; Title; Condition.....	1
2. Term.....	2
3. Rent.....	3
4. Use.....	4
5. Net Lease; Nonterminability; Subordination of Indenture.	5
6. Taxes and Other Charges; Law and Agreements.....	7
7. Title; Liens.....	10
8. Indemnification; Fees and Expenses.....	11
9. Environmental Matters.....	12
10. Maintenance and Repair; Additions.....	16
11. Trade Fixtures; Inspection.....	18
12. Condemnation and Casualty.....	19
13. Insurance.....	26
14. Financial Statements; Other Information.....	30
15. The Ground Leases.....	31
16. Purchase Procedure.....	32
17. No Reliance.....	34
18. Quiet Enjoyment.....	34
19. Survival.....	34

20.	Subletting; Assignment.....	35
21.	Advances by Lessor.....	36
22.	Conditional Limitations -- Events of Default and Remedies.	36
23.	Notices.....	41
24.	Estoppel Certificates.....	42
25.	No Merger.....	42
26.	Surrender and Return.....	43
27.	Separability.....	45
28.	Lessee's End of Term Purchase Options.....	45
29.	Signs; Showing.....	46
30.	End of Term Adjustment.....	47
31.	Nature of Lessor's Obligations; Limitations on Liability..	48
32.	Granting of Easements, Etc.....	49
33.	Lessee's Representations and Warranties.....	49
34.	Recording.....	51
35.	Miscellaneous.....	51
36.	Ownership of the Leased Properties.....	52
37.	Purchase Options.....	54
38.	Substitution of Properties.....	56
39.	The Individual Trustee.....	59

SCHEDULE A	Land Parcel
SCHEDULE B	Basic Rent
SCHEDULE C	Termination Values
SCHEDULE D	Environmental Matters
SCHEDULE E	Purchase Prices
SCHEDULE F	Maximum Lessor and Lessee Risk Amounts
SCHEDULE G	Permitted Encumbrances
SCHEDULE H	Form of Supplement to Lease
SCHEDULE I	Form of Certificate As to Insurance
SCHEDULE J	Allocable Percentages
SCHEDULE K	Form of Lessee Estoppel Certificate

THIS AMENDED AND RESTATED LEASE AGREEMENT, dated as of October 14, 1998 as amended and supplemented from time to time (this Lease), by and between FIRST

-----

SECURITY BANK, N.A., a national banking association, and Val T. Orton, not individually but solely in their capacities as owner trustee under that certain Amended and Restated Trust Agreement dated as of the date hereof, the trust thereunder being referred to as the COB Real Estate Trust 1995-1, as lessor (together with their respective successors and assigns, collectively, Lessor),

-----

having an office at 79 South Main Street, Salt Lake City, Utah 84111, and CAPITAL ONE REALTY, INC., a Delaware corporation, as lessee (together with their respective successors and permitted assigns, Lessee), having an address at

-----

2980 Fairview Park Drive, Suite 1400, Falls Church, VA 22042.

Lessor and Lessee, as assignee of Guarantor's interest thereunder, have entered into a Lease Agreement dated as of January 5, 1996, as amended and supplemented (the Original Lease) with respect to those certain parcels of land

-----

described in Schedule A annexed hereto (individually, a Land Parcel and collectively, the Land Parcels). Lessor and Lessee each desire to amend,

-----

restate and supercede the Original Lease in order to modify the terms and conditions thereof.

Lessor and Lessee hereby agree, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, one to the other, as follows (capitalized terms not otherwise defined are defined in Appendix I hereto):

1. Demise; Title; Condition. In consideration of the agreements and

-----

provisions of this Lease hereinafter stipulated to be observed and performed by Lessee, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, subject to the terms and conditions hereinafter set forth, for the terms described in Article 2 hereof, all of Lessor's right, title and interest in (i) the fee simple interest or ground leasehold interest, as applicable, in each Land Parcel, including the fee interest in any Land Parcel as to which Lessor currently holds a ground leasehold interest, if such fee interest is hereafter acquired by Lessor; (ii) all buildings, structures, improvements and other real and personal property now standing or at any time hereafter constructed or placed upon any of the Land Parcels including, without limitation, all of Lessor's right, title and interest in and to all building equipment and fixtures of every kind and nature on each of the Land Parcels or in any such building, structure or improvement, together with any and all Additions (all of the foregoing described in this clause (ii), the Improvements to each Land Parcel);

-----

and (iii) all easements, rights and appurtenances thereto (Lessor's right, title and interest in each Land Parcel, the Improvements and all such easements, rights and appurtenances with respect thereto called the Leased Property).

-----

Each Leased Property is demised and let in its present condition without representation or warranty by Lessor (except as expressly set forth in Article 18), subject in each case to (a) the rights of any parties in possession thereof, (b) the state of the title thereto existing at the time Lessor acquired its interest in such Leased Property and at the commencement of the Term, (c)



any state of facts which an accurate survey or physical inspection might show, (d) all applicable laws, rules, regulations, ordinances and restrictions now in effect or hereafter adopted by any governmental authority having jurisdiction, (e) any environmental conditions now or hereafter existing at, on or under such Leased Property and (f) any violations of such laws, rules, regulations, ordinances and restrictions which may exist at the commencement of the Term of this Lease. Lessee has examined each Leased Property and has, as between Lessor and Lessee, found the same to be satisfactory for its purposes. Without limiting the generality of the foregoing, Lessee acknowledges and agrees that as of the date hereof, Lessor's interest in each of Knolls Two Phase Three, Renaissance Business Park Phase I and Renaissance Business Park Phase II is a ground leasehold interest.

LESSOR HAS NOT MADE AN INSPECTION OF ANY LEASED PROPERTY AND MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY LEASED PROPERTY WHETHER NOW OR HEREAFTER EXISTING OR THE LOCATION, USE, DESCRIPTION, DESIGN, MERCHANTABILITY, FITNESS FOR USE FOR A PARTICULAR PURPOSE, CONDITION OR DURABILITY THEREOF, OR AS TO QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN; AND ALL RISKS INCIDENTAL TO THE LEASED PROPERTIES SHALL BE BORNE BY LESSEE. IN THE EVENT OF ANY DEFECT OR DEFICIENCY OF ANY NATURE IN ANY LEASED PROPERTY OR ANY FIXTURE OR OTHER ITEM CONSTITUTING A PORTION THEREOF, WHETHER PATENT OR LATENT, LESSOR SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY WITH RESPECT THERETO. THE PROVISIONS OF THIS PARAGRAPH HAVE BEEN NEGOTIATED AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION BY LESSOR OF, AND LESSEE DOES HEREBY DISCLAIM ANY AND ALL WARRANTIES BY LESSOR, EXPRESS OR IMPLIED, WITH RESPECT TO THE LEASED PROPERTIES WHETHER NOW OR HEREAFTER EXISTING OR ANY FIXTURE OR OTHER ITEM CONSTITUTING A PORTION THEREOF, WHETHER ARISING PURSUANT TO THE UNIFORM COMMERCIAL CODE OR ANY OTHER LAW NOW OR HEREAFTER IN EFFECT OR OTHERWISE.

2. Term.

----

(a) Subject to the provisions hereof, Lessee shall have and hold each Leased Property for a term which shall begin on December \_\_, 1998 (the Basic Term Commencement Date) and end at midnight on the day immediately before the fifth anniversary of the Basic Term Commencement Date (the Basic Term), unless

sooner terminated or extended as hereinafter provided. All representations, warranties and covenants in this Lease shall become effective at the time of the delivery hereof on the Basic Term Commencement Date.

(b) So long as no Default or Event of Default shall have occurred and be continuing on the last day of the then current Basic Term or Renewal Term (except for the last day of the Maximum Lease Term), Lessee may elect (i) to extend and renew the Term of this Lease with respect to all, but not less than all, of the Leased Properties for up to two consecutive one-year terms (each, a Renewal Term) or (ii) to terminate this Lease. Lessee shall be deemed to have

-----  
elected to extend and renew this Lease for the next following Renewal Term unless Lessee delivers a notice to the contrary to Lessor at least 180 days before the end of the then current Term (a Termination Notice). A Termination

-----  
Notice shall specify whether Lessee intends to purchase Lessor's interest in all, but not less than all, of the Leased Properties pursuant to paragraph (a) of Article 28 hereof or to return possession of all, but not less than all, of the Leased Properties pursuant to paragraph (b) of Article 30. Lessee's deemed exercise of its election to extend this Lease made in accordance with the provisions of this Article 2 at the end of the Basic Term or at the end of the first Renewal Term shall automatically extend the Term of this Lease for the first Renewal Term or the second Renewal Term, as the case may be, without need for a further writing. However, either party, upon request of the other, will execute and acknowledge, in form suitable for recording, an instrument confirming the acceptance of each Leased Property for the Basic Term and any such Renewal Term. Time shall be of the essence with respect to the giving of notice by Lessee of its election not to extend any Term of this Lease.

### 3. Rent.

-----  
(a) During the Term of this Lease, Lessee shall pay the basic rent provided for in Schedule B annexed hereto (Basic Rent) to Lessor (or to any

-----  
other party as Lessor may from time to time specify in writing), by bank wire transfer or electronic funds transfer (including automated clearinghouse transfers) of immediately available federal funds initiated before 10:30 A.M., Eastern Time, at Lessor's address set forth above, or at such other place within the continental United States to which bank wire or electronic funds transfers can be made, as Lessor may from time to time designate to Lessee in writing. Basic Rent during the Basic Term and any Renewal Term shall be due and payable by Lessee in installments in the amounts set forth in Schedule B on the dates set forth in Schedule B (Installment Payment Dates). If any Installment Payment

-----  
Date falls on a day that is not a Business Day, Basic Rent shall be due and payable on the next succeeding Business Day without interest or penalty if paid on such Business Day. In the event of any assignment by Lessor to an Assignee pursuant to the provisions of paragraph (b) of Article 20 hereof, all payments that are assigned to such Assignee, whether Basic Rent, Additional Rent or otherwise, shall be paid in such manner and in such place as shall be designated by Lessor or such Assignee.

(b) All amounts that Lessee is required to pay or discharge pursuant to this Lease in addition to Basic Rent (including, without limitation, amounts payable as the Purchase Price, Termination Value or other amounts for each Leased Property pursuant to any provision hereof, any Adjustment Price or Maximum Lessee Risk Amount payable pursuant to Article 30, any

Reinvestment Premium, any amounts payable pursuant to Article 21 hereof or as liquidated damages pursuant to paragraph (c) of Article 22 hereof and any indemnity payments payable pursuant to Articles 8 and 9 hereof), together with every fine, penalty, overdue interest and cost which may be added for nonpayment or late payment thereof, shall constitute additional rent hereunder (all of the foregoing, Additional Rent). In the event of any failure by Lessee to pay or

-----  
discharge any such Additional Rent, Lessor shall have all rights, powers and remedies provided for herein or by law or otherwise in the case of nonpayment of Basic Rent. Lessee shall pay Additional Rent to Lessor (or to any other party as Lessor may from time to time specify in writing) in the same manner specified for the payment of Basic Rent or, with respect to portions of Additional Rent payable to third parties, Lessee may pay such portions of Additional Rent directly to the Persons entitled thereto. Lessee also covenants to pay to Lessor on demand as Additional Rent, interest at the Overdue Rate, but in no event greater than the maximum rate permitted by applicable law, on (i) all overdue installments of Basic Rent from the due date thereof until paid in full, (ii) all overdue amounts of Additional Rent, arising out of obligations which Lessor shall have paid on behalf of Lessee pursuant to Article 21 hereof or otherwise from the date of such payment by Lessor until paid in full and (iii) each other sum required to be paid by Lessee hereunder which is overdue, including without limitation, any Maximum Lessee Risk Amount or portion thereof, Purchase Price, Termination Value or other amounts for the Leased Properties, Adjustment Price, any Reinvestment Premium, and any amounts payable pursuant to Article 21 hereof or as liquidated damages pursuant to paragraph (c) of Article 22 hereof, from the date such sum was due until the date received by the Person entitled thereto.

(c) (i) The Termination Values, (ii) the Purchase Price, and (iii) the Maximum Lessor Risk Amount and the Maximum Lessee Risk Amount, in each case, shall be at least sufficient at all times during the Maximum Lease Term to pay all outstanding principal and accrued and unpaid interest under the indebtedness evidenced by the Notes, to pay to Lessor the amount of the outstanding Equity Investment and accrued and unpaid Equity Return and to pay the Reinvestment Premium, if any, payable under the Notes and in respect of the Equity Investment. The foregoing shall in no event constitute or be construed as a guarantee by Lessee of the Notes and/or the Equity Investment.

4. Use. Lessee may use Capital One Operations Center as an operations

---  
center for it and Guarantor and each of Knolls Office Building, Knolls Two Phase Three, Renaissance Business Park Phase I and Renaissance Business Park Phase II as a first-class office facility and for accessory parking and other ancillary uses. With the prior written consent of Lessor, Indenture Trustee and LC Issuer, which consent will not be unreasonably withheld, Lessee may use any Leased Property for any other lawful use that Lessee certifies (i) is not generally hazardous or offensive, (ii) does not, in Lessee's good faith determination, adversely affect the fair market value, utility or useful life of such Leased Property and (iii) does not violate any applicable Legal Requirement, Ground Lease, as applicable, or insurance required hereunder to be maintained thereon.

5. Net Lease; Nonterminability; Subordination of Indenture

-----

(a) This Lease is a "net lease" and Lessee shall pay all Basic Rent and Additional Rent without notice, demand, counterclaim, set-off, deduction, or defense, and without abatement, suspension, deferment, diminution or reduction, free from any charges, assessments, impositions, expenses or deductions of any and every kind or nature whatsoever including, without limitation (i) any right Lessee may have against Lessor, any Ground Lessor, any contractor or any other Person for any reason (whether in connection with this transaction or any other transaction), (ii) any breach, default or misrepresentation by Lessor or any other Person under this Lease or any other Operative Document to which it is a party or (iii) any invalidity or unenforceability in whole or in part of this Lease or any other document or instrument relating to the transactions evidenced hereby or any other Operative Document to which it is a party, or any other infirmity herein or therein, or any lack of power or authority of any party to this Lease, or any other document or instrument related to the transactions evidenced hereby. All costs, expenses and obligations of every kind and nature whatsoever relating to each Leased Property and the appurtenances thereto and the use and occupancy thereof by Lessee or anyone claiming by, through or under Lessee as Lessee hereunder which may arise or become due during or with respect to the period constituting the Term of this Lease shall be paid by Lessee, and Lessee shall indemnify Lessor against any of the foregoing as provided in Article 8. Lessee assumes, during the Term of this Lease, the sole responsibility for the physical and environmental condition, use, operation, maintenance and management of each Leased Property, and Lessee shall indemnify Lessor with respect to the foregoing as provided in Article 8, and Lessor shall have no responsibility in respect thereof and shall have no liability for damage to the property of Lessee on any account or for any reason whatsoever, except as specifically provided in Article 8.

(b) Except as otherwise expressly provided in paragraph (b) of Article 2, paragraph (c) of Article 12, clause (ii) of paragraph (b) of Article 22 hereof, Article 28, paragraph (d) of Article 37 and clause (ii) of paragraph (b) of Article 38 (with respect to the affected Leased Property but not as to the Exchange Property), this Lease shall not terminate as to any Leased Property, nor shall Lessee have any right to terminate this Lease as to any Leased Property, nor shall Lessee be entitled to any abatement or reduction of rent hereunder, nor shall Lessee have the right to be released or discharged from any obligations or liabilities hereunder for any reason, including without limitation, any damage to or destruction of all or part of any Leased Property; any restriction, deprivation (including eviction) or prevention of, or any interference with, any use or the occupancy of any Leased Property (whether due to any defect in or failure of Lessor's title to any Leased Property, any Lessor Lien or otherwise); any condemnation, requisition or other taking or sale of the use, occupancy or title to any Leased Property; any action, omission or breach on the part of any Ground Lessor or Lessor under any of the Ground Leases or on the part of Lessor under this Lease or under any other agreement between Lessor and Lessee; the inadequacy or failure of the description of any Leased Property to demise and let to Lessee the

property intended to be leased hereby; Lessee's acquisition of ownership of any Leased Property or any sale or other disposition of any Leased Property; the impossibility or illegality of performance by Lessor or Lessee or both; the failure of Lessor to deliver possession of any Leased Property on the Basic Term Commencement Date; the inability or failure of Lessor to take leasehold title to any of the Land Parcel under any Ground Lease; any environmental condition affecting any Leased Property; any action of any court, administrative agency or other governmental authority; or any other cause, whether similar or dissimilar to the foregoing, any present or future law notwithstanding.

(c) Lessee will remain obligated under this Lease in accordance with its terms, and will not take any action to terminate (except as otherwise expressly provided in paragraph (b) of Article 2, paragraph (c) of Article 12, clause (ii) of paragraph (b) of Article 22, Article 28, paragraph (d) of Article 37 and clause (ii) of paragraph (b) of Article 38 (with respect to the affected Leased Property not as to the Exchange Property)), rescind or avoid this Lease for any reason, notwithstanding any bankruptcy, insolvency, reorganization, liquidation, dissolution or other proceeding affecting Lessor, or any assignee of Lessor, or any action with respect to this Lease which may be taken by any receiver, trustee or liquidator, or any assignee of Lessor or by any court in any such proceeding. Lessee waives all rights at any time conferred by statute or otherwise to quit, terminate (except as otherwise expressly provided in paragraph (b) of Article 2, paragraph (c) of Article 12, clause (ii) of paragraph (b) of Article 22, Article 28, paragraph (d) of Article 37 and clause (ii) of paragraph (b) of Article 38 (with respect to the affected Leased Property not as to the Exchange Property)) or surrender (except upon a return of the Leased Properties pursuant to Article 28 and then in accordance with Article 26) this Lease or any Leased Property or to any abatement or deferment of any Basic Rent, Additional Rent or other sum payable by Lessee hereunder, or for damage, loss or expense suffered by Lessee on account of any cause referred to in this Article 5 or otherwise.

(d) This Lease and all rights of Lessee hereunder are subordinate to the Indenture unless the Indenture Trustee elects, upon notification by the Indenture Trustee to Lessee, for the Indenture to be subordinate to this Lease and such rights.

(e) If any act or omission of Lessor would give Lessee the right, immediately or after the lapse of a period of time, to cancel or terminate this Lease, or to claim a partial or total eviction, Lessee shall not exercise such right until (i) Lessee gives notice of such act or omission to Lessor and to the Indenture Trustee, and (ii) a reasonable period of time for remedying such act or omission elapses following the time when the Indenture Trustee becomes entitled under the Indenture to remedy same (which reasonable period shall in no event be less than the period to which Lessor is entitled under this Lease or otherwise, after similar notice, to effect such remedy).

(f) If the Indenture Trustee succeeds to the rights of Lessor under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed, then, at the request of the Indenture Trustee and upon the Indenture Trustee's written agreement to accept Lessee's attornment, Lessee shall attorn to and recognize the Indenture Trustee as Lessee's landlord under this Lease and shall promptly execute and deliver any instrument that the Indenture Trustee shall reasonably request to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between the Indenture Trustee and Lessee upon all of the terms and conditions set forth in this Lease except that the Indenture Trustee shall not be (i) liable for any previous act or omission of Lessor under this Lease, (ii) subject to any offset which had accrued to Lessee against Lessor, (iii) obligated to complete any construction of the Leased Properties, (iv) obligated to make any payment to or on behalf of Lessee, (v) required to account for any security deposit other than any actual delivered to the Indenture Trustee, or (vi) bound by any previous modification of this Lease or by any prepayment of more than one month's Basic Rent or Additional Rent unless such modification or prepayment was expressly approved in writing by the Indenture Trustee through or by reason of which the Indenture Trustee succeeded to the rights of Lessor under this Lease.

(g) If the Indenture Trustee requires any modification of this Lease, Lessee shall, upon notice thereof from Lessor, promptly execute and deliver to Lessor the instrument accompanying said notice from Lessor to effect such modification if such instrument is reasonable and does not adversely affect in any respect any of Lessee's rights under this Lease and does not increase in any respect any of Lessee's obligations under this Lease.

6. Taxes and Other Charges; Law and Agreements.

-----

(a) Lessee shall pay and discharge, on or before the last day upon which the same may be paid without interest or penalty, and shall indemnify each Indemnified Party on an after tax basis, from and against, all taxes, including any tax based upon or measured by gross rentals or receipts from any Leased Property, assessments, levies, fees, water and sewer rents and other governmental and similar charges, general and special, ordinary or extraordinary, and whether or not the same shall have been within the express contemplation of the parties hereto, and any interest and penalties thereon, however imposed, whether levied or imposed upon Lessor, Lessee, any Indemnified Party, any Leased Property or any portion thereof, by any federal, state or local government or taxing authority in the United States of or by any taxing authority or governmental subdivision of any other country, upon or with respect to (i) the transactions including, without limitation, any documentary stamp tax or any intangible personal property tax on the Lessor or any other Indemnified Party, (ii) the Leased Property or any portion thereof or interest therein or the interest of Lessee or Lessor or any Indemnified Party therein, (iii) Basic Rent or Additional Rent or other sums payable by Lessee hereunder, (iv) this Lease or the interest of Lessee or any Indemnified Party hereunder, (v) the use, occupancy, construction, purchase, ownership, maintenance, operation, repair, rebuilding, possession, repossession, sale or disposition of any

Leased Property or any portion thereof or (vi) gross receipts from any Leased Property. If any tax or assessment levied or assessed against any Leased Property may legally be paid in installments, Lessee shall have the option to pay such tax or assessment in installments; provided, however, that upon the termination or expiration of the Term of this Lease, as the same be extended pursuant to the terms hereof, Lessee shall pay any such tax or assessment which it has been paying in installments in full on or prior to such termination or expiration date. Nothing in this Lease shall require payment by Lessee of any franchise, estate, inheritance, succession, transfer, net income or profits taxes of Lessor or any other Indemnified Party (including any minimum taxes and withholding taxes), except for transfer taxes, recording fees, or similar charges payable in connection with a conveyance hereunder to Lessee or in connection with Lessor's exercise of remedies after an Event of Default hereunder and any gross receipts or similar taxes imposed or levied upon, assessed against or measured by the Basic Rent, Additional Rent or any other sums payable by Lessee hereunder or levied upon or assessed against any Leased Property, unless such taxes are in substitution for an income, profit or revenue tax of Lessor or any other Indemnified Party, but then only to the extent of such substitution and only to the extent that such tax, assessment or other charge would be payable if such Leased Property were the only property of Lessor subject thereto (the foregoing, collectively, Excluded Taxes). Lessee shall

-----  
prepare and file on a timely basis all returns and other materials required in connection with any taxes, assessments or other charges that Lessee is required to pay pursuant to this Article 6. Lessee shall furnish to Lessor promptly, and in any event within 30 days after the later of the date the same becomes due and payable and the date of written demand by Lessor, as the case may be, proof of the payment of any such tax, assessment, fee, rent or charge which is payable by Lessee and, upon written demand of Lessor, proof of the filing of all returns and other materials required in connection therewith. The indemnity contained in this Article 6 shall continue in full force and effect notwithstanding the expiration or earlier termination of this Lease and are expressly made for the benefit of, and shall be enforceable by, Lessor and each other Indemnified Party.

(b) Lessee shall pay all charges for utility, communication and other services to the extent rendered or used during the Term of this Lease on or about each Leased Property, whether or not payment therefor shall become due after the expiration of the Term of this Lease.

(c) Lessee shall at all times during the Term of this Lease, at Lessee's own cost and expense, perform and comply with all Legal Requirements (except to the extent any exemption or so called "grandfathering" provision is available to Lessee), whether or not such Legal Requirements so involved shall necessitate structural changes, improvements, interference with use and enjoyment of any Leased Property, replacements or repairs, extraordinary as well as ordinary, and Lessee shall so perform and comply, whether or not such Legal Requirements shall now exist or shall hereafter be enacted or promulgated, and whether or not such Legal Requirements can be said to be within the present contemplation of the parties hereto. Lessee shall at all times during the Term of this Lease, at Lessee's own cost and expense, perform and comply with the terms of any easement granted or released pursuant to Article 32 hereof and

shall perform all of the obligations of the grantor or releasor under the related instrument of grant or release. Lessee shall, at its expense, comply with all provisions of insurance policies required pursuant to Article 13 hereof, and with the provisions of all contracts, agreements, instruments and restrictions existing at the commencement of this Lease or thereafter suffered or permitted by Lessee, affecting any Leased Property or any part thereof or the ownership, occupancy, use, operation or possession thereof.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Article 6 and those of Article 7, Lessee shall have the right to contest, by appropriate legal proceedings, any tax, charge, levy, assessment, lien or other encumbrance, and/or any Legal Requirement affecting any Leased Property, and to postpone payment of or compliance with the same during the pendency of such contest, provided that (i) the commencement and continuation of such proceedings shall suspend the collection thereof from, and suspend the enforcement thereof against, Lessor and any Leased Property, (ii) no part of any Leased Property nor any Basic Rent or Additional Rent or other sums payable by Lessee hereunder shall be in danger of being sold, forfeited, attached or lost, (iii) there shall not exist (x) any interference with the use and occupancy of any Leased Property or any part thereof, or (y) any interference with the payment of Basic Rent or any Additional Rent (other than the portion subject to the contest), (iv) Lessee shall promptly prosecute such contest to a final settlement or conclusion or, if Lessee deems it advisable to abandon such contest, Lessee shall promptly pay or perform the obligation which was the subject of such contest and (v) at no time during the permitted contest shall there be a risk of the imposition of criminal liability on Lessor arising from non-payment of the contested item or non-compliance with the contested Legal Requirement. If any Default or Event of Default hereunder shall have occurred and be continuing, or any such contest or contests, individually or in the aggregate, at any one time pending with respect to any Leased Property shall involve an amount of money or potential loss (including fines and similar charges) in excess of \$300,000, plus any security theretofore provided pursuant to this provision, then Lessee shall either (i) deposit with the Depositary (as defined in subparagraph (i) of paragraph (b) of Article 12 of this Lease) an amount equal to 100% of the tax, charge, levy, assessment, lien or other encumbrance affecting such Leased Property, which amount may be invested in accordance with the terms and provisions set forth in subparagraph (iv) of paragraph (b) of Article 12 of this Lease or (ii) post an equivalent bond, or letter of credit from an institution (other than Lessee or its Affiliates) meeting the requirements to be a Depositary under this Lease, for security. Lessee shall not postpone the payment of any such tax, charge, levy, assessment, lien or other encumbrance for such length of time as shall permit any Leased Property, or any lien thereon created by such item being contested, to be sold by federal, state, county or municipal authority for the non-payment thereof; Lessee shall not postpone compliance with any such law, rule, order, ordinance, regulation or other governmental requirement if Lessor will thereby be subject to criminal prosecution, or if any municipal or other governmental authority shall be in a position according to applicable law to commence and carry out any work to comply with the same or to



foreclose or sell any lien affecting all or part of any Leased Property which shall have arisen by reason of such postponement or failure of compliance.

(e) In the event of the expiration or termination of this Lease as herein provided or Lessee's abandonment of any Leased Property, the obligations and liabilities of Lessee with respect to each Indemnified Party, actual or contingent, under this Article 6 shall survive such termination or abandonment.

7. Title; Liens. Lessee represents and warrants to, and covenants with,  
-----

Lessor that Lessor has and shall have good fee simple title to (or, with respect to Knolls Two Phase Three, Renaissance Business Park Phase I and Renaissance Business Park Phase II, so long as the respective Ground Leases are in effect, a valid ground leasehold interest in) each and every Leased Property, subject only to Permitted Encumbrances, and that Lessee shall warrant and defend the same to Lessor against the lawful claims and demands of all Persons. Subject to the provisions of paragraph (d) of Article 6, Lessee will promptly, but in any event no later than the earlier of 30 days after its Actual Knowledge of the filing thereof or the enforcement of the same, at its own expense, remove, satisfy or discharge of record, by bond or otherwise, any charge, lien, security interest or encumbrance upon any Leased Property, upon any Basic Rent, or upon any Additional Rent or other sums payable by Lessee under this Lease which arises for any reason (except for Lessor Liens and any other acts or omissions of Lessor or anyone claiming by, through or under Lessor, without the consent of Lessee), including all liens which arise out of Lessee's possession, use, operation and occupancy of any Leased Property, but not including any Permitted Encumbrances. Nothing contained in this Lease shall be construed as constituting the consent or request of Lessor, express or implied, to or for the performance by any contractor, laborer, materialman, or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to any Leased Property or any part thereof. Notice is hereby given that Lessor will not be liable for any labor, services or materials furnished or to be furnished to Lessee, or to anyone holding an interest in any Leased Property or any part thereof through or under Lessee, and that no mechanic's or other liens for any such labor, services or materials shall attach to or affect the interest of Lessor in and to any Leased Property. In the event of the failure of Lessee to discharge any charge, lien, security interest or encumbrance within the time period set forth above and otherwise as aforesaid, except during the pendency of any contest permitted and conducted pursuant to paragraph (d) of Article 6, after five days prior notice to Lessee (or after shorter notice or without notice if prudent under the circumstances to prevent enforcement or other action against Lessor or any Leased Property), Lessor may discharge such items by payment or bond or both, and Lessee will repay to Lessor, upon demand, any and all amounts paid therefor, or by reason of any liability on such bond, and also any and all reasonable incidental expenses, including reasonable attorneys' fees and disbursements, incurred by Lessor in connection therewith.

8. Indemnification; Fees and Expenses. Lessee shall pay, and shall

-----  
protect, defend and indemnify each Indemnified Party against and hold each Indemnified Party harmless from all liabilities, losses, damages, costs, expenses (including reasonable attorneys' fees and expenses), claims, demands or judgments of any nature to the extent (a) arising or alleged to arise from or in connection with the condition, use, operation, maintenance, subletting and management of any Leased Property, (b) relating to any Leased Property and the appurtenances thereto and the use and occupancy thereof by Lessee or anyone claiming by, through or under Lessee or (c) arising or alleged to arise from or in connection with any of the following events: (i) any injury to, or the death of, any person or any damage to or loss of property on or adjacent to any Leased Property or growing out of or directly or indirectly connected with, or alleged to grow out of or be directly or indirectly connected with, the ownership, use, nonuse, occupancy, operation, possession, condition, construction, repair or rebuilding of any Leased Property or adjoining property, sidewalks, streets or ways or resulting, or alleged to result, from the condition of any thereof, other than and only to the extent of any injury, death, damage or loss arising solely out of such Indemnified Party's gross negligence or willful misconduct provided, however, such exception shall not apply in respect of Lessor or any liability which is imputed to Lessor or any assignee solely by reason of its interest in any Leased Property under this Lease; (ii) any claims by third parties to the extent resulting from any violation or alleged violation by Lessee of (A) any provision of this Lease, or (B) any Legal Requirement affecting any Leased Property, or (C) any lease (other than this Lease) or other agreement relating to any Leased Property as of the date hereof or hereafter in effect to which Lessee is a party or by which Lessee is bound, or (D) any contract or agreement to which Lessee is a party, or any restriction, law, ordinance or regulation, affecting any Leased Property or the ownership, use, nonuse, occupancy, condition, operation, possession, construction, repair or rebuilding thereof or of adjoining property, sidewalks, streets or ways; (iii) any contest permitted by paragraph (d) of Article 6; or (iv) Lessee's failure to pay in accordance with the terms and provisions hereof any item of Additional Rent payable by Lessee hereunder or (d) which may be imposed upon, incurred by or asserted against any Indemnified Party in any way relating to or arising out of (i) this Lease or the enforcement of any of the terms hereof and thereof (other than by Lessee), including, without limitation, relating to amendments, supplements, adjustments, waivers, consents, releases, substitutions, terminations and refinancings or (ii) the acquisition or ownership of the Beneficial Interests by Beneficiary including, without limitation, fees, expenses, taxes set forth in the Sale and Assignment Agreement (BI Interests) or the failure to so acquire such Beneficial Interests as set forth in such Agreement. Lessee shall not be liable in any case to any Indemnified Party for any liabilities, obligations, claims, damages, penalties, causes of action, costs or expenses to the extent that they result solely from the gross negligence or willful misconduct of such Indemnified Party; provided that the exclusion with respect to gross negligence and willful misconduct in this sentence shall not apply to ordinary negligence, as to which Lessee shall indemnify each Indemnified Party pursuant to this Article 8. The foregoing shall not be construed to give rise to any third party beneficiary rights with respect to any Person who is not an Indemnified Party. If any Indemnified Party shall be made a party to any such litigation commenced against Lessee, and if Lessee, at its

expense, shall fail to provide such Indemnified Party or its agent with counsel approved by such Indemnified Party, as applicable, which approval shall not be unreasonably withheld, Lessee shall pay all reasonable costs and attorney's fees and expenses incurred or paid by such Indemnified Party in connection with such litigation. Nothing in this Article 8 is meant to limit or otherwise impair the indemnification set forth in Article 9. To the extent legally permissible, the Indemnified Parties consent to being represented by the same counsel as Lessee in such action; provided, however, that any Indemnified Party may be represented by separate counsel selected by such Indemnified Party and reasonably acceptable to Lessee, at Lessee's expense if, in such Indemnified Party's reasonable judgment, separate counsel is necessary to protect such Indemnified Party's interest. The indemnity contained in this Article 8 shall continue in full force and effect notwithstanding the expiration or earlier termination of this Lease and are expressly made for the benefit of, and shall be enforceable by, Lessor and each other Indemnified Party.

9. Environmental Matters.  
-----

Lessee represents and warrants (with respect to statements made as of a particular date) and covenants (with respect to future or ongoing obligations) to the Indemnified Parties that:

- (i) at all times during the Term of this Lease, each and every Leased Property, Lessee, all sublessees and any assignee of Lessee shall comply in all material respects with all applicable Environmental Laws, including the effecting of cures in compliance with Environmental Laws, if applicable; Lessee has, and has ensured that all sublessees of each Leased Property have, obtained all permits, licenses, and any other authorizations to conduct operations at such Leased Property that are required under all applicable Environmental Laws as of the Basic Term Commencement Date and shall obtain and shall ensure that all sublessees of such Leased Property shall obtain, at all times during the Term of this Lease, all permits, licenses, and any other authorizations to conduct operations at such Leased Property that are now or hereafter required under all Environmental Laws; Lessee is, and has ensured that all sublessees of each Leased Property are, in compliance in all material respects with all terms and conditions of all permits, licenses, and any other authorizations required under all applicable Environmental Laws as of the Basic Term Commencement Date and Lessee shall, and shall ensure that all sublessees of each Leased Property shall, comply in all material respects with all terms and conditions of all permits, licenses, and any other authorizations now or hereafter required under all applicable Environmental Laws; Lessee shall cause any alterations of, or construction on, each Leased Property to be done in accordance in all material respects with applicable Environmental Laws, and in connection with any such alterations or construction, shall remove and dispose of, in compliance with applicable Environmental Laws, any Hazardous Substances present upon any Leased Property other than lawful

quantities of Hazardous Substances used in compliance with Environmental Laws in connection with Lessee's intended use of each Leased Property in accordance with the provisions of Article 4, where such uses will have no material adverse effect upon such Leased Property;

- (ii) as of the Basic Term Commencement Date, no notices, complaints or orders of violation or non-compliance of any nature whatsoever regarding alleged violations of, or strict liability under, Environmental Laws have been issued to Lessee or, to the best of its knowledge, to any Person regarding any Leased Property, and no federal, state or local governmental environmental investigation or legal action by a private party is pending or overtly threatened, in each case with regard to any Leased Property or any use thereof or any alleged violation of, or strict liability arising under, Environmental Laws with regard to any Leased Property; no liens have been placed upon any Leased Property in connection with any actual or alleged liability under any Environmental Laws;
- (iii) no Leased Property (a) as of the Basic Term Commencement Date has been used by Lessee or, to the best of Lessee's knowledge after due inquiry, by any other Person to generate, manufacture, refine, produce or process any Hazardous Substance or to store, handle, treat, dispose, transfer or transport any Hazardous Substance (other than as set forth in Schedule D or other than normal and lawful uses of such Hazardous Substances in lawful quantities and in compliance with Environmental Laws in connection with Lessee's intended use of any Leased Property in accordance with the provisions of Article 4), where such uses would have a material adverse effect upon such Leased Property, and (b) will be used by Lessee or any other Person at any time during the Term of this Lease to generate, manufacture, refine, produce or process any Hazardous Substance or to store, handle, treat, dispose, transfer or transport any Hazardous Substance or, other than normal and lawful uses of such Hazardous Substances in lawful quantities and in compliance with Environmental Laws in connection with Lessee's intended use of any Leased Property in accordance with the provisions of Article 4, where such uses would have a material adverse effect upon such Leased Property or;
- (iv) as of the Basic Term Commencement Date, no surface impoundments are (and during the Term of this Lease, none will be) constructed, operated or maintained in or on any Leased Property and no above ground tanks or other containment structures will be constructed, operated or maintained on any Leased Property in violation of applicable Environmental Laws and no underground storage tanks are (and during the Term of this Lease, none will be) constructed, operated or maintained in or on any Leased Property; as of the Basic Term Commencement Date, to the best of Lessee's knowledge after due inquiry, there is no asbestos nor

asbestos-containing material (except commercially produced product in non-friable bonded form, the presence of which complies with all Environmental Laws) located in, on, at or under any Leased Property nor is there any PCB-containing equipment, including PCB-containing transformers located in, on, at or under any Leased Property nor will any of the foregoing be located in, on, at or under any Leased Property at any time during the Term of this Lease;

- (v) as of the Basic Term Commencement Date, other than as set forth in Schedule D, each Leased Property is free of Hazardous Substances at, in, on, over or under such Leased Property, except in lawful quantities and in compliance with Environmental Laws regardless of the source of any such Hazardous Substances; and
- (vi) at all times during the Term of this Lease, other than normal and lawful uses of such Hazardous Substances in lawful quantities and in compliance with Environmental Laws in connection with Lessee's intended use of each Leased Property in accordance with the provisions of Article 4, where such uses will have no material adverse effect upon any Leased Property, each Leased Property shall be maintained free of Hazardous Substances at, in, on, over or under such Leased Property, regardless of the source of any such Hazardous Substances.

Promptly upon obtaining Actual Knowledge thereof, Lessee shall give to Lessor notice of the occurrence of any of the following events: (i) the failure of any Leased Property, any Ground Lessor, Lessee, any sublessee or assignee of Lessee to comply with any Environmental Law in any material manner whatsoever; (ii) the issuance to Ground Lessor, Lessor, Lessee, or any sublessee of space in any Leased Property or any assignee of Lessee, of any notice, complaint or order of violation or non-compliance of any nature whatsoever with regard to such Leased Property or the use thereof with respect to Environmental Laws; (iii) any notice of a pending or threatened investigation to determine whether Ground Lessor's, Lessor's, Lessee's (or any sublessee's or assignee's) operations on any Leased Property are in violation of any Environmental Law; (iv) any notice from any governmental agency requiring any corrective action with respect to any Leased Property or any portion thereof under any Environmental Law; (v) any notice or other communication with respect to a pending or threatened private party judicial or administrative action relating to violation of any Environmental Law in connection with the use, occupancy or operation of any Leased Property; (vi) the existence or threat of a release of a Hazardous Substance at any Leased Property or any condition regulated by any Environmental Law which is or must be reported to a governmental agency or that could have a material adverse effect upon such Leased Property; or (vii) any other occurrence or discovery or any condition at any Leased Property related to Environmental Laws and which would constitute a material adverse effect on such Leased Property.

At any time if Lessor receives notice that an adverse change in the environmental condition of any Leased Property has occurred or that an adverse environmental condition with respect to any Leased Property has been discovered, Lessor shall give notice thereof to Lessee, and if Lessee shall not (i) diligently commence to cure such condition, to the extent necessary to meet Legal Requirements or comply fully with applicable Environmental Laws or to prevent a diminution in the fair market value of such Leased Property related to such environmental condition, within 30 days after receipt of such notice (or such shorter period as may be required by law or in the event of an emergency) and (ii) thereafter diligently prosecute to completion such cure, then Lessor may cause to be performed an environmental audit or risk assessment of such Leased Property and the then uses thereof, and may take such actions as it may reasonably deem necessary to cure such condition. Notwithstanding the foregoing right to conduct audits or assessments, Lessor shall not be obligated to conduct such audits or assessments or to take any actions in response to any findings. Such environmental audit or assessment shall be performed by an environmental consultant satisfactory to Lessor and shall include a review of the uses of such Leased Property and compliance of the same with all Environmental Laws. All costs and expenses reasonably incurred by Lessor in connection with such environmental audit or assessment and any remediation required shall be paid by Lessee upon demand.

Lessee agrees to indemnify, defend and hold harmless each Indemnified Party from and against any and all losses, liabilities, damages, judgments, decrees, orders, penalties, claims, charges, costs and expenses (including, without limitation, fees and disbursements of counsel, consultants and expert witnesses for such Indemnified Party), which may be suffered or incurred by, or asserted against such Indemnified Party to the extent arising directly or indirectly out of any violation of this Article 9 or out of the use, storage, transportation, disposal, treatment, release, threatened release, discharge, emission, generation or presence of any Hazardous Substances at, from, on, over, under or in any Leased Property, regardless of whether occurring before, during or after the Term of this Lease and regardless of the source of any such Hazardous Substances, provided, that no Indemnified Party will be indemnified by Lessee hereunder for environmental contamination to the extent caused solely by the grossly negligent acts of such Indemnified Party, its employees, agents or assigns, other than at the direction of Lessee or resulting from Lessee's failure to comply with this Article 9, and with respect to Lessor, other than any such liability which is imputed to Lessor (and not due solely to Lessor's own gross negligence or willful misconduct), by reason of its interest in any Leased Property under this Lease.

The warranties and obligations of Lessee, and the rights and remedies of each Indemnified Party under this Article 9 are in addition to and not in limitation of any other warranties, obligations, rights and remedies provided in this Lease or otherwise at law or in equity.

In the event of the termination of this Lease as to any Leased Property as herein provided or Lessee's abandonment of any Leased Property, the obligations and liabilities of Lessee with respect to each Indemnified Party, actual or contingent, under this Article 9 and relating to the period through the end of the Term of this Lease, whether arising before or after the end of the Term of this Lease, shall survive such termination or abandonment.

10. Maintenance and Repair; Additions.

-----

(a) Lessee acknowledges that it has received each Leased Property in good condition, repair and appearance on and as of the Basic Term Commencement Date. Lessee will, at its cost and expense, keep and maintain each Leased Property, including any altered, rebuilt, additional or substituted buildings, structures and other improvements thereto including, without limitation, Additions permitted by and in accordance with paragraph (c) of this Article 10, in the same condition as existed on the Basic Term Commencement Date, ordinary wear and tear excepted, and (except as otherwise provided in paragraph (c) of Article 12) will make all structural and non-structural, and ordinary and extraordinary changes, repairs and replacements, foreseen or unforeseen, which may be required, whether or not caused by its act or omission, to be made upon or in connection with the improvements to any Leased Property in order to keep the same in such condition, ordinary wear and tear and the circumstances described in paragraph (c) of Article 12 excepted, including taking, or causing to be taken, action necessary to maintain each Leased Property in compliance in all material respects with any applicable Legal Requirements, including all applicable Environmental Laws. Lessee covenants to perform or observe all terms, covenants or conditions of any reciprocal easement or maintenance agreement to which it may at any time be a party or to which any Leased Property is subject as of the Basic Term Commencement Date with respect to such Leased Property. Lessee shall, at its expense, use its best efforts to enforce compliance in all material respects with any reciprocal easement, maintenance or other agreement benefitting any Leased Property by any other Person subject to such agreement. Lessor shall not be required to maintain, alter, repair, rebuild or replace any improvements on any Leased Property or to maintain any Leased Property, and Lessee expressly waives the right to make repairs at the expense of Lessor pursuant to any law at any time in effect. If Lessee shall abandon any Leased Property, it shall give Lessor immediate notice thereof.

(b) If Lessor or any appropriate authority determines that any Improvements situated on any Leased Property at any time during the term of this Lease shall encroach upon any property, street or right-of-way adjoining or adjacent to any Leased Property, or shall violate the agreements or conditions contained in any restrictive covenant affecting any Leased Property or any part thereof, or shall impair the rights of others under or obstruct any easement or right-of-way to which any Leased Property is subject, then, promptly after the written request of Lessor, Lessee shall, at its expense, either (i) obtain effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation, impairment or obstruction whether the same shall affect Lessor, Lessee or both, or (ii) make such changes in the improvements on such Leased Property and take such other action as shall be necessary to remove such encroachments or obstructions and to end such violations or impairments, including, if necessary, the alteration or removal of any improvement on such Leased Property. Any such alteration or removal shall be made in conformity with the following requirements of this Article 10 to the same extent as if such alteration or removal were an alteration under the provisions of paragraph (c) of this Article 10 and there shall be no abatement of rent by reason of such alteration or removal.

(c) During the Term of this Lease, so long as no Default or Event of Default hereunder has occurred and is continuing, after notice to Lessor and upon Lessor's consent, to the extent required, Lessee may make any alterations, additions, modifications or improvements to any Leased Property whether or not structurally integrated with the existing Improvements on such Leased Property (each an Addition), provided that, (A) no such Addition (i) reduces the fair

-----  
market value of such Leased Property, taking into account any increase in the fair market value of such Leased Property caused by prior improvements to such Leased Property made by Lessee as permitted by this Lease at any time during the Maximum Lease Term, adversely affects the structural integrity of such Improvements, or impairs the utility or operation of such Leased Property; (ii) reduces the remaining useful life of such Improvements; or (iii) violates any agreement or restriction (x) to which such Leased Property is subject or (y) which benefits such Leased Property, and (B) Lessee shall finance construction of any Addition (i) using its own funds or (ii) through a borrowing unsecured by any interest in any Leased Property or any portion thereof. With respect to a Leased Property, any structural Addition (other than the Addition to the parking garage under construction on the Leased Properties known as Renaissance Business Park Phase I and Renaissance Business Park Phase II) the cost of which exceeds an amount equal to (i) 10% of the Cost of the Property of such Leased Property or, (ii) if greater, 10% of the fair market value of such Leased Property as determined by the then most recent Appraisal of such Leased Property, shall require Lessor's prior written consent. Each Addition shall be made in a good and workmanlike manner using a quality of material and workmanship at least as good as the original work or installation of such Improvements and otherwise in conformance with the character and quality of such existing Improvements and in compliance with all applicable Legal Requirements. Before undertaking any Addition, Lessee shall deliver to Lessor an Officer's Certificate with respect to satisfaction of the conditions set forth in the foregoing clauses (A) and



(B) and upon the reasonable request by Lessor, fair market value and the remaining useful life of such Improvements shall be determined by an Appraisal of such Leased Property, performed at Lessee's sole cost and expense. Each Addition shall be made at the sole cost and expense of Lessee, may not be encumbered and shall become the property of Lessor and subject to this Lease and any other Permitted Encumbrances affecting the related Leased Property. At Lessor's request, from time to time, Lessee shall within five Business Days thereafter execute and deliver to Lessor a lease supplement with respect to any such Additions. Lessee's execution of a lease supplement for any such Addition shall constitute (i) Lessee's acknowledgment and certification that any work associated therewith complies with the requirements of this Article 10 and (ii) as between Lessor and Lessee and for purposes of this Lease but for no other purpose, Lessee's unconditional and irrevocable acceptance of such Addition for lease hereunder, which acceptance shall not constitute a waiver of any rights, against third parties. Notwithstanding anything to the contrary set forth in this Article 10, Lessee may acquire and place upon, and remove from, any Leased Property from time to time personal property consisting of furnishings and equipment that are mobile and not affixed to the Land Parcel or to any portion of any Leased Property in any manner, which furnishings and equipment shall remain Lessee's property and may be encumbered by leases, purchase money or similar security interests or in any other manner.

(d) All work done in accordance with this Article 10 shall comply with the requirements of all insurance policies required to be maintained by Lessee under Article 13 hereof. Lessee shall promptly pay all costs and expenses of each such Addition, discharge all liens arising therefrom and procure and pay for all permits and licenses required in connection therewith.

11. Trade Fixtures; Inspection.  
-----

(a) Lessor acknowledges and agrees that the items of trade fixtures, machinery and equipment for each Leased Property (but specifically excluding Improvements) are and shall remain the property of Lessee (Trade Fixtures) and  
-----

be treated as "trade fixtures" for the purposes of this Lease, and Lessee may remove the same from any Leased Property at any time prior to the termination of this Lease, provided that Lessee shall repair any damage to such Leased Property resulting from such removal. Lessee may, at its own cost and expense, install or place or reinstall or replace upon or remove from any Leased Property any such Trade Fixtures. Any such Trade Fixtures shall not become the property of Lessor (other than replacements of fixtures, machinery and equipment which are the property of Lessor, which replacement shall also be the property of Lessor). Replacements of fixtures, machinery and equipment which are property of the Lessor shall be of at least equal quality to the replaced fixtures, machinery and equipment when the replaced items were new. Lessee will be responsible for the repair and maintenance of Trade Fixtures.

(b) Upon the request of Lessor, Indenture Trustee, Beneficiary or LC Issuer, Lessee shall make Lessee's records pertaining to the maintenance of each Leased Property available to

Lessor for inspection. Lessee shall permit Lessor, Indenture Trustee, LC Issuer and their respective agents, at any such party's risk and expense (except at the expense of the Lessee during a Default or an Event of Default) and after reasonable notice to visit and inspect any Leased Property, in a manner that does not unreasonably interfere with Lessee's use and operation of such Leased Property at such reasonable times and as often as may be reasonably requested, including, without limitation, to make such inspections as any such party deems necessary or desirable to insure compliance with the provisions of Article 9, Article 10, this Article 11 and Article 26.

12. Condemnation and Casualty.

-----

(a) Lessee hereby assigns to Lessor any award, compensation, insurance proceeds or other payment to which Lessee may become entitled by reason of its interest in any Leased Property (i) if any Leased Property, or any portion thereof, is damaged or destroyed by fire or other casualty or cause, or (ii) by reason of any condemnation, requisition or other taking or sale of the use, occupancy or title to any Leased Property or any portion thereof in, by or on account of any actual or threatened eminent domain proceeding or other action by any governmental authority, civil or military, or other Person having the power of eminent domain. So long as there is no Default or Event of Default continuing hereunder, Lessee is hereby authorized and empowered to, at its cost and expense, in the name and behalf of Lessor and Lessee, or otherwise, to appear in any such proceeding or other action, to negotiate, accept and prosecute any claim for any award, compensation, insurance proceeds or other payment on account of any such loss, damage or destruction, condemnation, requisition or other taking or sale and to cause any such award, compensation, insurance proceeds or other payment to be paid to Lessor provided that Lessee shall not accept any Net Award without obtaining the prior written consent of Lessor if the condemnation or casualty shall have adversely affected the fair market value of such Leased Property by \$100,000 or more (as determined by an Engineer). In addition, so long as there is no Event of Default continuing hereunder, Lessee, at its sole cost and expense, shall be entitled to submit, negotiate, accept and prosecute a claim for any award, compensation or insurance proceeds or other payment payable to Lessee to the extent payable for interruption of business, moving expenses or any property owned by Lessee that is not part of any Leased Property (any such insurance proceeds or other payment payable to Lessee to the extent made for interruption of business, moving expenses or any property owned by Lessee that is not part of any Leased Property hereinafter referred to as Lessee's Loss), and Lessee shall retain any award applicable thereto. Furthermore, Lessee shall use reasonable efforts to achieve the maximum award obtainable under the circumstances. Lessor, Indenture Trustee, Beneficiary and LC Issuer may, at their respective cost and expense (unless an Event of Default shall have occurred and be continuing hereunder in which event such appearance shall be at Lessee's sole cost and expense), appear in any such proceeding or other action, in a manner consistent with the foregoing. All amounts so paid or payable to Lessor or Lessee shall be retained by, or paid over to, the party entitled thereto in accordance with this Article 12. To the extent that Lessor, Indenture Trustee,

Beneficiary or LC Issuer does not appear and act at such proceeding, Lessee shall take all reasonable appropriate action in connection with each such claim, proceeding or other action, and shall pay its costs and expenses in connection therewith.

(b) If any Leased Property or any part thereof shall be condemned or taken in the exercise of the power of eminent domain by any sovereign, municipality or other public or private authority or shall be damaged or destroyed by fire or other casualty, and Lessee may not, or does not, elect to terminate the Lease with respect to such Leased Property pursuant to paragraph (c) of this Article 12, then Lessee shall give prompt written notice of such condemnation or casualty to Lessor and shall, at Lessee's own cost and expense, proceed with diligence and promptness to carry out any necessary demolition and to restore, repair, replace, and/or rebuild such Leased Property in order to restore such Leased Property, as nearly as practicable, to a condition and fair market value not less than the condition required to be maintained and fair market value thereof immediately prior to such taking, damage or destruction. No repair work done by Lessee pursuant to this paragraph shall violate the terms of any restriction, easement, condition or covenant or other matter affecting title to any Leased Property, and shall be undertaken and completed in a good and workmanlike manner and in compliance in all material respects with the requirements of Article 10 and with all Legal Requirements then in effect with respect to the affected Leased Property. All work done in accordance with this paragraph (b) of Article 12 shall comply with the requirements of all insurance policies required to be maintained pursuant to this Lease.

Basic and Additional Rent shall not abate hereunder by reason of any taking of, damage to or destruction of any Leased Property, and this Lease shall continue in full force and effect and Lessee shall continue to perform and fulfill all of Lessee's obligations, covenants and agreements hereunder notwithstanding such taking, damage or destruction unless and until this Lease is terminated pursuant to its terms except for those provisions which by their terms survive such termination.

If a Default or Event of Default is continuing hereunder, Lessor shall retain the Net Award in respect of a Leased Property to be applied to effect compliance with Lessee's obligations hereunder. If the Net Award in respect of a Leased Property is less than the estimated cost of restoring or rebuilding the Improvements on the affected Leased Property to the condition and fair market value required above in this paragraph (b), then Lessee shall deposit the amount by which such estimated cost exceeds the Net Award with the Depositary as described below or shall post an equivalent bond, whereupon such deposit or bonded amount shall be part of the Net Award for purposes of this paragraph (c) of this Article 12. If the Net Award in respect of a Leased Property does not constitute a Major Casualty or Condemnation Amount, provided that there is no Default or Event of Default continuing hereunder, then such Net Award shall be promptly paid to Lessee to be applied to the repair and rebuilding work required by this paragraph (b). For purposes of this Article 12, Major Casualty or Condemnation Amount means,

with respect to a Leased Property, an amount equal to (a) 5% of the Cost of the Property of such Leased Property or, if greater, 5% of the fair market value of such Leased Property as determined by the then most recent Appraisal of such Leased Property or (b) if the Guarantor's unsecured senior funded indebtedness is, at the time of such casualty or condemnation or at the time of payment of the Net Award, rated by either Moody's or S&P lower than such indebtedness is rated on the Basic Term Commencement Date the greater of (i) \$300,000 and (ii) 1% of the Cost of the Property of such Leased Property or, if greater, 1% of the fair market value of such Leased Property as determined by the then most recent Appraisal of such Leased Property. If the Net Award in respect of a Leased Property equals or exceeds a Major Casualty or Condemnation Amount, provided that there is no Default or Event of Default continuing hereunder, then:

- (i) the full amount thereof shall be paid to a depositary (the Depositary)

-----  
to be selected as hereinafter provided. The Depositary shall be either (x) Indenture Trustee, or (y) a bank or trust company located in the state in which the affected Leased Property is located, selected by Lessor which is authorized to do business in the state in which the affected Leased Property is located, and which has a net worth of \$500,000,000 or more and has a credit rating from S&P or Moody's (or any successor to either entity) of "A" or "A-2", respectively, or better. The Depositary (if other than Lessee) shall have no affirmative obligation to prosecute a determination of the amount of, or to effect the collection of, any insurance proceeds or condemnation award or awards, unless the Depositary shall have been given an express written undertaking to do so. Moneys received by the Depositary pursuant to the provisions of this Lease shall not be commingled with the Depositary's own funds and shall be held by the Depositary in trust separately for the uses and purposes provided in this Lease. The Depositary shall place any moneys held by it into an interest bearing account; any interest paid or received by the Depositary on the moneys so held in trust shall be added to the moneys so held in trust by the Depositary. In disbursing monies pursuant to clause (ii) of this paragraph (b), the Depositary may rely conclusively on the information contained in any notice given to the Depositary by Lessee in accordance with the provisions of said clause (ii), unless Lessor shall notify the Depositary in writing as provided in said clause (ii) that Lessor intends to dispute such information, in which case the disputed amount shall not be disbursed but shall continue to be held by the Depositary until such dispute shall have been resolved.

- (ii) From time to time, Lessee may request reimbursement out of the Net Award in respect of a Leased Property for the actual costs and expenses incurred by Lessee in connection with such repair and rebuilding. Such requests shall be made by written notice to the Depositary, with a copy to Lessor, setting forth in reasonable detail all of such costs and expenses then incurred by Lessee and including the following:

- (1) a certificate of a Responsible Officer of Lessee, dated not more than ten days prior to the date of the proposed draw, (A) requesting the payment of a specified amount of such Net Award; (B) describing in reasonable detail the work (including all architects', engineers' and builders' fees and expenses and other similar fees and expenses in connection with such work) and materials applied in connection with such repair and rebuilding (or materials delivered to and safely stored on the affected Leased Property, the ownership of which has passed to Lessee and which is fully insured for loss or damage including coverage for theft and malicious mischief) since the date of the last certificate of Lessee; (C) stating that such specified amount does not exceed the cost of such work and materials; (D) stating that Lessor has approved the plans and specifications with respect to such work and materials; and (E) stating that such work and materials have not previously been made the basis of any actual withdrawal of money;
- (2) a certificate of an independent engineer or an independent architect designated by Lessee (Engineer), who in either case  
-----  
shall be approved by Lessor, which approval shall not be unreasonably withheld or delayed, stating (A) that the work (including all architect' engineers' and builders' fees and expenses and other similar fees and expenses in connection with such work) and materials described in the accompanying certificates of Lessee were satisfactorily performed or furnished and were necessary, appropriate or desirable to the restoration or replacement of the Improvements in accordance with plans and specifications therefor approved by Lessor; (B) that the amount specified in such certificate of Lessee is not in excess of the cost of such work and materials; and (C) the balance of the funds being held by Lessor on an estimated basis equals or exceeds the additional amount, if any, required to complete the restoration or replacement of the Leased Properties; and
- (3) such other additional data and upon satisfaction of such other additional customary requirements (in any event including, to the extent permitted by applicable law, evidence of the obtaining and filing of no lien agreements in timely fashion, and lien waivers from every contractor and subcontractor who performs any work or supplies any material in connection with the repair and rebuilding) as Lessor may reasonably require.

Subject to the satisfaction of the foregoing conditions, the Depository shall promptly disburse (but not prior to the expiration of the five Business Day period

set forth in the next following sentence of this clause (ii) and not at any time during which a dispute shall exist between Lessor and Lessee as to such amount) to Lessee out of such Net Award the amount of such costs and expenses. If Lessor shall in good faith desire to dispute the information contained in any notice given by Lessee pursuant to this clause (ii), Lessor shall so notify Lessee and the Depositary in writing within five Business Days after the giving of such notice (the Dispute Notice), specifying the amount intended to

-----  
be disputed and the nature of the dispute, and Lessor and Lessee shall negotiate in good faith to promptly settle any such dispute. Within five days after delivery of the Dispute Notice, a duly authorized representative of Lessee and Lessor shall meet to discuss and to attempt to resolve such dispute. If no such resolution has been reached within fifteen days after delivery of the Dispute Notice, the dispute shall be referred to the Applicable Officer of Lessee and to the most senior authorized representative of Lessor charged with the administration of this Lease for resolution. Such officers shall meet to discuss and attempt to resolve such dispute within ten days after the expiration of such fifteen day period. If such parties are unable to agree on an appropriate resolution within fifteen days after the end of such fifteen day period, both parties may pursue any rights and remedies they may have hereunder, at law or in equity, and the Depositary shall hold such amounts in trust pending the outcome thereof. The failure or refusal of either Lessor or Lessee to meet and discuss any dispute as provided above shall entitle the Depositary to immediately disburse the moneys held by it at the direction of the party not so failing or refusing.

- (iii) After reimbursement in respect of a Leased Property pursuant to clause (ii) above, any remaining Net Award in respect of such Leased Property shall be paid pursuant to paragraph (b) of Article 13.
- (iv) Lessee may direct the investment of the amounts deposited with the Depositary pursuant to clause (i) above in the following:
  - (A) repurchase obligations of one or more financial institutions reasonably acceptable to Lessor at all times fully secured by direct and general obligations of the United States of America or obligations guaranteed as to principal and interest by the United States of America with a maturity date not to exceed 365 days;
  - (B) direct and general obligations of the United States of America or obligations guaranteed as to principal and interest by the United States of America with a maturity date not to exceed 365 days purchased at a price of not more than par;

(C) certificates of deposit of one or more financial institutions reasonably acceptable to Lessor at all times insured by the Federal Deposit Insurance Corporation or collateralized by obligations of the types described in the foregoing clauses (A) and (B); or

(D) commercial paper which is rated "A-1" or better (or comparable ratings) by S&P or "P-1" or better (or comparable ratings) by Moody's, or the successors to such rating organizations.

Such investments of such funds shall mature in such amounts and on such dates as to provide that amounts sufficient to pay the amounts requested, and due to, Lessee shall be available on the due dates. The Depositary shall not be liable for any loss resulting from the liquidation of any such investment in order to pay such amounts. Lessee shall be responsible for any loss of principal as a result of any investments Lessee has directed the Depositary to make or has made itself in its capacity as the Depositary.

(c) If at any time during the Term of this Lease, all or "substantially all" (as defined below) of any Leased Property shall be condemned or taken in the exercise of the power of eminent domain by any sovereign, municipality or other public or private authority or shall be damaged or destroyed by fire or other casualty or if, after any condemnation, taking or casualty of any Leased Property, and if (i) the Board of Directors of Lessee shall have, in good faith, determined that such condemnation, taking or casualty has rendered such Leased Property permanently unsuitable for continued use in Lessee's business for operations similar to those utilized by Lessee prior to the casualty or condemnation in question and (ii) Lessee shall have provided to Lessor an Officer's Certificate to that effect, then so long as there is no Default or Event of Default continuing hereunder, Lessee may give notice to Lessor of Lessee's intention to terminate this Lease with respect to such Leased Property.

"Substantially all" of a Leased Property shall be deemed to have been condemned, damaged, destroyed or taken, as the case may be, if the Board of Directors of Lessee shall have, in good faith, determined that the remaining portion of affected Leased Property shall not be of sufficient size or character to permit the continued operation by Lessee of its business operations on an economically feasible basis, assuming that such remaining portion had been repaired and restored to the fullest extent reasonably practicable.

If, pursuant to the foregoing provisions of this paragraph (c) of this Article 12, Lessee shall have determined not to restore any affected Leased Property, then Lessee shall give notice to Lessor of Lessee's intention to terminate this Lease with respect to such Leased Property not later than 120 days after the occurrence of such condemnation or taking or 90 days after the

occurrence of such casualty (subject to extension by 30 days in the event the insurer has not notified Lessee within 30 days after the occurrence of any such casualty regarding the amount of proceeds to be awarded under the applicable insurance policy), whichever is applicable. Lessee's notice to Lessor shall (i) contain a description of the relevant condemnation, taking or casualty, (ii) specify the date on which this Lease shall terminate with respect to such Leased Property which shall be the Installment Payment Date first occurring at least 60 days after such notice is given (the Termination Date), and (iii) contain the

-----  
irrevocable offer of Lessee to purchase Lessor's interest in such Leased Property (and, if applicable, the Net Award in respect thereof), on such Termination Date for the Termination Value with respect to such Leased Property but not the Reinvestment Premium. If Lessor shall reject any such offer to purchase by written notice given to Lessee not later than 30 days prior to such Termination Date, then, subject to the Indenture, this Lease shall terminate with respect to the affected Leased Property on such Termination Date and the Net Award, if applicable, in respect of such Leased Property, shall be paid and belong to Lessor. Unless Lessor shall reject such offer to purchase as provided in the preceding sentence, Lessor shall be conclusively deemed to have accepted such offer, and on such Termination Date Lessor shall transfer, and Lessee shall purchase, Lessor's interest in the affected Leased Property (and the Net Award, if applicable, in respect thereof) in accordance with the provisions of Article 16 hereof. Upon completion of such purchase, and payment by Lessee of the Allocable Percentage of the Termination Value with respect to such Leased Property, the accrued and unpaid Basic Rent due on such Termination Date, any accrued and unpaid Additional Rent then due, and any other sums owed by Lessee pursuant to Article 16 hereof, the Net Award in respect of such Leased Property shall be paid and belong to Lessee. Any Net Award or payment by Lessee of Termination Value not used for the repair and/or restoration of the affected Leased Property hereunder shall be used by Lessor to prepay the Notes in accordance with Article 13(b) hereof and the Indenture.

In the event that this Lease terminates with respect to a Leased Property as described in this Article 12, Lessee agrees to vacate and use its best efforts to dispose of such Leased Property and agrees that no use will be made of such Leased Property in the business of Lessee or any Affiliate thereof for a period of one year following the date of purchase by Lessee except for a use involving no substantial structural improvement thereon.

(d) Notwithstanding any other provision to the contrary contained in this Article 12, in the event of a temporary condemnation with respect to any Leased Property, this Lease shall remain in full force and effect and Lessee shall be entitled to the Net Award allocable to such temporary condemnation; except that any portion of the Net Award allocable to the time period after the expiration or termination of this Lease with respect to such Leased Property shall be paid to Lessor unless Lessee shall have purchased such Leased Property in accordance with the terms hereof, in which case, such portion of the Net Award shall be paid to Lessee.



13. Insurance.

-----

(a) Lessee shall, during the Term hereof, at its cost and expense, maintain or cause to be maintained valid and enforceable insurance of the following character and shall cause to be delivered to Lessor annual certificates of the insurers as to such coverage:

- (i) "all risks" property insurance (including flood insurance with respect to any Leased Property located in a flood hazard zone) covering each Leased Property and all replacements and additions thereto, and all building materials and other property which constitute part of any Leased Property in a manner consistent with insurance maintained by Lessee on properties similar to the Leased Properties and in any event in amounts for such Leased Property not less than the greater of (a) the actual replacement cost of each Leased Property less land and other uninsurable items and (b) the Termination Value of such Leased Property;
- (ii) public liability insurance covering legal liability against claims for bodily injury, death or property damage, occurring on, in or about each Leased Property and the adjoining land, streets, sidewalks or ways or occurring as a result of construction and use and occupancy of facilities located on each Leased Property or as a result of the construction thereof or the use of products or materials manufactured, processed, constructed or sold, or services rendered, on each Leased Property, in the minimum amount of \$1,000,000 with respect to any one occurrence, accident or disaster or incidence of negligence and, on each Leased Property, with umbrella excess liability coverage in the amount of \$50,000,000, which coverage should include "premises/operations", "independent contractors", and "blanket contractual" liabilities);
- (iii) insurance during the course of any construction or repair of any Improvements (including construction underway as of the date hereof) against "all risks", including collapse and transit coverage, during construction or repair of such Improvements, covering the total value of work performed and equipment, supplies and materials furnished, in an amount equal to the actual replacement cost of such Improvements less uninsurable items;
- (iv) worker's compensation insurance (or other similar insurance or self insurance program permitted and in compliance with the laws of the state where each Leased Property is located) covering all Persons employed in connection with any work done on or about each Leased Property with respect to which claims for death or

bodily injury could be asserted against Lessor, Lessee or each Leased Property, complying with the laws of the state where each Leased Property is located; and

- (v) such other insurance, in such amounts, against such risks, and with such other provisions as is customarily and generally maintained by operators of similar properties of a financial standing similar to Lessee, including war risk insurance (at and during such times as war risk insurance is commonly obtained in the case of property similar to the Leased Properties), when and to the extent obtainable.

Such insurance shall be written by reputable insurance companies of recognized financial standing and which are legally qualified to issue such insurance and shall name Lessee as insured and Lessor, the Indenture Trustee, Beneficiary, LC Issuer and each Assignee thereof as additional insured with respect to insurance described in clause (ii) or, to the extent applicable, clause (v), above, and shall name the Indenture Trustee, as loss payee, for distribution to itself with respect to insurance described in clauses (i), (iii) and, to the extent applicable, clause (v) above. Lessee shall obtain all insurance policies from insurance companies with a General Policy Rating of A:IX or better in Best's Key Rating Guide. Such insurance may provide for such deductible amounts of up to \$500,000 per occurrence and may be obtained by Lessee by endorsement on its blanket insurance policies, provided that each Leased Property shall be separately scheduled so that no loss at any other property shall reduce the amount payable with respect to such Leased Property.

- (b) Any portion of the Net Award remaining after Lessee has repaired any affected Leased Property pursuant to paragraph (b) of Article 12 shall be delivered to Lessee, provided that either the fair market value of such Leased Property after such repair is no less than the fair market value of such Leased Property immediately prior to the event of loss with respect to which such Net Award was paid, or that the aggregate amount of (i) such portion of the Net Award so remaining and (ii) all amounts theretofore paid to Lessee pursuant to this sentence, does not exceed \$250,000. If the fair market value of any affected Leased Property has been diminished, taking into account any increase in the fair market value of such Leased Property caused by prior improvements to such Leased Property made by Lessee as permitted by this Lease or such aggregate amounts exceed \$250,000, the excess shall, at Lessor's election, be retained by Lessor and applied to the partial prepayment of the principal amount of each of the Notes of the Series related to such Leased Property, together with accrued and unpaid interest, but not Reinvestment Premium, and any amounts payable pursuant to the terms thereof or in respect thereof from such excess amount and not from any additional funds of Lessee or Lessor on the next Installment Payment Date. After the retention of any such amount by Lessor, (i) each installment of Basic Rent payable thereafter shall be reduced by an amount equal to the amount of the reduction, if any, in payments of interest on the Notes resulting from the application of

such retained amount to the partial prepayment of the Notes, and (ii) the Cost of the Properties, Purchase Price, Termination Values, Maximum Lessor Risk Amount and Maximum Lessee Risk Amount shall be reduced by amounts that reflect the reductions, if any, in principal outstanding on the Notes as a result of the application of such retained amount to the partial prepayment of principal on the Notes; provided, however, that Basic Rent as so reduced shall be at least sufficient to pay each installment of interest on the Notes and the Equity Return when due, and the Purchase Price and Termination Values as so reduced shall be at least sufficient at all times during the Maximum Lease Term to pay all outstanding principal and accrued and unpaid interest under the Notes and the Equity Investment, and, in the case of Purchase Price, the Reinvestment Premium, if any. The Reinvestment Premium, if any, payable under this Lease shall at all times during the Maximum Lease Term be sufficient to pay the Reinvestment Premium as defined in and payable under the Notes plus the Reinvestment Premium as defined in and payable under this Lease with respect to the Equity Investment.

(c) In addition to the foregoing, every insurance policy maintained in accordance with paragraph (a) of this Article 13 which shall name the Indenture Trustee as loss payee, shall provide that the issuer waives all rights of subrogation against the Indenture Trustee, and any successor to the Indenture Trustee's interests in the Leased Property; and every insurance policy maintained in accordance with clauses (i), (ii), (iii) or (v) of paragraph (a) of this Article 13 shall: (i) provide that 30 days advance written notice of cancellation, modification, termination or lapse of coverage shall be given to Lessor, the Indenture Trustee, LC Issuer, Beneficiary and each Assignee and that such insurance, as to the interest of Lessor, Indenture Trustee, LC Issuer, Beneficiary and such Assignee shall not be invalidated by any act or neglect of such Persons or any other Person, nor by any foreclosure or any other proceedings relating to any Leased Property, nor by any change in the title ownership of any Leased Property, nor by use or occupation of any Leased Property for purposes more hazardous than are permitted by such policy; (ii) be primary and without right or provision of contribution as to any other insurance carried by Lessor, any Assignee or any other interested party; and (iii) in the event any insuring company is not domiciled within the United States of America, include a United States Service of Suit clause (providing any actions against the insurer by the named insured, Lessor and any Assignee are conducted within the jurisdiction of the United States of America).

(d) Nothing in this Article 13 shall prevent Lessee from taking out insurance of the kind and in the amount provided for under the preceding paragraphs of this Article under a blanket insurance policy (or certificates thereof acceptable to Lessor shall be delivered to Lessor) which may cover other properties owned, operated, leased or occupied by Lessee as well as each Leased Property; provided, however, that any such blanket insurance of the kind provided for shall: (i) specifically refer to the Leased Properties as included in the description of the insured real property and specify therein the amounts exclusively allocated to the Leased Properties (or Lessee shall furnish Lessor with a written statement from the insurers under such policies specifying the amounts of the total insurance exclusively allocated to the Leased Properties); and

(ii) not contain any clause which would result in the insured thereunder being required to create a reserve or carry any insurance with respect to the property covered thereby in order to prevent the named insureds from becoming a co-insurer of any loss with the insurer under such policy. Further, such policies of blanket insurance shall, as respects the Leased Properties, contain the various provisions required of such an insurance policy by the foregoing provisions of this Article 13.

(e) Lessee shall not obtain or carry separate insurance concurrent in form or contributing in the event of loss with that required in this Article 13 to be furnished by Lessee, unless Lessor, the Indenture Trustee, LC Issuer, Beneficiary and each Assignee are included therein additional insureds, with losses payable as in this Lease provided and otherwise complying with the requirements of paragraph (c) of this Article 13. Lessee shall immediately notify Lessor whenever any such separate insurance is obtained and shall deliver to Lessor, the Indenture Trustee, Beneficiary and LC Issuer certificates of insurers evidencing such insurance.

(f) Lessee shall deliver to Lessor prior to the execution of this Lease (or in the case of a Leased Property which first becomes subject to this Lease thereafter, on the Basic Term Commencement Date with respect thereto) certificates of insurers, evidencing all of the insurance required under paragraph (a) of Article 13 hereof together with an independent broker's report to the effect that such broker is familiar with the insurance requirements of this Lease and the coverages maintained by Lessee and that Lessee is in compliance with such requirements, in each case satisfactory to Lessor. Lessee shall, within ten Business Days prior to the expiration of any required insurance policy, deliver to Lessor, the Indenture Trustee, LC Issuer, Beneficiary and each Assignee certificates of insurers evidencing the renewal of any such policy and broker's reports to the same effect. If Lessee fails to maintain or renew any insurance required by this Lease, or to pay the premium therefor, or to so deliver any such certificate, then Lessor, at its option, but without obligation to do so, may, upon five days' notice to Lessee, procure such insurance. Any sums so expended by Lessor shall be Additional Rent hereunder and shall be repaid by Lessee within five Business Days after notice to Lessee of such expenditure and the amount thereof. With respect to any insurance policy required to be maintained pursuant to this Lease, upon request of Lessor, the Indenture Trustee, LC Issuer, Beneficiary or any Assignee, Lessee shall deliver to such Person a copy of such insurance policy or relevant excerpt thereof, provided that such request is accompanied by a certificate that such policy or excerpt is needed for the conduct of legal proceedings or other valid business purposes.

(g) Lessee shall comply with all of the terms and conditions of each insurance policy maintained pursuant to the terms of this Lease, to the extent necessary to avoid invalidating such insurance policy or impairing the coverage available thereunder. In the event of the termination of this Lease as herein provided or Lessee's abandonment of any Leased Property, the obligations and liabilities of Lessee with respect to each Indemnified Party, actual or contingent, under this Article 13, shall survive such termination or abandonment.

14. Financial Statements; Other Information.

-----

(a) Lessee will deliver, or will cause Guarantor to deliver, to Lessor, Indenture Trustee and LC Issuer the financial statements and information set forth in Section 3.1 of the Guaranty. Concurrently with the delivery of annual financial statements pursuant hereto, Lessee will deliver, or will cause Guarantor to deliver, to Lessor, the Indenture Trustee and LC Issuer the officer's certificate set forth in Section 3.2 of the Guaranty that there exists no Default or Event of Default under this Lease or if any such Default or Event of Default exists, specifying the nature thereof, the period of existence thereof and what action Lessee or Guarantor proposes to take with respect thereto and a certificate substantially in the form of Schedule I hereto. At any time that the provisions of Section 3.1 of the Guaranty are not effective or Lessee's financial information is not reflected therein, Lessee shall furnish the following financial statements to Lessor, the Indenture Trustee and LC Issuer: (i) at any time that Lessee is a public company, (A) as soon as practicable, copies of all such financial statements, proxy statements, notices, other communications and reports as Lessee shall send on a regular basis to its shareholders and other information, if any, generally made available to banks and other lenders and (B) copies of all regular, current or periodic reports (including reports on Form 10-K, Form 8-K and Form 10-Q) which Lessee is or may be required to file with the Securities and Exchange Commission or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission; and (ii) at any time that Lessee is not a public company required to file reports with the Securities and Exchange Commission containing such financial statements, as soon as practicable and in any event within 120 days after the end of each fiscal year, and within 60 days after the end of any other fiscal quarter or shorter period, a consolidated statement of earnings, and a consolidated statement of changes in financial position, a consolidated statement of stockholders' equity, and a consolidated balance sheet of Lessee as at the end of each such year or fiscal quarter or shorter period, setting forth in each case in comparative form the corresponding consolidated figures from the preceding annual audit or corresponding fiscal quarter or shorter period in the prior fiscal year, as appropriate, all in reasonable detail and certified to Lessee as to the annual consolidated statements by independent public accountants of recognized national standing selected by Lessee, whose certificate shall be based upon an examination conducted in accordance with generally accepted auditing standards and the application of such tests as said accountants deem necessary under the circumstances. Lessee will keep accurate records and books of account reflecting all its financial transactions with respect to this Lease and the transactions contemplated hereby. In addition, Lessee agrees upon prior written request to meet with Lessor, LC Issuer, the Indenture Trustee and any Registered Owners of indebtedness secured by the Indenture during normal business hours at mutually convenient times, from time to time as reasonably requested, to discuss this transaction and Lessee's business and financial condition generally.

(b) Lessee shall deliver or cause to be delivered to Lessor, Indenture Trustee and LC Issuer such additional information with respect to Lessee, the Leased Properties, this Lease and the transactions contemplated hereby, as Lessor, the Indenture Trustee or LC Issuer may reasonably request from time to time.

15. The Ground Leases. Lessee acknowledges receipt of each Ground Lease

-----  
and is familiar with the respective terms thereof. Lessee will, for the benefit of Lessor, perform all obligations, covenants and agreements to be performed by the lessee under each of the Ground Leases, including without limitation the payment of all rent and other amounts due under such agreements and, as between Lessor and Lessee, Lessor shall have no responsibility for compliance with such obligations, covenants and agreements. Lessee will at all times do all things necessary to compel performance by each Ground Lessor of all such Ground Lessor's obligations, covenants and agreements under the applicable Ground Lease and will give Lessor notice of all defaults under each Ground Lease, promptly after obtaining Actual Knowledge thereof. Lessee will not amend, modify or waive any of the provisions of any of the Ground Leases without the prior written consent of Lessor, the Indenture Trustee and LC Issuer. In addition to, and not in limitation of, Lessee's obligations set forth elsewhere in this Lease, Lessee shall punctually pay and perform for the benefit of Lessor all of the obligations and liabilities whatsoever of Lessee or Lessor under any instrument that is a Permitted Encumbrance, including, without limitation, payment of indemnification of Lessor from and against all claims for which Lessor is liable thereunder. Lessee represents as of the Basic Term Commencement Date that each of the Ground Leases is in full force and effect.

16. Purchase Procedure.

-----  
(a) In the event of the purchase of Lessor's interest in any Leased Property by Lessee pursuant to any provision of this Lease, the terms and conditions of this Article 16 shall apply.

(b) On the closing date fixed for the purchase of Lessor's interest in any or all of the Leased Properties:

- (i) Lessee shall pay to Lessor, in lawful money of the United States in immediately available funds, at Lessor's address hereinabove stated or at any other place in the United States which Lessor may designate, the Purchase Price pursuant to Article 28 or Termination Value and related amounts required to be paid pursuant to paragraph (c) of Article 12, or Articles 22, 37 or 38, whichever is applicable, or, in the case of a purchase of less than all of the Leased Properties, the Allocable Percentage thereof; and

- (ii) Lessor shall execute and deliver to Lessee good and sufficient special warranty deeds, assignments or such other instrument or instruments as may be appropriate, which shall transfer all of Lessor's interest in certain or all of the Leased Properties, as appropriate, including any rights of Lessor against any party through whom Lessor derived its title to such Leased Properties, subject to (A) any encumbrances existing on the Basic Term Commencement Date with respect thereto, (B) Permitted Encumbrances as defined in clauses (a) through (c), (g) and (h) of the definition thereof, (C) all liens, encumbrances, charges, exceptions and restrictions attaching to any Leased Property after the Basic Term Commencement Date with respect thereto (other than those created or caused by or through Lessor or Indenture Trustee without the consent of Lessee), and (D) all Legal Requirements. In the case of a purchase of Lessor's interest in any Leased Property by Lessee pursuant to paragraph (c) of Article 12 hereof, Lessor shall also pay to Lessee the Net Award, if any, in respect of each such Leased Property and assign to Lessee all rights to any award not yet received; and
- (iii) Lessee shall pay all charges incident to such transfer, including but not limited to all transfer taxes, recording fees, title insurance premiums and federal, state and local taxes, except for any net income or profit taxes of Lessor, the Indenture Trustee and the Registered Owners of the Notes and reasonable attorneys' fees and expenses of counsel for Lessor, the Indenture Trustee and the Registered Owners of the Notes; and
- (iv) Lessee shall pay to Lessor all Basic Rent, Additional Rent and other sums payable by Lessee under this Lease relating to such Leased Properties, due and payable through the date Lessee purchases Lessor's interest in such Leased Properties; and
- (v) Except as otherwise provided herein, this Lease shall terminate and be of no further force and effect with respect to each Leased Property purchased by Lessee pursuant to this Article 16.

(c) Prior to (i) any purchase by Lessee or any third party of fewer than all of the Leased Properties pursuant to any term or provision of this Lease or (ii) any purchase by a third party of a Leased Property and substitution therefor of Leased Properties pursuant to Article 38 of this Lease (whereby a Substitution Adjustment is required to be paid by Lessee), the following conditions shall have been satisfied:

- (i) Lessor shall have provided Lessee, at the cost of Lessee, with revised versions of Schedules A, B, C, D, E, F, G, and J and Appendix I to this Lease, reflecting the changes to be made therein, taking into account such purchase or substitution and, if applicable, the payment of any amount payable hereunder including, without limitation, Article 37(b), or Substitution Adjustment, all as determined by Lessor, and Lessee shall have consented to such revised Schedules and Appendix, such consent not to be unreasonably withheld.
- (ii) Lessor shall have received a Lease Supplement in the form of Schedule H annexed hereto and, if appropriate, a memorandum or short form of lease with respect thereto, duly authorized, executed and delivered by Lessee, as lessee, incorporating such revised Schedule J into this Lease and containing such other terms as Lessor, Indenture Trustee or Beneficiary or their respective counsel may reasonably deem necessary or appropriate by reason of the transactions contemplated by such purchase or substitution.

17. No Reliance. Lessee hereby acknowledges that in negotiating the

-----  
terms of this Lease, it has sought, obtained and relied exclusively upon such accounting, actuarial, tax and legal advice from its own or other independent sources as it has deemed necessary, and further acknowledges that neither Lessor, LC Issuer, Beneficiary, Placement Agent nor any of Lessor's, LC Issuer's, Beneficiary's or Placement Agent's respective parent, subsidiaries, affiliates or personnel has represented or warranted the legal, tax, economic, accounting, or other consequences of the terms and provisions hereof and of the other related agreements and documents.

18. Quiet Enjoyment. So long as no Default or Event of Default under

-----  
this Lease shall have occurred and be continuing, Lessor covenants (subject to the first sentence of Article 7) that Lessee shall and may at all times peaceably and quietly have, hold and enjoy the Leased Properties during the Term of this Lease. Notwithstanding the preceding sentence, Lessor may exercise its rights and remedies under paragraph (b) of Article 22 and Lessor, the Indenture Trustee, LC Issuer, and any registered owners of indebtedness secured by the Indenture or their agents may enter upon and inspect any Leased Property in accordance with the provisions of Article 11 hereof. Any failure by Lessor to comply with the foregoing warranty shall not give Lessee any right to cancel or terminate the Lease, or to abate, reduce or make deduction from or offset against any Basic Rent, as hereinafter defined, or Additional Rent or other sum payable under this Lease, or to fail to perform or observe any other covenant, agreement or obligation hereunder. Subject to the foregoing sentence, Lessee shall have the right to obtain injunctive or other relief against Lessor for breach of the aforesaid covenant of peaceful and quiet possession and enjoyment of each Leased Property. Lessor shall keep each Leased Property free of Lessor Liens.



19. Survival. In the event of the termination of this Lease with

-----  
respect to one or more Leased Properties, or all of the Leased Properties, as herein provided, the obligations and liabilities of Lessor and Lessee, actual or contingent, under this Lease which arose at or prior to such termination shall survive such termination.

20. Subletting; Assignment.

-----  
(a) Notwithstanding anything to the contrary set forth in this Lease, Lessee shall not, without the prior written consent of Lessor, sublease any Leased Property or any portion thereof except as set forth in the following sentence, or assign (including by way of merger, consolidation or change in control), transfer, mortgage, hypothecate, pledge or otherwise encumber its leasehold estate hereunder or any of its rights, interests or obligations hereunder and any attempted sublease, assignment, transfer, mortgage, hypothecation, pledge or encumbrance by Lessee shall be null and void. So long as no Event of Default shall have occurred and be continuing, Lessee may sublease a Leased Property to any Affiliate(s) of Lessee without Lessor's prior written consent provided, however, (i) each such sublease shall expressly be made subject to the provisions hereof, (ii) the term of any subletting shall not extend beyond the Term of this Lease, (iii) no sublease shall affect or reduce any obligation of the Lessee or right of the Lessor hereunder, (iv) all obligations of the Lessee hereunder shall continue in full force and effect as the obligations of a principal and not of a guarantor or surety, as though no subletting had been made, and (v) Lessee shall deliver to Lessor a copy of the sublease and such other agreements, instruments, certificates and opinions as may be reasonably requested by Lessor including, without limitation, an assignment of such sublease.

(b) Lessor may, at any time, without notice to, or the consent of, Lessee sell, assign, transfer or grant a security interest in all or any part of Lessor's rights, obligations, title or interest in, to and under any Leased Property or any portion thereof, any Ground Lease, this Lease, and/or any Basic Rent or Additional Rent payable under this Lease. Any entity to whom any such sale, assignment, transfer or grant of security interest is made is herein called an "Assignee" and any such sale, assignment, transfer or grant of security interest is herein called an "assignment". Upon execution and delivery of any such assignment, Lessor shall be released from its obligations hereunder thereafter arising, provided, however, that if any such assignment is made as collateral security, the execution and delivery thereof shall not impair or diminish any obligations of Lessor hereunder. An Assignee may re-assign and/or grant a security interest in any of such rights, obligations, title or interest assigned to such Assignee. Lessee agrees to execute related acknowledgments and other documents that may be reasonably requested by Lessor or an Assignee. Lessor agrees that any such assignment will not materially change Lessee's duties or materially increase its burdens or risks hereunder. Each such assignment shall be subject to Lessee's rights hereunder so long as no Event of Default has occurred and is continuing hereunder. Lessee shall be under no obligation to any Assignee except upon written notice of such assignment from Lessor or, in the case of a reassignment, from Assignee. Upon

written notice to Lessee of an assignment, Lessee agrees to pay the Basic Rent and Additional Rent to such Assignee in accordance with the instructions specified in such notice without any abatement, defense, setoff, counterclaim or recoupment whatsoever, and to otherwise comply with all notices, directions and demands which may be given by Lessor or such Assignee in accordance with the provisions of this Lease.

21. Advances by Lessor. If Lessee shall fail to make or perform any

-----  
payment or act required by this Lease, then, upon 15 days' notice to Lessee (or upon shorter notice, or with no notice at all, to the extent necessary to meet an emergency or a governmental or municipal time limitation or to prevent an event of default under any mortgage affecting any Leased Property), Lessor may at its option make such payment or perform such act for the account of Lessee, and Lessor shall not thereby be deemed to have waived any default or released Lessee from any obligation hereunder. Amounts so paid by Lessor and all incidental costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with such payment or performance, together with interest thereon at the Overdue Rate with respect to Additional Rent provided in Article 3, from the date advanced through the date repaid by Lessee, shall constitute Additional Rent and shall be paid by Lessee to Lessor on demand.

22. Conditional Limitations -- Events of Default and Remedies.

-----  
(a) Any of the following occurrences or acts shall constitute an Event of Default under this Lease and Lessee shall promptly notify Lessor of the occurrence thereof:

- (i) if Lessee shall (A) default in making payment of any installment of Basic Rent or Additional Rent (other than as provided in (vi) below) which default shall continue for five days after the same shall be due or (B) fail to observe or perform any of the covenants, agreements or obligations of Lessee set forth in Articles 13, 20, 26, 28 or 30 hereof; or
- (ii) if Lessee shall default in the performance of any covenant, agreement or obligation on the part of Lessee to be performed under this Lease other than such covenants that are specifically referred to in the other clauses of this paragraph (a) of Article 22, and such default shall continue for any specific period expressly provided with respect to such covenant, agreement or obligation, or if no such specific period is provided, for a period of 30 days after Actual Knowledge thereof by Lessee; provided, however, that in the case of a default which can with reasonable diligence be remedied by Lessee, but not within a period of 30 days, if Lessee shall promptly commence to remedy the default and thereafter shall prosecute the remedying of such default with all reasonable diligence, the period of time after obtaining such notice of default within which to remedy the

default shall be extended for such period as may be reasonable to remedy the same with all reasonable diligence, up to a maximum period of 90 days after notice of such default from Lessor; and provided further, that with respect to any contest by Lessee pursuant to paragraph (d) of Article 6 hereof, any failure to comply with the conditions precedent to the right to so contest shall constitute an immediate Event of Default hereunder; or

- (iii) if Lessee, Guarantor, or any Person succeeding to Lessee or Guarantor by merger, consolidation or acquisition of all or substantially all of its assets, shall file a petition in bankruptcy or for reorganization or for an arrangement pursuant to the Bankruptcy Act, or shall be adjudicated a bankrupt or become insolvent or shall make an assignment for the benefit of its creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall be dissolved, or shall suspend payment of its obligations, or shall take any corporate action in furtherance of any of the foregoing; or
- (iv) if a petition or answer shall be filed proposing the adjudication of Lessee, Guarantor or any Person succeeding to Lessee or Guarantor by merger, consolidation or acquisition of all or substantially all of its assets as a bankrupt or its reorganization pursuant to the Bankruptcy Act, and (A) Lessee, Guarantor or the successor of either shall consent to the filing thereof, or (B) such petition or answer shall not be discharged or denied within 60 days after the filing thereof; or
- (v) if a receiver, trustee or liquidator (or other similar official) shall be appointed for or take possession or charge of Lessee, Guarantor or any Person succeeding to Lessee or Guarantor by merger, consolidation or acquisition of all or substantially all of its assets, or of all or substantially all of the business or assets of Lessee or Guarantor or the successor of either, or of such successor Person's estate or interest in any Leased Property, and shall not be discharged within 60 days thereafter, or if Lessee, Guarantor or the successor of either shall consent to or acquiesce in such appointment; or
- (vi) if Lessee shall fail to pay any Adjustment Price, Termination Value, Purchase Price, Reinvestment Premium or Maximum Lessee Risk Amount payable to Lessor as required by this Lease; or

- (vii) if any Leased Property shall have been left unattended, unsecured and without maintenance in accordance with Article 10 hereof for a period of 30 consecutive days; or
- (viii) if any representation or warranty of Lessee or Guarantor set forth herein, in the Guaranty, in any other Operative Document or in any consent, notice, certificate, demand, request or other instrument delivered by or on behalf of Lessee or Guarantor in connection with or pursuant to this Lease or the Guaranty shall prove to have been incorrect or misleading in any material respect when made; or
- (ix) if a final judgment or judgments for the payment of money aggregating at least \$35,000,000 (or such lesser amount individually or in the aggregate, which may at the time be applicable to Lessee or Guarantor, as the case may be, with respect to their other indebtedness) shall be rendered against Lessee or Guarantor and Lessee or Guarantor, as applicable, shall not comply with such judgment, or discharge the same or cause it to be discharged within 30 days from the entry thereof (or until the expiration of the period in which an appeal may be filed if such period should be longer), or shall not appeal therefrom or from the order, decree or process upon which or pursuant to which said judgment was granted, based or entered, and secure a stay of execution pending such appeal; or
- (x) if (A) Lessee or Guarantor is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any indebtedness for borrowed money beyond any period of grace provided without respect thereto, or (B) Lessee or Guarantor is in default in the performance of or compliance with any term of any evidence of any indebtedness for borrowed money or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such indebtedness has become, or has been declared (or one or more Persons are entitled to declare such indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (C) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of indebtedness to convert such indebtedness into equity interests), (1) Lessee or Guarantor has become obligated to purchase or repay indebtedness for borrowed money before its regular maturity or before its regularly scheduled dates of payment, or (2) one or more Persons have the right to require Lessee or Guarantor so to purchase or repay such indebtedness, provided that the aggregate amount of indebtedness affected by the events

described in clauses (A), (B) and (C) above shall be, without duplication, at least \$35,000,000 (or such lesser amount which may at the time be applicable to the events described in clause (A), (B) or (C) above with respect to such other indebtedness); or

- (xi) if Lessee shall fail to surrender any Leased Property as and when required and in the condition required in accordance with Article 26; or
- (xii) if a default shall exist under any Ground Lease which has not been cured within any cure period applicable under the related Ground Lease; or
- (xiii) if (x) any default shall have occurred and be continuing under the Assignment of Lease or (y) Guarantor shall default in the due performance or observance of any covenant, agreement or obligation on the part of Guarantor in the Guaranty or (z) the Guaranty or Assignment of Lease shall expire, cease to be in full force and effect or otherwise terminate or Guarantor or any Person acting on behalf of Guarantor shall contest in any manner the validity, binding nature or enforceability of the Guaranty or the Assignment of Lease.

(b) This Lease and the term and estate hereby granted are subject to the limitation that whenever an Event of Default shall have occurred and be continuing, Lessor may, at Lessor's option, elect to (i) lawfully re-enter one or more of the Leased Properties, without notice, and remove all Persons and property therefrom, either by summary proceedings or by any suitable action or proceeding at law, or by other lawful means, without being liable to indictment, prosecution or damages therefor, and may have, hold and enjoy the Leased Properties, together with the appurtenances thereto and the improvements thereon; and/or (ii) terminate this Lease at any time by giving notice in writing to Lessee, electing to terminate this Lease and specifying the date of termination, and the Term of this Lease shall expire by limitation at midnight on the date specified in such notice as fully and completely as if said date were the date herein originally fixed for the expiration of the Term hereby granted, and Lessee shall thereupon quit and peacefully surrender the Leased Properties to Lessor, without any payment therefor by Lessor, and upon the date following the date specified in such notice, or at any time thereafter, Lessor may re-enter one or more of the Leased Properties as provided in the preceding clause (i).

(c) In case of any such re-entry, termination and/or dispossession by summary proceedings or otherwise as provided in the immediately preceding paragraph, (i) the Basic Rent and Additional Rent shall become due thereupon and be paid up to the time of such re-entry, dispossession and/or expiration, together with such expenses, including reasonable attorneys' fees and disbursements, as Lessor shall incur in connection with such re-entry, termination and/or dispossession by summary proceedings or otherwise; and (ii) Lessor may in good faith relet one

or more of the Leased Properties or any part or parts thereof (but shall be under no obligation to do so), either in the name of Lessor or otherwise, for a term or terms which may, at Lessor's option, be equal to or less than or exceed the period which would otherwise have constituted the balance of the Term of this Lease; and (iii) Lessee shall also pay to Lessor the amount by which the Basic Rent provided for in this Lease exceeds the net amount, if any, of the rents collected on account of the leases of the Leased Properties for each monthly portion of the period which would otherwise have constituted the Term of this Lease (assuming that all renewal options have been exercised such that the Term of this Lease would expire on the last day of the Maximum Lease Term), which amounts shall be paid in monthly installments by Lessee on the respective Installment Payment Dates specified therefor, and any suit brought to collect said amounts for any monthly period shall not prejudice in any way the rights of Lessor to collect the deficiency in any subsequent monthly period by a similar action or proceeding; and (iv) Lessee shall also pay to Lessor all other damages and expenses which Lessor shall reasonably have sustained by reason of the breach of any provision of this Lease, including without limitation reasonable attorneys' fees and expenses, brokerage commissions and expenses incurred in altering, repairing and putting the Leased Properties and any buildings and improvements thereon in good order and condition and in preparing the same for reletting, which expenses shall be paid by Lessee as they are incurred by Lessor; or (v) at the option of Lessor exercised at any time, Lessor forthwith shall be entitled to recover from Lessee as liquidated damages, in addition to any other proper claims but in lieu of and not in addition to any amount which would thereafter have become payable under the preceding clause (iii), the Termination Value for the date on which Lessor demands such payment, together with any accrued and unpaid Basic Rent, Additional Rent and other sums payable as of the date of such demand by Lessee under this Lease, plus the Reinvestment Premium, whereupon Lessor shall transfer and convey to Lessee all of Lessor's right, title and interest in and to the Leased Properties pursuant to the terms of Article 16. Lessor, at Lessor's option, may make such alterations, repairs or decorations to the existing Improvements on any Leased Property for uses similar to those originally intended, as Lessor, in Lessor's sole judgment, considers advisable and necessary for the purpose of reletting such Leased Property; and the making of such alterations or decorations shall not operate or be construed to release Lessee from liability hereunder as aforesaid.

(d) No receipt of moneys by Lessor from Lessee after a termination of this Lease by Lessor shall reinstate, continue or extend the Term of this Lease or affect any notice theretofore given to Lessee, or operate as a waiver of the right of Lessor to enforce the payment of Basic Rent and Additional Rent, and any Purchase Price, Termination Value, Maximum Lessee Risk Amount or related amounts to be paid by Lessee to Lessor for the purchase or surrender of the Leased Properties then due or thereafter falling due, it being agreed that after the commencement of suit for possession of the Leased Properties, or after final order or judgment for the possession of the Leased Properties, Lessor may demand, receive and collect any moneys due or thereafter falling due without in any manner affecting such suit, order or judgment, all such moneys collected being deemed payments on account of the use and occupation of the Leased Properties

or, at the election of Lessor, on account of Lessee's liability hereunder. Lessee hereby waives any and all rights of redemption provided by any law, statute or ordinance now in effect or which may hereafter be enacted. Lessor shall have, receive and enjoy as Lessor's sole and absolute property, without right or duty to account therefor to Lessee unless Lessee makes payments of Basic Rent to Lessor pursuant to clause (iii) of paragraph (c) of Article 22 in which event Lessor shall account for such payments to Lessee in writing and such accounting shall be deemed conclusive absent manifest error by Lessor, any and all sums collected by Lessor as rent or otherwise upon reletting any Leased Property after Lessor shall resume possession thereof as hereinbefore provided, including, without limitation upon the generality of the foregoing, any amounts by which the sum or sums so collected shall exceed the continuing liability of Lessee hereunder.

(e) The word "re-enter", as used in this Lease, is not and shall not be restricted to its technical legal meaning, but is used in the broadest sense under applicable law. No such taking of possession of any Leased Property by Lessor shall constitute an election to terminate the Term of this Lease unless notice of such intention be given to Lessee or unless such termination be decreed by a court having jurisdiction.

(f) If an action shall be brought for the enforcement of any provision of this Lease, Lessee shall pay to Lessor and each Assignee all out-of-pocket costs and expenses which may become payable as a result thereof, including reasonable attorneys' fees and expenses.

(g) No right or remedy herein conferred upon or reserved to Lessor is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to any other legal or equitable right or remedy given hereunder, or at any time existing. The failure of Lessor to insist upon the strict performance of any provision or to exercise any option, right, power or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. Receipt by Lessor of any Basic Rent or Additional Rent or any other sum payable hereunder with knowledge of the breach of any provision contained in this Lease shall not constitute a waiver of such breach, and no waiver by Lessor of any provision of this Lease shall be deemed to have been made unless made under signature of an authorized representative of Lessor.

23. Notices. All notifications, notices, demands, requests and other

-----  
communications herein provided for or made pursuant hereto shall be in writing and shall be sent by (i) registered or certified mail, return receipt requested, and the giving of such communication shall be deemed complete on the third Business Day after the same is deposited in a United States Post Office with postage charges prepaid, (ii) reputable overnight delivery service, and the giving of such communication shall be deemed complete on the immediately succeeding Business Day after the same is deposited with such delivery service or (iii) legible fax with original to follow in

accordance with clause (ii) above, and the giving of such communication shall be complete upon confirmation of receipt:

- (a) if to Lessor, addressed to such party at c/o First Security Bank, N.A., 79 South Main Street, Salt Lake City, Utah 84111, Attn: Corporate Trust Administration, or at such other address in the continental United States as Lessor may furnish to Lessee in writing, or
- (b) if to Lessee, addressed to such party at 2980 Fairview Park Drive, Suite 1400, Falls Church, Virginia 22042-4525, Attn: Assistant Treasurer, with a copy to the Legal Department, or at such other address in the continental United States as Lessee may furnish to Lessor in writing.

24. Estoppel Certificates. Each party hereto agrees that at any time

-----  
and from time to time during the term of this Lease, it will promptly, but in no event later than 21 days after request by the other party hereto, execute, acknowledge and deliver to such other party or to any prospective purchaser, assignee or mortgagee designated by such other party, a certificate stating, to the best of such party's knowledge, (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, that this Lease is in full force and effect as modified, and setting forth any modifications); (b) the date to which Basic Rent, Additional Rent and other sums payable hereunder have been paid; (c) whether or not there is an existing Default by Lessee in the payment of Basic Rent or any other sum of money due or required to be paid hereunder, and whether or not there is any other existing Default by Lessee with respect to which a notice of Default has been delivered or of which the signer has Actual Knowledge, and, if there is any such Default, specifying the nature and extent thereof; (d) whether or not there are any setoffs, defenses or counterclaims against enforcement of the obligations to be performed hereunder existing in favor of the party executing such certificate; and (e) stating that Lessee is in possession of the Leased Properties or setting forth the parties in possession and identifying the instruments pursuant to which they took possession.

25. No Merger. Lessee agrees that there shall be no merger of this Lease

-----  
or of any sublease under this Lease or of any leasehold or subleasehold estate hereby or thereby created with the fee or any other estate or ownership interest in any Leased Property or any part thereof by reason of the fact that the same person, firm, corporation or other entity may acquire or own or hold, directly or indirectly, (a) this Lease or any sublease or any leasehold or subleasehold estate created hereby or thereby or any interest in this Lease or any such sublease or in any such leasehold or subleasehold estate and (b) (i) the fee estate or other estate or ownership interest in any Leased Property or any part thereof or (ii) the Beneficial Interest, and this Lease shall not be terminated for any cause except as expressly provided herein and any instrument of transfer shall so provide.



26. Surrender and Return.

-----

(a) Upon the expiration or earlier termination of the Term of this Lease with respect to each Leased Property, and provided that Lessee, if so entitled, has not exercised its option to purchase the Leased Properties pursuant to Article 28 or otherwise hereunder, Lessee shall peaceably leave and surrender and return each Leased Property to Lessor in the same condition in which such Leased Property existed on the Basic Term Commencement Date with respect thereto or any other Improvements (including any Additions that constitute part of the Improvements) acquired and constructed pursuant to this Lease, except as completed, repaired, rebuilt, restored, altered or added to as required by or permitted by any provision of this Lease (ordinary wear and tear and the consequences of casualty described in paragraph (c) of Article 12 hereof, condemnation or taking excepted). Lessee shall remove from each Leased Property on or prior to such expiration or earlier termination all property situated thereon which is not the property of Lessor, and each Leased Property shall be broom clean and Lessee shall repair any damage caused by such removal. Property not so removed shall become the property of Lessor, and Lessor may cause such property to be removed from the Leased Properties and disposed of, and Lessee shall pay the reasonable cost of any such removal and disposition and of repairing any damage caused by such removal.

(b) Except for surrender upon the expiration or earlier termination (due to the exercise of remedies under Article 22 hereof) of the Term hereof, no surrender to Lessor of this Lease or of any Leased Property shall be valid or effective unless agreed to and accepted in writing by Lessor. At the request of Lessor, Lessee shall execute, deliver and furnish such instruments, agreements, releases, deeds, assignments, instruments, certificates and opinions as may be necessary or desirable to effect the release and/or transfer by Lessee of its right, title and interest in and to the Leased Properties to Lessor.

(c) Without limiting the generality of the foregoing, upon the surrender and return of any Leased Property to Lessor pursuant to this Article 26, such Leased Property shall (i) be capable of being immediately utilized by a third-party purchaser or third-party lessee without further inspection, repair, replacement, alterations or improvements, licenses, permits, or approvals, except for any of the foregoing required solely by virtue of the change in ownership (other than to Lessor), use or occupancy of such Leased Property, (ii) be in accordance and compliance with all Legal Requirements and Environmental Laws including, without limitation, any of the foregoing required by virtue of a change in ownership, use or occupancy of such Leased Property other than to Lessee, (iii) be free and clear of any charge, lien, security interest or encumbrance except for Permitted Encumbrances described in clauses (a), (c) and (g) through (i) of the definition thereof, any liens for taxes, assessments and other governmental charges, which are not then due and payable and which are not allocable to the period before the date of termination or expiration of this Lease, and Lessor Liens and any other liens or encumbrances

arising solely from any acts or omissions of Lessor or anyone claiming by, through or under Lessor, without the consent of Lessee. Until each Leased Property has been surrendered and returned to Lessor in accordance with the provisions of this Article 26, Lessee shall continue to pay Lessor all Basic Rent and Additional Rent due hereunder.

(d) On or prior to the date of such surrender and return of any Leased Property, Lessor shall have received from Lessee, at Lessee's expense, (i) evidence satisfactory to Lessor of compliance with the provisions of this Article 26, including without limitation, a "Phase I" and update thereto, if applicable, or then comparable environmental assessment for such Leased Property addressed and in form and substance satisfactory to Lessor and LC Issuer or, in lieu of addressing such assessment to Lessor, accompanied by a letter permitting Lessor and LC Issuer to rely thereon, performed by an independent, licensed professional engineer satisfactory to Lessor and LC Issuer and which assessment (w) shall be sufficient in scope to determine compliance with the then applicable Environmental Laws, (x) shall reveal no actual or potential environmental liabilities which cannot be remediated by the Lessee in compliance with all applicable Legal Requirements and Environmental Laws and to the satisfaction of Lessor and LC Issuer, and (y) if such environmental assessment reveals the need for additional review, Lessee shall have provided such additional information or environmental assessments as are required by Lessor and LC Issuer and any remediation recommended therein to be performed shall have been performed in compliance with all applicable Legal Requirements and Environmental Laws and to the reasonable satisfaction of Lessor and LC Issuer, and evidence of compliance with Article 26(c)(ii) shall have been provided and (ii) an Appraisal indicating that the Allocable Percentage of the Purchase Price applicable to such Leased Property at such time is equal to or greater than the fair market value of such Leased Property.

(e) Lessee acknowledges and agrees that a breach of any of the provisions of this Article 26 may result in damages to Lessor that are difficult or impossible to ascertain and that may not be compensable at law. Accordingly, upon application to any court of equity having jurisdiction over any Leased Property, Lessor shall be entitled to a decree against Lessee requiring specific performance of the covenants of Lessee set forth in this Article 26 with respect to such Leased Property.

(f) Upon the request of the Lessor, Lessee shall continue to maintain its insurance policies for the Leased Properties, to the extent permitted by such policies, provided that Lessor pays or reimburses Lessee for the pro rata cost thereof and, provided further that, no third party has purchased such Leased Property from Lessor.

27. Separability. Each provision contained in this Lease shall be

-----  
separate and independent and the breach of any such provision by Lessor shall not discharge or relieve Lessee from its obligation to perform each obligation of this Lease to be performed by Lessee. If any provision of this Lease or the application thereof to any Person or circumstance shall to any extent be invalid and unenforceable, the remainder of this Lease, or the application of such

provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and shall be enforceable to the extent permitted by law.

28. Lessee's End of Term Purchase Options.

-----  
(a) If (i) no Default or Event of Default hereunder shall have occurred and be continuing and (ii) this Lease shall not have been earlier terminated or renewed (with respect to the next succeeding Renewal Term) by Lessee pursuant to Article 2 hereof, Lessee shall be entitled, upon notice to Lessor as hereinafter provided, to purchase Lessor's interest in all, but not less than all, of the Leased Properties on the last day of the Basic Term or the then current Renewal Term, as the case may be, for an amount, payable in immediately available federal funds, equal to the Purchase Price at the end of the Basic Term or the then current Renewal Term, as applicable. If Lessee intends to exercise its purchase option granted hereunder with respect to the end of the Basic Term or the end of the first Renewal Term, it shall give notice to Lessor to such effect in the applicable Termination Notice in accordance with the provisions of paragraph (b) of Article 2 hereof. If the Lessee intends to return and surrender all of the Leased Properties at the end of the final Renewal Term, it shall give notice thereof to Lessor at least 180 days prior to the end of such Renewal Term, otherwise Lessee shall have been conclusively deemed to have exercised its option to purchase the Leased Properties, without the need for any further writing. If Lessee gives such notice to Lessor, the same shall constitute a binding obligation of Lessee to purchase each and every Leased Property and to pay Lessor the Purchase Price on the Term Termination Date thereof. Any purchase by Lessee pursuant to this Article 28(a) shall be consummated in accordance with the terms of Article 16 hereof.

(b) If, upon the expiration of the Basic Term or any Renewal Term of this Lease, Lessee does not either (i) exercise its option to purchase the Leased Properties pursuant to paragraph (b) of Article 2 hereof and paragraph (a) of this Article 28 or been deemed to have exercised such option, under paragraph (a) of this Article 28, or (ii) extend, if applicable, the Term of this Lease pursuant to paragraph (b) of Article 2 hereof, Lessor shall have the right, and Lessee shall have the obligation, as agent for Lessor (during the last 180 days of the relevant Term (the Remarketing Period)), to use best efforts to obtain

-----  
bona fide cash bids for each Leased Property from prospective purchasers who are financially capable of purchasing each Leased Property for cash in accordance with the terms of this Lease. Upon the request of Lessor and at Lessee's sole cost and expense, Lessee shall provide Lessor with a written report describing in reasonable detail Lessee's efforts during the Remarketing Period to obtain bona fide bids for the purchase of each Leased Property, including, without limitation, a list of all brokers retained and Persons approached for the purpose of soliciting bids to purchase such Leased Property. All bids received by Lessor or Lessee prior to the end of the then current Term shall be certified by Lessor or Lessee, as the case may be, in writing, stating the name and address of the bidder and the

amount of such bid. Notwithstanding the foregoing, Lessor and LC Issuer shall have the right, but not the obligation, to seek bids for any Leased Property during the Remarketing Period.

Not later than the applicable Term Termination Date, Lessor agrees to sell each Leased Property to the cash bidder submitting the highest bid, in accordance with the terms of Article 16 of this Lease, with such changes as are necessary to reflect that the sale was to a third party and not Lessee; provided, however, that (x) any such sale to a third party shall be consummated,

and the sales price for each Leased Property shall be paid to Lessor in immediately available funds, at Lessor's address hereinabove stated or at any other place in the United States which Lessor may designate, on or before the Term Termination Date; and (y) Lessor shall not be obligated to, and Lessor shall not without the prior written consent of LC Issuer, consummate any proposed sale of the Leased Properties if (I) the aggregate Net Proceeds from the sale of the Leased Properties would be less than the Maximum Lessor Risk Amount as of the applicable Term Termination Date, or (II) if Lessor has not received the amounts, if any, payable by Lessee pursuant to paragraph (a) of Article 30 and, if applicable, paragraph (c) of Article 30. After any such sale with respect to the Leased Properties, the provisions of paragraphs (a) and (c) of Article 30 shall apply.

29. Signs; Showing. If Lessee has not renewed this Lease for a Renewal

Term or given timely notice of its intention to purchase Leased Properties or been deemed to have exercised its option to purchase the Leased Properties pursuant to paragraph (a) of Article 28 on the Term Termination Date, during the Remarketing Period, Lessor may, subject to all applicable governmental laws, restrictive covenants, rules and regulations and without unreasonably interfering with Lessee's business operations, (a) place signs in, on and around the Leased Properties advertising that the same will be available for rent or purchase, and (b) upon not less than 24 hours notice to Lessee, show the Leased Properties to prospective lessees or purchasers at such reasonable times during normal business hours as Lessor may elect. Lessee will be responsible for hiring one or more brokers, whose services shall be compensated on a commission basis, and making the Leased Properties available for inspection by prospective purchasers. Lessee shall promptly upon notice permit inspection of the Leased Properties and any maintenance records relating to the Leased Properties by the Lessor and LC Issuer and any potential purchasers, during normal business hours or otherwise upon reasonable request, and shall otherwise do all things necessary to sell and deliver possession of the Leased Properties to any purchaser. All such marketing fees, commissions, costs and expenses of the Leased Properties shall be included among the deductions set forth in clause (ii) of the definition of Net Proceeds.

30. End of Term Adjustment. (a) The provisions of this paragraph (a)

shall apply only if a sale of the Leased Properties to a third party pursuant to paragraph (b) of Article 28 has been consummated on or before the applicable Term Termination Date. If the Net Proceeds following a sale of the Leased Properties sold in accordance with paragraph (b) of Article 28

hereof are less than the Purchase Price for the Leased Properties on the applicable Term Termination Date as set forth in paragraph (a) of Article 28 hereof, Lessee shall, by 9:30 a.m. Eastern Time on such Term Termination Date, pay to Lessor, by wire transfer of immediately available federal funds, an amount equal to such deficiency (the Adjustment Price) plus accrued and unpaid

-----  
Basic Rent, if any, due and payable on the applicable Term Termination Date, plus any Additional Rent then due and owing to Lessor hereunder; provided,

-----  
however, that if all of the Limited Lessee Risk Conditions have been satisfied

-----  
and a certification to such effect shall have been delivered by Lessee to Lessor and the Indenture Trustee on or before 9:30 a.m. Eastern time on the Term Termination Date, the amount of the Adjustment Price payable by Lessee shall not exceed the then applicable Maximum Lessee Risk Amount; otherwise, if any Limited Lessee Risk Condition is not met, Lessee shall make the payments specified under Article 30(b). If the Net Proceeds following such a sale pursuant to paragraph (b) of Article 28 on or before the end of the Maximum Lease Term with respect to the Leased Properties exceed the Purchase Price for the Leased Properties, and if all of the Limited Lessee Risk Conditions have been satisfied and a certification to such effect shall have been delivered by Lessee to Lessor and the Indenture Trustee, and Lessee shall have paid to Lessor all amounts due and payable on or before the Term Termination Date including all Basic Rent, Additional Rent and all amounts due under paragraphs (a) or (c) of this Article 30, then Lessor shall, on the Term Termination Date, pay to Lessee by wire transfer of immediately available federal funds, an amount equal to such excess, as an adjustment to the Basic Rent payable under this Lease; provided, however, that Lessor shall have the right to offset against such adjustment payable by Lessor, any amounts then due and payable from Lessee to Lessor hereunder.

(b) If this Lease expires or terminates on a Term Termination Date and a sale of the Leased Properties to Lessee pursuant to paragraph (a) of Article 28 or to a third party pursuant to paragraph (b) of Article 28 has not been consummated on or before the applicable Term Termination Date for any reason, then Lessee shall, by 9:30 a.m. Eastern Time on the applicable Term Termination Date, pay to Lessor by wire transfer of immediately available funds, an amount equal to (i) the Maximum Lessee Risk Amount, if all of the Limited Lessee Risk Conditions have been met and Lessee shall have delivered the certifications described in Article 30(a) on or before 9:30 a.m. Eastern time on such Term Termination Date, or (ii) the Termination Value, if one or more of the Limited Lessee Risk Conditions have not been met as of such Term Termination Date, plus, in either case, the Basic Rent due and payable on the Term Termination Date, plus all Additional Rent then due and owing for all of the Leased Properties. Lessee shall promptly vacate the Leased Properties and surrender them to Lessor on the Term Termination Date in accordance with the provisions of this Lease, including Article 26. Notwithstanding the termination of this Lease with respect to the Leased Properties, Lessee shall remain liable for the payment of all applicable sales, excise and other taxes imposed as a result of the sale of the Leased Properties, other than Excluded Taxes. This obligation shall survive the termination of this Lease with respect to the Leased Properties, and upon the consummation of the sale of any Leased Property at any time after the Term Termination Date, Lessee shall pay on

demand, or reimburse Lessor on demand for the payment of, all such sales, excise and other taxes applicable to such Leased Property. In the event of any such sale of any Leased Property at any time after the Term Termination Date with respect thereto, Lessor shall retain the full proceeds of such sale.

(c) In the event that the Term Termination Date occurs prior to the last day of the Maximum Lease Term, Lessee shall pay to Lessor by 9:30 a.m. Eastern Time on such Term Termination Date, in addition to any Adjustment Price, Termination Value or Maximum Lessee Risk Amount then payable pursuant to paragraph (a) or paragraph (b) of this Article 30 and all other obligations hereunder, an amount equal to the Reinvestment Premium.

(d) The provisions of Articles 28 and 30 are of the essence of this Lease, and time is of the essence for payment and performance of the obligations of Lessee set forth therein.

31. Nature of Lessor's Obligations; Limitations on Liability. Anything in

-----  
this Lease to the contrary notwithstanding, except as otherwise provided herein, it is understood and agreed that (irrespective of any breach of any representation, covenant, agreement or undertaking of any nature whatsoever made in this Lease), no recourse shall be had under any rule of law, statute or constitution or by the enforcement of any assessments or penalties or otherwise for the payment of any sum hereunder or for any other claim hereunder against (i) Lessor, Beneficiary or any past, present or future Affiliate, partner, officer, director, any owner, shareholder, agent or employee of or in any thereof or of any partner thereof or their legal representatives, successors or assigns, (ii) any corporation, partnership (or any partner thereof), entity or individual to which the Leased Properties, or any part thereof, shall have been transferred or (iii) any Person for whom Lessor or Beneficiary was acting as an agent for the account and benefit of such Person in entering into the transactions evidenced by this Lease, and that such Person was or was alleged to be the principal of Lessor. It is expressly understood that by the execution of this Lease all such liability (a) of Lessor or Beneficiary or any past, present or future Affiliate, partner, officer, director, any shareholder, agent or employee thereof or director or shareholder of any partner thereof or any of their respective legal representatives, successors or assigns, (b) of any such corporation, partnership, individual or partner or (c) of such other Person, is and is being expressly waived and released as a condition of and as a consideration for the execution of this Lease by Lessor, that Lessee and its successors and assigns as lessee hereunder agree to look solely to the Leased Properties for the payment of any such sums or satisfaction of any such other claims. The provisions of this Article 31 shall survive the termination of this Lease.

32. Granting of Easements, Etc. If no Default or Event of Default

-----  
hereunder has occurred and is continuing, Lessor shall from time to time upon the written request of Lessee join with Lessee (and at Lessee's sole cost and expense), with respect to their interests in the Leased Properties to (i) grant easements, licenses, rights of way and other rights and privileges in the nature of easements for the purposes of providing utilities and the like to the Leased Properties or

for purposes of operating the Leased Properties and adjacent properties (such as office park reciprocal easement agreements and the like), (ii) release existing easements and appurtenances relating to the provision of utilities and the like to the Leased Properties or for purposes of operating the Leased Properties and adjacent properties (such as office park reciprocal easement agreements and the like) and (iii) execute and deliver any instrument, in form and substance reasonably acceptable to Lessor, necessary or appropriate to make or confirm such grants or releases to any Person, with or without consideration, provided that such grant or release does not (x) interfere with and is not detrimental to the conduct of business on the affected Leased Property, (y) impair the usefulness or useful life of such Leased Property or (z) impair the fair market value of such Leased Property or cause a default under any other agreement to which Lessee is a party or benefitting such Leased Property which default would be reasonably likely to have an adverse effect on the usefulness or useful life of such Leased Property or impair the fair market value of such Leased Property and shall have delivered such other instruments, certificates, surveys, title insurance policy endorsements and opinions of counsel as Lessor, the Indenture Trustee or LC Issuer may reasonably request; and provided further that Lessor, the Indenture Trustee and LC Issuer shall have the right, but not the obligation, to obtain an independent Appraisal, at the expense of the Person requesting such Appraisal, to verify the certification of Lessee as to the effect of the proposed action on fair market value and if such Appraisal concludes that the proposed action will impair the fair market value of the affected Leased Property by 1% or more, Lessee shall reimburse Lessor, the Indenture Trustee and LC Issuer, as applicable, for the costs of such Appraisal and Lessor, the Indenture Trustee and LC Issuer shall either withhold its consent or condition its consent upon payment by Lessee of an amount equal to the diminution of fair market value. Any such request by Lessee shall be accompanied by an Officer's Certificate as to compliance with the conditions set forth in the foregoing clauses (x), (y) and (z).

33. Lessee's Representations and Warranties. Lessee hereby represents

-----  
and warrants that as of the Basic Term Commencement Date (a) Lessee is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation set forth above, and is qualified to do business in, and is in good standing in, each state or other jurisdiction in which the nature of its business makes such qualification necessary (including, without limitation, the Commonwealth of Virginia); (b) Lessee has the corporate power and authority to execute and perform this Lease and to lease the Leased Properties hereunder, and has duly authorized the execution, delivery and performance of this Lease; (c) the leasing of the Leased Properties from Lessor by Lessee, the execution and delivery of this Lease and any documents or instruments related hereto, and the compliance by Lessee with the terms hereof and thereof, and the payments and performance by Lessee of all of its obligations hereunder and thereunder (i) have been duly and legally authorized by appropriate corporate action taken by Lessee, (ii) are not in contravention of, and will not result in a violation or breach of, any of the terms of Lessee's Certificate of Incorporation (or equivalent document), its By-Laws, or of any provisions relating

to shares of the capital stock of Lessee, and (iii) will not violate or constitute a breach of any applicable provision of law, any applicable order of any court or other agency of government, or any indenture, agreement or other instrument to which Lessee is a party, or by or under which Lessee or any of Lessee's property is bound, or be in conflict with, result in a breach of, or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or instrument, or result in the creation or imposition of any Lien upon any of Lessee's property or assets; (d) this Lease and all other documents or instruments related hereto have been executed by the duly authorized officer or officers of Lessee and delivered to Lessor and are the legal, valid and binding obligations of Lessee, enforceable in accordance with their terms except as certain rights and remedies set forth herein may be limited by bankruptcy, reorganization and similar laws of general application relating to or affecting the enforcement of Lessors' rights and general principles of equity; (e) neither the execution and delivery of this Lease and all other documents and instruments related hereto, nor the payment and performance by Lessee of all of its obligations hereunder and thereunder, requires the consent or approval of, the giving of notice to, or the registration, filing or recording with, or the taking of any other action in respect of, any federal, state, local or foreign government or governmental authority or agency or any other Person; (f) no mortgage, deed of trust, or other Lien which now covers or affects, or which may hereafter cover or affect, any property or interest therein of Lessee, now attaches or hereafter will attach to the Leased Properties or any portion thereof, the proceeds thereof or this Lease, or in any manner affects or will affect adversely Lessor's rights and security interest therein; (g) Lessee holds all licenses, certificates and permits from governmental authorities necessary to use and operate the Leased Properties in accordance with the provisions of this Lease; (h) there is no litigation or other proceeding now pending or, to the best of Lessee's Actual Knowledge, threatened, against or affecting Lessee, in any court or before any regulatory commission, board or other administrative governmental agency which would directly or indirectly adversely affect or impair the title of Lessor to the Leased Properties, or which, if decided adversely to Lessee, would materially adversely affect the business operations or financial condition of Lessee; (i) all balance sheets, statements of profit and loss and other financial data that have been delivered to Lessor with respect to the Guarantor or Lessee, as applicable, (x) are complete and correct in all material respects, (y) accurately present the financial condition of Lessee on the dates for which, and the results of its operations for the periods for which, the same have been furnished, and (z) have been prepared in accordance with GAAP consistently followed throughout the periods covered thereby; and there has been no material adverse change in the condition of Lessee, financial or otherwise, since the date of the most recent financial statements delivered to Lessor with respect to Lessee; (j) no default or event of default has occurred and is continuing under the Interim Trust Agreement, as defined in the Sale and Assignment Agreement (BI Interests); and (k) on or before the Basic Term Commencement Date, all existing indebtedness owed by Lessor in accordance with the Interim Trust Agreement shall have been paid or satisfied.

34. Recording. Lessor and Lessee will execute, acknowledge, deliver and  
-----

cause to be recorded or filed in the manner and place required by any present or future law, a memorandum



of this Lease and all other instruments, including, without limitation, financing statements, continuation statements, releases, deeds of conveyance (upon surrender and return, if necessary) and instruments of similar character, which shall be reasonably requested by Lessor, the Indenture Trustee or LC Issuer as being necessary or appropriate in order to protect their respective interests in the Leased Properties. Lessee shall pay all recording and filing fees and taxes, stamp taxes, mortgage or lease taxes, and other costs of such recordation and filing. If Lessee shall fail to comply with this Article 34, Lessor shall be and is hereby irrevocably appointed the agent and attorney-in-fact of Lessee to comply therewith, but this sentence shall not prevent any default in the observance of this Article 34 by the Lessee from constituting an Event of Default in accordance with the provisions of paragraph (a)(ii) of Article 22 hereof.

35. Miscellaneous. This Lease embodies the entire agreement between

-----  
Lessor and Lessee relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. This Lease shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns permitted hereunder. No term or provision hereof may be amended, changed, waived, discharged or terminated orally, but only by an instrument specifically evidencing an intent to amend signed by the party against whom enforcement thereof is sought and with the prior written consent of the Indenture Trustee and LC Issuer. No failure, delay, forbearance or indulgence on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, or as an acquiescence in any breach, nor shall any single or partial exercise of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. This Lease and the rights and obligations in respect hereof shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York, except to the extent that in seeking to enforce this Lease with respect to a Leased Property and to the extent any other rights and obligations hereunder are required to be governed under the laws of the state in which such Leased Property is located, the laws of the state in which such Leased Property is located shall apply, notwithstanding the express intent of the parties hereto. Lessee hereby agrees to non-exclusive personal jurisdiction and venue in the state courts of the State of New York and the United States District Court for the Southern District of New York. All headings are for reference only and shall not be considered as part of this Lease. This Lease may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument. Lessee may cause to be performed any obligation of Lessee under this Lease in lieu of performing such obligation itself.

The Indenture Trustee, Beneficiary, the Registered Owners and LC Issuer shall be third party beneficiaries of this Lease with respect to those provisions that explicitly or implicitly are for the benefit of the Indenture Trustee, Beneficiary, the Registered Owners or LC Issuer.

The dating of this Lease "as of October 14, 1998" is for convenience of reference only, and this Lease shall become effective only upon its execution and delivery by Lessor and Lessee.

To the extent that this Agreement is characterized as being a financing transaction, Lessor and Lessee hereby acknowledge and agree as follows: (1) the amount of interest shall be equal to the aggregate amount of Basic Rent due under this Lease (the Payments); (2) Lessee has been informed of the Cost of the

-----  
Properties or, in the alternative, acknowledges that it has been given an opportunity to determine the Cost of the Properties; (3) the rate of interest agreed to and specified by Lessor and Lessee in such event shall be that rate per annum that may be calculated based upon the Cost of the Properties (i.e. the principal amount) and the Payments (i.e., the interest payments); and (4) if the rate of interest so calculated is ever deemed to exceed the maximum rate permitted by applicable law, then the Payments shall be automatically reduced to ensure that such rate of interest does not exceed the maximum rate permitted by applicable law.

36. Ownership of the Leased Properties.

-----  
(a) Lessor and Lessee intend that (i) for financial accounting purposes with respect to Lessee, this Lease will be treated as an "operating lease" pursuant to Statement of Financial Accounting Standards No. 13, as amended, but (ii) for federal and all state and local tax purposes and bankruptcy, commercial law and real estate purposes and all other purposes (A) this Lease will be treated as a financing arrangement, (B) Lessor will be deemed a lender making a loan for the benefit of the Lessee, which loan is secured by all of the Leased Properties, and (C) Lessee will be treated as the owner of all of the Leased Properties and will be entitled to all tax benefits ordinarily available to an owner of a property similar to the Leased Properties for such tax purposes. So long as no Event of Default shall have occurred, Lessor will take no action inconsistent with such intent for tax purposes provided, that nothing in this Article 36 shall be deemed to restrict Lessor's right to exercise any remedies after the occurrence of an Event of Default. Notwithstanding the foregoing, in the event that the Lease is treated by any foreign, federal, state or local taxing authority as anything other than a secured loan, Lessor and Lessee may take all such actions as are appropriate and consistent with such treatment.

(b) Lessee hereby grants to Lessor a mortgage and security interest in all of the Lessee's right, title and interest in and to the Leased Properties, together with any substitutions, replacements and additions thereto, all general intangibles related to the Leased Properties and all of Lessee's rights, claims and damages arising from warranties (whether express or implied) of architects, contractors and subcontractors and any other vendors with respect to the development and construction of the Improvements, and all proceeds of the conversion, voluntary or

involuntary, of the foregoing into cash, investments, securities or other property, whether in cash, investments, securities or other property, whether in the form of cash, investments, securities or other property. Lessor and Lessee shall, to the extent consistent with this Lease, take such actions and execute, deliver, file and record such other documents, financing statements, mortgages and deeds of trust as may be necessary to ensure that, if this Lease were deemed to create a security interest in the Leased Properties in accordance with this Article 36, such security interest would be deemed to be a perfected security interest of first priority under applicable federal, state and local law, subject only to Permitted Encumbrances, and will be maintained as such throughout the Term of this Lease.

(c) Lessor and Lessee intend and agree that with respect to the nature of the transaction evidenced by this Lease in the context of the exercise of remedies under this Lease, including, without limitation, in the case of any insolvency or receivership proceedings or a petition under the United States bankruptcy laws or any other applicable insolvency laws or statute of the United States of America or any State or Commonwealth thereof affecting Lessee or Lessor, or any enforcement or collection actions and for all other purposes (except as provided in paragraph (a) of this Article 36), the transactions evidenced by this Lease shall be regarded as a loan made by Lessor as an unrelated third party lender to Lessee secured by all of the Leased Properties (it being understood that Lessee hereby mortgages and warrants and grants a security interest in all of the Leased Properties to Lessor).

(d) Lessor and Lessee further intend and agree that, for the purpose of securing Lessee's obligations for the payment of Basic Rent and Additional Rent, (i) this Lease shall also be deemed to be a security agreement and financing statement within the meaning of Article 9 of the Uniform Commercial Code and a real property mortgage; (ii) the conveyance provided for in paragraph (b) of this Article 36 shall be deemed to be a grant by Lessee to Lessor of a mortgage lien and security interest in all of the Lessee's right, title and interest in and to the Leased Properties, together with any substitutions, replacements and additions thereto, all of the Lessee's rights in and to all general intangibles related to the Leased Properties and all of Lessee's rights, claims and damages arising from warranties (whether express or implied) of architects, contractors and subcontractors with respect to the development and construction of the Improvements, and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, investments, securities or other property, whether in cash, investments, securities or other property, whether in the form of cash, investments, securities or other property (it being understood that Lessee hereby mortgages and warrants and grants a security interest in all of the Leased Properties to Lessor to secure the payment of Basic Rent and Additional Rent); (iii) the possession by Lessor or any of its agents of notes and such other items of property as constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the Uniform Commercial Code; and (iv) notifications to Persons holding such property, and acknowledgments, receipts or confirmations from financial intermediaries, bankers or agents (as

applicable) of Lessee shall be deemed to have been given for the purpose of perfecting such security interest under applicable federal, state and local law. Lessor and Lessee shall, to the extent consistent with this Lease, take such actions and execute, deliver, file and record such other documents, financing statements, mortgages and deeds of trust as may be necessary to ensure that, if this Lease were deemed to create a security interest in the Leased Properties in accordance with this Article 36, such security interest would be deemed to be a perfected security interest of first priority under applicable federal, state and local law, subject only to Permitted Encumbrances, and will be maintained as such throughout the Term of this Lease.

(e) Notwithstanding anything herein to the contrary, to the extent the provisions of this Lease provide, or purport to provide, for the grant, creation, perfection or enforcement of a lien in real property or any interest therein (collectively, the "mortgage provisions"), such provisions shall not apply to the Leased Properties located in Virginia, and the provisions of the Lease Supplement referred to in the definition of Memorandum of Lease (including Sections 5 and 6 thereof) shall apply in lieu of such mortgage provisions, it being understood that, to the extent the provisions of this Lease provide, or purport to provide, for the grant, creation, perfection and enforcement of a security interest in personal property or any interest therein, such provisions shall apply in all respects to the Leased Properties located in Virginia or otherwise governed by the Uniform Commercial Code as in effect in Virginia.

37. Purchase Options.

-----

(a) At any time during the Term, unless Lessee shall have elected to purchase the Leased Properties in accordance with Article 12(c), 16(b) or 28(a) hereof and so long as no Default or Event of Default has occurred and is continuing hereunder, Lessee may give Lessor and the Indenture Trustee an irrevocable written notice (the Purchase Notice) of Lessee's intention to

-----

purchase one or more Leased Properties pursuant to this Article 37(a). Such notice shall (A) refer specifically to this Article 37(a) and the corresponding section of the Indenture and (B) state that Lessee will purchase such Leased Property in accordance with the provisions of Article 16 hereof for the price set forth in subparagraph (b) of Article 37 below, (C) indicate whether Lessee intends to purchase all of the Leased Properties or fewer than all of the Leased Properties and, if fewer than all of the Leased Properties, no more than two Leased Properties may be purchased hereunder during the Term, and (D) specify the date for such purchase (which shall be the Installment Payment Date no less than 40 nor more than 71 days after the date of such Purchase Notice). Upon such election, Lessee shall purchase such Leased Properties in accordance with the provisions of Article 16 hereof on such purchase date at the price set forth in subparagraph (b) of Article 37 below.

(b) If Lessee has elected to purchase one or more Leased Properties in accordance with paragraph (a) above, Lessee shall pay in cash or immediately available federal funds, as the price (i) for all of the Leased Properties, an amount equal to the Termination Value payable as of

the date of purchase, together with accrued and unpaid Basic Rent and Additional Rent to the date of purchase, and (ii) for fewer than all of the Leased Properties, an amount equal to the greater of (x) the appraised value of such Leased Properties, as determined at such time pursuant to an Appraisal (which shall be delivered to Lessor, the Indenture Trustee, Beneficiary, the LC Issuer and the Registered Owners at least 15 days prior to the date of sale and in form satisfactory to the Registered Owners and LC Issuer), (y) any purchase price offered with respect thereto from, or committed to by, a bona fide third party purchaser and (z) the Termination Value applicable to such Leased Property or Properties in accordance with its or their Allocable Percentage(s) payable as of the date of purchase for the Leased Properties to be purchased, together with, in each case without duplication, accrued and unpaid Basic Rent and Additional Rent to the date of purchase, plus, in each case, an amount equal to the costs and expenses of Lessor, the Indenture Trustee, Beneficiary, the LC Issuer and the Registered Owners of the Notes, as applicable, in connection with such sale (including reasonable attorneys' fees and disbursements), plus, in each case, the Reinvestment Premium.

(c) If Lessee has elected to purchase fewer than all of the Leased Properties in accordance with (a) above, Lessee shall, at its sole cost and expense and as a condition thereto, furnish to Beneficiary, LC Issuer, the Indenture Trustee and each of the Registered Owners of the Notes, an Appraisal of the Leased Properties not subject to purchase hereunder which is acceptable to such Persons, (i) stating that the aggregate fair market value of such Leased Properties is equal to or greater than the Termination Value applicable to such Leased Property or Properties in accordance with its or their Allocable Percentage(s) and (ii) evidencing to the satisfaction of the recipients thereof that (x) the ratio of the Cost of the Properties to fair market value for all Leased Properties immediately prior to giving effect to such purchase is greater than or equal to (y) the ratio of the Cost of the Properties to fair market value for all Leased Properties remaining after such purchase.

(d) Upon payment of all amounts payable by Lessee hereunder, and application of such amounts to payment of the Notes and the Equity Investment, including any Reinvestment Premium due with respect thereto, this Lease shall terminate with respect to such Leased Properties and such Leased Properties shall be conveyed to Lessee pursuant to Article 16 hereof and in accordance with the terms and conditions thereof. If Lessee fails to purchase the Leased Properties on such purchase date in accordance with the terms hereof, such failure shall immediately constitute an Event of Default hereunder.

38. Substitution of Properties.

-----  
(a) So long as no Default or Event of Default has occurred and is continuing hereunder, in the event (i) Lessee or Guarantor or any Affiliate thereof is required by applicable bank regulatory requirements to divest its interest in any Leased Property or (ii) Lessee desires to cause a Leased Property to be sold to a Person that is not an Affiliate of any party to any Operative Document, Lessee may give Lessor and the Indenture Trustee an irrevocable written notice (the Substitution Notice) of Lessee's intention to

-----  
substitute a new property located in the United States (an Exchange Property)

-----  
for such Leased Property pursuant to this Article 38(a). Such notice shall (A) refer specifically to this Article 38(a) and the corresponding section of the Indenture, (B) state that Lessee proposes to substitute such Leased Property in accordance with the provisions of this Article 38, (C) include, if a substitution shall occur under the circumstances described under clause (a)(i) hereof, the order or regulation applicable to Lessee, Guarantor or such Affiliate, (D) include, if a proposed substitution shall occur under the circumstances described under clause (a)(ii) hereof, an irrevocable commitment to purchase such Leased Property from such Person which purchase shall be conditioned upon the satisfaction of, among other things, the conditions set forth herein, and (E) specify the date for such substitution (which shall be the Installment Payment Date no less than 14 nor more than 45 days after the date of such Substitution Notice).

(b) Each proposed Exchange Property shall be approved by the Indenture Trustee (acting on instructions from all of the Registered Owners), which approval shall not be unreasonably withheld, conditioned or delayed. The following additional conditions shall be satisfied prior to any substitution of properties pursuant to this Article 38:

- (i) Lessor, Indenture Trustee and LC Issuer shall have received an Appraisal and a "Phase I" Environmental Report of the Exchange Property made by an Appraiser and environmental engineer, respectively, selected by Indenture Trustee, subject to the approval of Lessor and LC Issuer, which approval shall not be unreasonably withheld, which Appraisal and Environmental Report shall have been made at the expense of Lessee. Such Appraisal shall be delivered at least 30 days prior to the date of such proposed substitution and shall indicate the fair market value and useful life of the Exchange Property at the time of the proposed substitution and prospectively for the end of each remaining year of the Maximum Lease Term (assuming in each case that the affected Leased Property had been maintained and operated in accordance with the terms of this Lease). Fair market value shall be determined by the same methodology as was employed by the appraiser in the original appraisal of the replaced Leased Property delivered in connection with the commencement of the Lease with respect to such Leased Property. Such Environmental Report shall be delivered at least 30 days prior to the date of such proposed substitution, shall speak as of a date not more than six months prior to

the date of such proposed substitution and shall not disclose any conditions which are not satisfactory to Lessor, Indenture Trustee or LC Issuer. Lessee shall certify to the best of its knowledge that as of the substitution date there has been no adverse change in the environmental status of the Exchange Property from that described in the Environmental Report with regard to environmental matters. If such Environmental Report recommends further review, Lessee, at its own expense, will provide such additional environmental assessments as are required by Lessor, Indenture Trustee or LC Issuer. The results of such Environmental Reports shall be satisfactory to Lessor, Indenture Trustee and LC Issuer. Lessor, Indenture Trustee, LC Issuer and each holder of indebtedness secured by the Indenture shall receive a letter from the environmental engineer submitting such Environmental Report, permitting such addressee to rely on such Environmental Reports.

- (ii) Lessor, Indenture Trustee and LC Issuer shall have received a Lease Supplement in the form of Schedule H annexed hereto and, if appropriate, a memorandum or short form of lease with respect thereto, duly authorized, executed and delivered by Lessee, as lessee, adding and subjecting the Exchange Property to, and releasing the affected Leased Property from, the terms of this Lease, and containing such other terms as Lessor, Indenture Trustee or LC Issuer or their respective counsel may reasonably deem necessary or appropriate by reason of the transactions contemplated by this Article 38.
- (iii) Lessee shall have caused to be executed and delivered to Lessor, Indenture Trustee and LC Issuer (w) a special warranty deed, sufficient to convey to Lessor good and marketable title to the Exchange Property subject only to the Permitted Encumbrances described in clauses (a), (b), (c), and (h) of the definition thereof (to the extent such Permitted Encumbrances are acceptable to Lessor, Indenture Trustee and LC Issuer), (x) a supplement to or amendment of the Assignment of Lease, including the legal description of the Exchange Property, (y) a supplement to or amendment of the Indenture with respect to such Exchange Property, and (z) a supplement to or amendment of the LC Deed of Trust with respect to such Exchange Property, in each case in form sufficient for recording and enforceability in the applicable jurisdiction, so that upon the proper recordation and effectiveness of the foregoing, such parties shall enjoy the same rights and benefits with respect to the Exchange Property as existed with respect to such substituted Leased Property. Lessor, Indenture Trustee and LC Issuer shall have received (a) an owner's and a mortgagee's policy of title insurance, as applicable, on the standard ALTA form formerly known as 1970 form (or if the 1970 form is not available in a particular jurisdiction, a more recent form which has been endorsed or had exclusions removed to achieve the equivalent) with respect to the

Exchange Property (or a commitment therefor) with mechanics' lien coverage and containing no survey exception, insuring Lessor, Indenture Trustee and LC Issuer, respectively, against loss with respect to the Exchange Property and otherwise reasonably satisfactory to Lessor, Indenture Trustee and LC Issuer and (b) a survey of the Exchange Property, satisfactory in form and substance to Lessor, Indenture Trustee and LC Issuer, certified within 90 days prior to the date of substitution, by a surveyor licensed in the state in which the Exchange Property is located.

- (iv) Lessor, Indenture Trustee and LC Issuer shall have had the opportunity to conduct customary due diligence with regard to the Exchange Property and shall have received evidence satisfactory to each such Person that the Exchange Property complies with all zoning and other land use requirements and that all necessary permits and licenses have been issued with respect thereto.
- (v) All necessary approvals, authorizations and consents of all governmental bodies (including courts) having jurisdiction with respect to the transactions contemplated by this Article 38 shall have been obtained and all taxes (which, if permitted by law, may be paid in installments), fees and other charges payable in connection therewith shall have been paid.
- (vi) Lessor, LC Issuer and Indenture Trustee shall have received such other instruments and such certificates, including without limitation, an estoppel certificate from Lessee, evidence of the insurance required by this Lease, certificates as to representations and warranties, and opinions of counsel, each in form and substance reasonably satisfactory to Lessor, LC Issuer and Indenture Trustee in connection with the transactions contemplated by this Article 38 as Lessor, LC Issuer or Indenture Trustee may reasonably request. Where required, such instruments shall have been duly recorded by Lessee. Lessee shall pay all fees and expenses incurred in connection with the transaction contemplated by this Article 38, by any Person including, without limitation, Lessor, LC Issuer, Indenture Trustee, the Registered Owners, Beneficiary, including reasonable attorneys' fees and disbursements of such Persons.

(c) If the Appraisal provided to Lessor, Indenture Trustee and LC Issuer pursuant to paragraph (b) (i) of this Article 38 shall show that the fair market value of the Exchange Property is less than the fair market value of the Leased Property for which such Exchange Property is to be substituted, then Lessee shall be required to pay to Lessor, as an adjustment to Basic Rent hereunder, the amount of such difference, plus an amount equal to the Reinvestment Premium calculated with respect to such difference (the Substitution Adjustment) and the -----  
Lease shall be modified as set forth in Article 16(c).



(d) If all of the conditions set forth in this Article 38 have been satisfied, then, upon payment of the Substitution Adjustment, if applicable, and the conveyance of the Exchange Property to Lessor in accordance with the terms hereof, Lessor shall convey the affected Leased Property to Lessee in accordance with the provisions of Article 16 and the Lease shall terminate as to such affected Leased Property and shall be effective as to such Exchange Property. If Lessee fails to complete such substitution on or before the date set forth in the Substitution Notice, or such later date as Lessor, Lessee, Indenture Trustee and LC Issuer shall mutually agree, such failure shall immediately constitute an Event of Default hereunder.

39. The Individual Trustee. Subject to the provisions of the Trust

-----  
Agreement and, with respect to the Leased Properties located in Virginia, all rights, duties, powers and obligations conferred or imposed on the Lessor under this Lease shall be conferred and imposed solely on, and exercised and performed solely by the Individual Trustee, and the Lessor for purposes of this Lease shall be the Individual Trustee.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Lessor and Lessee hereto have each caused this Lease to be duly executed and delivered under seal in their respective names and behalf, as of the day and year first above written.

LESSOR:

FIRST SECURITY BANK, N.A.

not individually but solely in its capacity as owner trustee under that certain Amended and Restated Trust Agreement dated as of October 14, 1998

Witnessed By:

By: /s/ Carl J. Mathis  
-----  
Name: Carl J. Mathis

By: /s/ C. Scott Nielsen  
-----  
Name: C. Scott Nielsen  
Title: Vice President

By: /s/ Larry C Montgomery  
-----  
Name: Larry C Montgomery

Witnessed By:

By: /s/ Carl J. Mathis  
-----  
Name: Carl J. Mathis

By: /s/ Larry C Montgomery  
-----  
Name: Larry C. Montgomery

/s/ Val T. Orton  
-----  
Val. T. Orton, not individually but solely in his capacity as owner trustee under that certain Amended and Restated Trust Agreement dated as of October 14, 1998.

LESSEE:

CAPITAL ONE REALTY, INC.

Witnessed By:

By: /s/  
-----  
Name:

By: /s/ Stephen Linehan  
-----  
Name: Stephen Linehan  
Title: Manager of Corporate Finance

By: /s/  
-----  
Name:

APPENDIX I

-----

Definitions

As used herein, and in the Operative Documents defined below (unless otherwise defined therein), the following terms have the meanings set forth below:

Actual Knowledge by a non-natural Person, with respect to the occurrence or -----  
non-occurrence of an event, means knowledge of such occurrence or non-occurrence by an officer of such Person in a position to have, or who is charged with having, such knowledge.

Addition has the meaning set forth in paragraph (c) of Article 10 of the -----  
Lease.

Additional Rent has the meaning set forth in paragraph (b) of Article 3 of -----  
the Lease.

Adjustment Price has the meaning set forth in paragraph (a) of Article 30 -----  
of the Lease.

Affiliate means, with respect to any Person, a Person who, directly or -----  
indirectly, through one or more intermediaries, controls, or is controlled by or is under common control with, such Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Allocable Percentage means, with respect to any Leased Property, the amount -----  
set forth with respect thereto on Schedule J annexed to the Lease, as recalculated from time to time in accordance with the provisions of the Lease.

Applicable Officer means the Treasurer, any Assistant Treasurer or Chief -----  
Financial Officer of Lessee or if Lessee no longer has an officer with such title, the chief executive officer or other officer performing the equivalent function.

Appraiser means an appraiser conducting an Appraisal. -----

Appraisal means an appraisal performed by an MAI appraiser reasonably -----  
satisfactory to Lessor, the Indenture Trustee and LC Issuer using appraisal methodology reasonably satisfactory to Lessor.

Appurtenant Rights has the meaning set forth in Granting Clause First of -----  
the Indenture.

Assignee has the meaning set forth in paragraph (b) of Article 20 of the -----  
Lease.

Assignment of Guaranty means that certain Assignment of Guaranty dated as  
-----  
of October 14, 1998 by Owner, as assignor, to Indenture Trustee, as assignee,  
and agreed and consented to by Guarantor, as the same may be amended or  
supplemented from time to time.

Assignment of Lease means that certain Assignment of Lease dated as of  
-----  
October 14, 1998 by Owner, as assignor, to Indenture Trustee, as assignee, and  
agreed and consented to by Lessee, as the same may be amended or supplemented  
from time to time.

Bankruptcy Act means Title 11 of the United States Code or any other  
-----  
Federal or state bankruptcy, insolvency or similar law, now or hereafter in  
effect in the United States.

Basic Rent has the meaning set forth in paragraph (a) of Article 3 of the  
-----  
Lease.

Basic Term has the meaning set forth in paragraph (a) of Article 2 of the  
-----  
Lease.

Basic Term Commencement Date has the meaning set forth in paragraph (a) of  
-----  
Article 2 of the Lease; provided that with respect to an Exchange Property,  
Basic Term Commencement Date shall mean the date on which such Leased Property  
becomes subject to the Lease.

Beneficial Interest means the entire beneficial interest in Lessor and the  
-----  
Owner Trust Estate.

Beneficiary means, collectively, the Secured Beneficiary and the Equity  
-----  
Beneficiary.

BTM Comfort Letter means the letter of comfort regarding the LC Issuer  
-----  
issued by Bank of Tokyo-Mitsubishi, Ltd., New York Branch, as the same may be  
amended or supplemented from time to time.

Business Day means (a) for the purposes of the definition of Reinvestment  
-----  
Premium only, any day other than a Saturday, a Sunday or a day on which  
commercial banks in New York City are required or authorized to be closed, and  
(b) for any other purposes, any day other than a Saturday, Sunday or other day  
or which banks are required or authorized to be closed in New York,  
Massachusetts, Virginia, Florida or Connecticut.

Capital One Operations Center means the Land Parcel located in Glen Allen,  
-----  
Virginia, and identified as such on Schedule A annexed to the Lease.

Closing Date means December \_\_\_\_, 1998.  
-----

Code means the Internal Revenue Code of 1986, as amended from time to time,  
-----  
and the rules and regulations promulgated thereunder from time to time.

Corporate Trust Office means 10 State House Square, Hartford, Connecticut

06103, Attention: Corporate Trust Administration.

Cost of the Property means, with respect to a Leased Property, the

Allocable Percentage with respect to such Leased Property multiplied by the Cost of the Properties.

Cost of the Properties means \$86,800,000, equal to the sum of (x) the cost

of the acquisition of the Beneficial Interest and (y) the aggregate amounts of outstanding indebtedness encumbering the Leased Properties as of the Closing Date, all as determined in good faith by Lessee and set forth in an Officer's Certificate of Lessee accompanied by supporting documentation and materials satisfactory to Owner, as such indebtedness may be reduced pursuant to Articles 13, 16, 37 and 38 of the Lease, as applicable.

Deed of Trust Trustee means Lawyers Title Realty Services, Inc., a Virginia

corporation, together with its successors and permitted assigns.

Default means any event or circumstance which with the passing of time or

giving of notice or both would constitute an Event of Default under the applicable Operative Document.

Depository has the meaning set forth in paragraph (b) of Article 12 of the

Lease.

Dispute Notice has the meaning set forth in Article 12(b)(ii) of the Lease.

Engineer has the meaning set forth in Article 12(b)(ii) of the Lease.

Environmental Laws means and includes but shall not be limited to the

Resource Conservation and Recovery Act (42 U.S.C. (S) 6901 et seq.), as amended

by the Hazardous and Solid Waste Amendments of 1984, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. (S) 9601 et seq.), as amended by the Superfund Amendments and Reauthorization Act of 1986,

the Hazardous Materials Transportation Act (49 U.S.C. (S) 1801 et seq.), the

Toxic Substances Control Act (15 U.S.C. (S) 2601 et seq.), Clean Air Act (42

U.S.C. (S) 7401 et seq.), the Clean Water Act (33 U.S.C. (S) 1251 et seq.) the

Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. (S) 136 et seq.),

the Occupational Safety and Health Act (29 U.S.C. (S) 651 et seq.) and all

applicable federal, state and local environmental laws, including obligations under the common law, ordinances, rules, regulations, permits, approvals, orders, decrees, consent orders, private agreements (such as covenants, conditions and restrictions) and publications, as any of the foregoing may have been or may be from time to time amended, supplemented or supplanted, and any other federal, state or local laws, including obligations under the common law, ordinances, rules, regulations, private agreements (such as covenants, conditions and restrictions) and publications, now or hereafter existing relating to regulation or control of Hazardous Substances or environmental health and safety.

Equity Beneficiary means JH Equity Realty Investors, Inc., a Delaware  
-----  
corporation, together with its successors and permitted assigns.

Equity Investment means as of any date the equity investment in Owner in  
-----  
the amount of \$3,038,000 made by Beneficiary, together with all accrued and  
unpaid Equity Return thereon.

Equity Return means a return on the amount of the Equity Investment  
-----  
outstanding from time to time equivalent to interest thereon at the rate of  
7.08% per annum, compounded monthly.

ERISA means the Employee Retirement Income Security Act of 1974, as  
-----  
amended.

ERISA Affiliate means, with respect to the Indenture and the Note Agreement  
-----  
(a) a corporation which is a member of a controlled group of corporations with  
Owner within the meaning of Section 414(b) of the Code, (b) a trade or business  
(including a sole proprietorship, partnership, trust, estate or corporation)  
which is under common control with Owner, within the meaning of Section 414(c)  
of the Code, (c) a member of an affiliated service group with Owner, within the  
meaning of Section 414(m) of the Code, or (d) an entity described in Section  
414(o) of the Code.

Event of Default has the meaning set forth in the applicable Operative  
-----  
Document.

Exchange Property has the meaning set forth in Article 38(a) of the Lease.  
-----

Excluded Payments means (i) indemnity payments paid or payable by Lessee to  
-----  
or in respect of the Owner, its Affiliates, successors and permitted assigns and  
its directors, officers, employees, servants and agents pursuant to the Lease or  
any corresponding payment under any other Operative Document, (ii) proceeds of  
public liability insurance paid or payable as a result of insurance claims made,  
or losses suffered, by the Owner that are payable directly to the Owner for its  
own account, (iii) any interest that pursuant to the Operative Documents may  
from time to time accrue in respect of any of the amounts described in clauses  
(i) and (ii) above, (iv) any right to enforce the payment of any amount  
described in clauses (i) through (iii) above, and (v) any right to exercise any  
election or option or make any decision or determination, or to give or receive  
any notice, consent, waiver or approval, or to give or receive any notice,  
consent, waiver or approval, or to take any other action in respect of, but in  
each case, only to the extent relating to, any Excluded Payments.

Excluded Taxes has the meaning set forth in paragraph (a) of Article 6 of  
-----  
the Lease.

Fee Simple Land Parcels means each of (i) Capital One Operations Center and  
-----  
(ii) Knolls Office Building.

Force Majeure means any strike, lockout, or other event or circumstance

-----

completely outside of Lessee's or Guarantor's reasonable control, but excluding any such event or circumstance which has exceeded 180 days on a cumulative basis and any condemnation or damage or destruction by fire or other casualty.

FSB means First Security Bank, N.A., a national banking association,

---

together with its successors and assigns.

GAAP or generally accepted accounting principles means, as of the date of

-----

any determination with respect thereto, generally accepted accounting principles in effect from time to time in the United States.

Ground Lease means (a) with respect to Knolls Two Phase Three, that certain

-----

Ground Lease dated as of June 21, 1996, as amended by that certain Memorandum of Ground Lease, dated as of June 21, 1996, by and between Owner, as ground lessee, and the applicable Ground Lessor, as ground lessor, (b) with respect to Renaissance Business Park Phase I, that certain Ground Lease dated as of November 12, 1996, as amended by an Amended and Restated Short Form Lease and Ground Lease and Grant of Easement Agreement, and Amendment of Ground Lease, dated as of February 11, 1998, by and between Owner, as ground lessee, and the applicable Ground Lessor, as ground lessor, and (c) with respect to Renaissance Business Park Phase II, that certain Ground Lease dated as of February 11, 1998 by and between Owner, as ground lessee, and the applicable Ground Lessor, as ground lessor, as each of the same has been amended by the Ground Lease Amendment, as applicable, and each as amended or supplemented from time to time.

Ground Lease Amendment(s) means collectively (i) Amendment to Lease and

-----

Landlord's Consent Agreement to Ground Lease, dated as of October 14, 1998, between the Ground Lessor referenced in clause (a) in the definition thereof, and Owner, together with any memorandum thereof, (ii) Amendment to Lease and Landlord's Consent Agreement to Ground Lease, dated as of October 14, 1998, between the Ground Lessor referenced in clause (b) in the definition thereof, and Owner, together with any short form thereof, and (iii) Amendment to Lease and Landlord's Consent Agreement to Ground Lease, dated as of October 14, 1998, between the Ground Lessor referenced in clause (c) in the definition thereof and Owner, together with any short form thereof.

Ground Leasehold Land Parcels means each of (i) Knolls Two Phase Three,

-----

(ii) Renaissance Business Park Phase I and (iii) Renaissance Business Park Phase II.

Ground Lessor means (a) with respect to Knolls Two Phase Three, Capital One

-----

Bank, a Virginia banking corporation, (b) with respect to Renaissance Business Park Phase I, Capital One Services, Inc., a Delaware corporation, and (c) with respect to Renaissance Business Park Phase

II, Capital One Services, Inc., a Delaware corporation, and the successors and assigns of each as ground lessor under any Ground Lease.

Guarantor means Capital One Bank, a Virginia banking corporation.

-----

Guaranty means that certain Guaranty dated as of October 14, 1998 by

-----

Guarantor for the benefit of Lessor and the other obligees referred to therein and Lessor's and such obligees' successors and assigns, pursuant to which Guarantor has unconditionally guaranteed the obligations of Lessee under the Lease, as may be amended, supplemented or modified from time to time.

Hazardous Substances means (i) those substances included within the

-----

definitions of or identified as "hazardous substances", "hazardous materials", or "toxic substances" in or pursuant to, without limitation, the Comprehensive Environmental Response Compensation and Liability Act of 1980 (42 U.S.C. (S) 9601 et seq.) (CERCLA), as amended by Superfund Amendments and Reauthorization

-----

Act of 1986 (Pub. L. 99-499, 100 Stat. 1613) (SARA), the Resource Conservation and Recovery Act of 1976 (42 U.S.C., (S) 6901 et seq.) (RCRA), the Occupational

-----

Safety and Health Act of 1970 (29 U.S.C. (S) 651 et seq.) (OSHA), and the

-----

Hazardous Materials Transportation Act, 49 U.S.C. (S) 1801 et seq., and in the

-----

regulations promulgated pursuant to said laws, all as amended; (ii) those substances listed in the United States Department of Transportation Table (40 CFR 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and amendments thereto); (iii) any material, waste or substance which is or contains (A) petroleum, including crude oil or any fraction thereof, natural gas, or synthetic gas usable for fuel or any mixture thereof, (B) asbestos, (C) polychlorinated biphenyls, (D) designated as "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. (S) 1251 et seq., (33 U.S.C. (S)

-----

1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. (S) 1317); (E) flammable explosives; (F) radioactive materials; and (iv) such other substances, materials and wastes which are or become regulated as hazardous, toxic or "special wastes" under applicable local, state or federal law, or the United States government, or which are classified as hazardous, toxic or as "special wastes" under federal, state or local laws or regulations, including any Environmental Laws.

Identified Plan has the meaning set forth in Section 8.2 of the Note

-----

Agreement.

Improvements has the meaning set forth in Granting Clause First of the

-----

Indenture.

Indemnified Party means any of Lessor, FSB, LC Issuer, the Indenture

-----

Trustee, each Registered Owner, any Assignee, each Beneficiary, Placement Agent, and their respective successors and assigns, and each and all of such Person's shareholders, officers, directors, employees, attorneys and agents, and any holder of any beneficial interest in any of the foregoing.



Indenture means that certain Indenture, Fee and Leasehold Deed of Trust,  
-----  
Mortgage, Security Agreement and Fixture Filing dated as of October 14, 1998  
from Owner to Indenture Trustee, as amended or supplemented from time to time.

Indenture Trust Estate has the meaning set forth in the preamble to the  
-----  
Granting Clauses of the Indenture.

Indenture Trustee means First Union National Bank, a national banking  
-----  
association, in its capacity as indenture trustee under the Indenture, together  
with its successors and assigns.

Individual Trustee means Val T. Orton, not individually but solely as owner  
-----  
trustee under the Trust Agreement, together with his successors and assigns.

Installment Payment means each regularly scheduled payment of interest and  
-----  
principal, if any, on the Notes as defined in the Notes.

Installment Payment Dates has the meaning set forth in paragraph (a) of  
-----  
Article 3 of the Lease.

Institutional Investor means (i) a bank or other lending institution or  
-----  
insurance company with a combined capital and surplus of at least \$75,000,000,  
(ii) an insurance company with total assets of at least \$100,000,000, (iii) an  
Affiliate or subsidiary of any such bank, lending institution or insurance  
company, (iv) any other financial institution organized under the laws of the  
United States or any state thereof or Canada or any province thereof with a net  
worth of at least \$50,000,000, or (v) a public or private pension plan or  
institutionally-managed fund having gross assets of at least \$300,000,000.

Knolls Office Building means the Land Parcel located in Glen Allen,  
-----  
Virginia, and identified as such on Schedule A annexed to the Lease.

Knolls Two Phase Three means the Land Parcel located in Glen Allen,  
-----  
Virginia, and identified as such on Schedule A annexed to the Lease.

Land Parcel means each of the parcels of land described on Schedule A to  
-----  
the Indenture including, without limitation, each of the Ground Leasehold Land  
Parcels.

LC Cost means the amount of costs and expenses incurred by Owner in  
-----  
connection with its furnishing of the Letter of Credit.

LC Deed of Trust means that certain Fee and Leasehold Deed of Trust,

-----  
Mortgage, Security Agreement and Fixture Filing dated as of October 14, 1998  
from the Owner to the Beneficiary, as amended or supplemented from time to time.

LC Issuer means BTM Capital Corporation, a Delaware corporation, together

-----  
with its successors and permitted assigns.

Lease means that certain Amended and Restated Lease Agreement dated as of

-----  
October 14, 1998 by and between Lessor and Lessee, as may be amended,  
supplemented or modified from time to time.

Leased Property(ies) has the meaning set forth in Article 1 of the Lease.

-----  
Legal Requirements means, with respect to any Leased Property or any  
-----  
Person, all laws, rules, orders, ordinances, regulations and requirements now  
existing or hereafter enacted or promulgated, of every government and  
municipality having jurisdiction over such Leased Property (or any portion  
thereof) or such Person, or the improvements thereon, or the facilities or  
equipment thereon or therein, or the streets, sidewalks, vaults, vault spaces,  
curbs and gutters adjoining the Leased Property, or the appurtenances to the  
Leased Property, or the franchises and privileges connected therewith and  
including, without limitation, Environmental Laws.

Lessee means Capital One Realty, Inc., a Delaware corporation, and its

-----  
successors and assigns expressly permitted under the Lease.

Lessee's Loss has the meaning set forth in paragraph (a) of Article 12 of

-----  
the Lease.

Lessor means Owner, in its capacity as lessor under the Lease, and its

-----  
successors and assigns.

Lessor Lien means any lien on or with respect to any Leased Property which

-----  
is not permitted by the terms of the Lease and which results from (i) nonpayment  
by Lessor or any member, partner, shareholder or beneficiary of Lessor or any  
affiliate of any of the foregoing (the Lessor Parties), of any tax, assessment

-----  
or like charge imposed on any Lessor Party, other than any tax, assessment or  
like charge the payment of which is Lessee's obligation under the Lease; (ii)  
claims against or acts and omissions of any Lessor Party arising out of events  
or conditions that are not related to the transactions contemplated by the terms  
of the Lease or are in violation of any of the obligations of the Lessor under  
any of the terms of the Lease; (iii) claims against any Lessor Party arising out  
of any transfer (whether voluntary or involuntary) by such Lessor Party of any  
portion of its interest in any Leased Property or its rights under the Lease  
that is neither permitted under the Lease nor consented to in writing by the  
Lessee; or (iv) any other act of, claim against or lien created by any Lessor  
Party, or any Person claiming by, through or under any Lessor Party, that is  
neither permitted under the terms of the Lease nor consented to in writing by  
the Lessee.

Lessor Parties has the meaning specified in the definition of Lessor Lien.  
-----

Letter of Credit means the means that certain irrevocable standby letter of  
-----  
credit dated the Closing Date and issued by LC Issuer for the account of  
Indenture Trustee, and all amendments and supplements thereto and replacements  
therefor.

Limited Lessee Risk Conditions means, collectively, the following: (i)  
-----

less than substantially all of the Leased Properties shall be condemned,  
damaged, destroyed or taken; (ii) no Default or Event of Default shall have  
occurred and be continuing under the Lease; (iii) Lessee has not exercised its  
purchase option under paragraph (a) of Article 28 of the Lease; (iv) either (x)  
a sale to a third party of the Leased Properties has been consummated and Lessor  
has received, in immediately available funds, on the Term Termination Date, the  
Net Proceeds of sale of the Leased Properties plus payment of any Additional  
Rent then due and owing under the Lease with respect to the Leased Properties,  
or (y) a sale to a third party of the Leased Properties has not been so  
consummated on the Term Termination Date thereof and the Lessee has vacated the  
Leased Properties and surrendered and returned the Leased Properties to Lessor  
in the condition required by Article 26 of the Lease, and Lessor has received,  
in immediately available funds on the Term Termination Date, payment of any  
Additional Rent then due and owing under the Lease with respect to the Leased  
Properties; (v) the Lease has not been terminated prior to the Termination Date;  
(vi) no amendment, modification, supplement, consent, waiver, approval,  
settlement, extension, compromise or accommodation of the Lease shall have been  
entered into or given without the prior written consent of LC Issuer; (vii) each  
and every Leased Property is, or upon payment of the Maximum Lessee Risk Amount  
will be, free and clear of all liens and encumbrances except for the lien of the  
LC Deed of Trust, taxes and liens for the current year which are not yet due and  
payable and Permitted Encumbrances described in (a), (c), (g), (h) and (i) of  
the definition thereof, and any liens for taxes, assessments and other  
governmental charges which are not then due and payable and which are not  
allocable to the period before the date of termination or expiration of this  
Lease with respect to the applicable Leased Property; (viii) each and every  
Leased Property will be legally subdivided from all other land parcels which  
such Leased Property may have been a part and, other than that portion of the  
Leased Properties known as Renaissance Business Park Phase I and Renaissance  
Business Park Phase II which constitutes the Parking Garage Property, as defined  
in the Parking Easement Agreement, legally subdivided from each other; and (ix)  
Lessee's surrender, return and vacation of any Leased Property at the end of the  
then current Term will not result in a breach or default of any term or  
condition of any Ground Lease applicable thereto.

Maturity Date means December \_\_\_\_, 2005.  
-----

Maximum Lease Term means the maximum Term of the Lease commencing on the  
-----

Basic Term Commencement Date and ending on the last day of the second Renewal  
Term, after each renewal option is exercised.

Maximum Lessee Risk Amount means, as of any date, subject to the provisions

-----  
of Article 30(a) of the Lease, an amount calculated as set forth in Schedule F to the Lease for such date provided however, in the event that Lessee is required to pay all or any portion of the Reinvestment Premium pursuant to the terms of the Lease, the Maximum Lessee Risk Amount shall be reduced by the amount of the Reinvestment Premium paid by Lessee provided, however, if such Reinvestment Premium is paid as a result of Lessee failing to renew the Term of the Lease and electing not to purchase the Leased Properties pursuant to Article 28 of the Lease then such reduction shall be limited to (x) \$3,141,933.36 if such payment is made with respect to the last day of the Basic Term or (y) \$1,454,425.64 if such payment is made with respect to the last day of the first Renewal Term.

Maximum Lessor Risk Amount means, subject to the provisions of Article

-----  
30(b) of the Lease, an amount calculated as set forth in Schedule F to the Lease for each relevant period provided, however, in the event of any reduction in the Maximum Lessee Risk Amount pursuant to the proviso contained within the definition thereof, then the Maximum Lessor Risk Amount shall be simultaneously increased by an amount equal to such reduction.

Memorandum of Lease means that certain Memorandum of Lease with respect to

-----  
the Leased Properties located in Florida and that certain Virginia Lease Supplement, Memorandum of Amended and Restated Lease Agreement and Remedies with respect to those Leased Properties located in Virginia, each dated as of the Closing Date and executed by Lessor and Lessee pursuant to the provisions of Article 34 of the Lease.

Moody's has the meaning set forth in Article 12 of the Lease.

-----

Mortgaged Property(ies) means Owner's interests in the Land Parcels and the

-----  
Improvements together with the Appurtenant Rights.

Net Award means the entire award, compensation, insurance proceeds or other

-----  
payment, if any, on account of any condemnation, taking or casualty affecting any Leased Property or any portion thereof, less any expenses reasonably incurred by the payee thereof in collecting such award, compensation, insurance proceeds or other payment and not already paid (or reimbursed to such payee) by Lessee pursuant to the last sentence of paragraph (a) of Article 12 of the Lease, plus, in the case of any award with respect to a condemnation or taking, any investment income earned with respect to the foregoing amounts.

Net Proceeds means, upon the sale of any Leased Property to a third party,

-----  
the net amount of the proceeds of such sale, after deducting from the gross proceeds of such sale (i) all sales taxes and other taxes (excluding any Excluded Taxes), (ii) all fees, costs and expenses of such sale incurred by Lessor or by Lessee, as Lessor's agent, unless separately paid or reimbursed by Lessee,

and (iii) any other amounts for which, if not paid, Lessor would be liable or which, if not paid, would constitute a lien on such Leased Property.

Note Agreement or Note Purchase Agreement means that certain Note Purchase

Agreement dated as of October 14, 1998 by and among Owner and the several purchasers of the Notes identified therein, as the same may be amended or supplemented from time to time.

Note Interest Rate means 6.86% per annum.

Note Purchaser means each of the Persons identified as such in the Note Purchase Agreement.

Notes has the meaning set forth in Section 1.1(a) of the Note Agreement.

Officer's Certificate means a certificate executed and delivered by an Applicable Officer of Lessee, or such other officer of Lessee as is in a position to know the substance of the matters contained in such certificate.

Operative Documents means the Lease, the Guaranty, the Ground Leases, the Indenture, the Assignment of Lease, the Assignment of Guaranty, the Note Purchase Agreement, the Notes, the Trust Agreement, the Sale and Assignment Agreement (BI Interests), the Letter of Credit, the LC Deed of Trust, the Reimbursement Agreement, the Parking Easement Agreement and any other agreements or instruments entered into in connection with any of the above.

Outstanding, with reference to the Notes, means, as of any particular time, all Notes authenticated and delivered by the Indenture Trustee pursuant to the Indenture, except: (a) Notes theretofore canceled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation pursuant to the Indenture; (b) Notes for the payment or prepayment of which moneys in the necessary amount shall have been deposited in trust with the Indenture Trustee, provided that if such Notes are to be prepaid, notice of such prepayment shall have been given as provided in the Indenture; and (c) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to Section 2.7 of the Indenture; provided that solely for purposes of determining whether Registered Owners of the requisite percentage of Outstanding Notes have approved or consented to, or have directed the taking of any action provided in the Indenture or any other Operative Document to be taken upon the direction of Registered Owners holding a specified percentage of Notes then Outstanding, Notes registered in the name of Owner or Lessee, or any beneficiary, nominee or Affiliate of any thereof shall be deemed not to be Outstanding.

Overdue Rate means (x) with respect to any payment on, or any portion of any payment (including Rent) to be applied to, the Notes, an annual rate of 8.86% and (y) with respect to any payment on, or any portion of any payment (including Rent) to be applied to, the Equity Return, an

annual rate of 9.08% but in either case, not greater than the maximum rate permitted by applicable law.

Owner means First Security Bank, N.A., a national banking association, and

-----

Val T. Orton not in their individual capacities but solely in their capacities as owner trustee under the Trust Agreement, the trust thereunder being referred to as the COB Real Estate Trust 1995-1.

Owner Trust Estate means all present and future assets and property held by

-----

Owner pursuant to the Trust Agreement, including all interest of Owner in the Land Parcels, the Ground Leases, the Improvements, the Lease, the Guaranty and any other Operative Documents; amounts payable under the Lease including, without limitation, Basic Rent, Additional Rent, Termination Values, the Purchase Price, the Maximum Lessee Risk Amount, the Equity Investment, the Equity Return, Net Proceeds, Net Awards and the Reinvestment Premium; amounts payable to Owner under the Guaranty, insurance policies and proceeds, indemnities and other payments of any kind payable at any time to Owner for or with respect to the foregoing (except for Excluded Payments payable to FSB or to any Beneficiary pursuant to the Lease or any Operative Documents), all payments or proceeds Owner is entitled to receive after the termination of the Lease as a result of a sale or other disposition of any of the Leased Properties or any portions thereof, and all income and proceeds received from time to time by Owner in respect of the foregoing and not theretofore distributed, as further described in Section 5 of the Trust Agreement.

Parking Easement Agreement means the Parking Garage Ownership, Easement and

-----

Management Agreement, dated as of October 14, 1998, among Owner, Capital One Services, Inc., a Delaware corporation, First Security Bank, N.A., not individually but solely in its capacity as owner trustee of the Capital One Realty Trust 1998-1, and Lessee, as the same may be amended or supplemented from time to time.

Permitted Encumbrances means, with respect to any Leased Property: (a)

-----

rights reserved to or vested in any municipality or public authority to condemn, appropriate, recapture or designate a purchaser of such Leased Property; (b) any liens thereon for taxes, assessments and other governmental charges and any liens of mechanics, materialmen and laborers for work or services performed or material furnished in connection with such Leased Property, which are not due and payable, or the amount or validity of which are being contested as permitted by Article 6 of the Lease; (c) easements, rights-of-way, servitudes, zoning laws, use regulations, and other similar reservations, rights and restrictions and other minor defects and irregularities in the title to such Leased Property existing on the applicable Basic Term Commencement Date or granted in accordance with the provisions of Article 34 of the Lease; (d) any mortgage or mortgages granted by Lessor to secure the Notes including the Indenture, together with any UCC-1 Financing Statements related to such Indenture; (e) any assignment of the Lease by Lessor for collateral purposes including the Assignment of Lease; (f) the Lease; (g) with respect to Knolls Two Phase Three, Renaissance Business Park Phase I, and Renaissance Business Park Phase II, the Ground

Lease applicable thereto; (h) all other matters affecting title existing on the date of the Lease as set forth in Schedule G to the Lease; and (i) any mortgage or mortgages granted by Lessor to secure the Letter of Credit including without limitation, the LC Deed of Trust, together with any UCC-1 Financing Statements related to such mortgage or mortgages, such mortgage and financing statement to be subordinate to the mortgage described in clause (d) so long as such mortgage is effective.

Person means any individual, corporation, partnership, joint venture,

association, joint stock company, trust, estate, trustee of a trust, unincorporated organization or government (or any agency or political subdivision thereof) or any other entity, whether acting in an individual, fiduciary or other capacity.

Placement Agent means BTM Financial Services, Inc., a Delaware corporation.

Plan or (as the context may require) plan means an "employee benefit plan"

(as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by Owner of any ERISA Affiliate or with respect to which Owner or any ERISA Affiliate may have any liability.

Property means any interest in any kind of property or asset, whether real,

personal or mixed, or tangible or intangible.

Protected Parties has the meaning set forth in Section 9.1 of the Note

Agreement.

Purchase Notice has the meaning set forth in Article 37(a) of the Lease.

Purchase Price has the meaning set forth in Schedule E attached to the

Lease.

Recordable Documents has the meaning set forth in Section 3.3 of the

Indenture.

Register means the note register on which the ownership of the Notes is

recorded pursuant to Section 2.4 of the Indenture.

Registered Owner means the person in whose name the ownership of a Note is

recorded in the Register.

Reimbursement Agreement means the Reimbursement and Remarketing Agreement,

dated as of October 14, 1998, between the LC Issuer and Owner, as amended, modified and supplemented from time to time.

Reinvestment Premium means, as of any date, the amount (but not less than

-----  
zero) equal to the excess, if any, of (i) the sum of the Present Values (as hereinafter defined) of (a) the Termination Value (assuming the Termination Value is payable on the last day of the Maximum Lease Term), and (b) the amount of Basic Rent that would have been payable on each Installment Payment Date from and after the date of determination (assuming all payments of Basic Rent are made when due), over (ii) the Termination Value as of the date of determination. The Present Value shall be determined by discounting in accordance with

-----  
generally accepted financial practice on a monthly basis at a discount rate equal to the sum of the applicable Treasury Yield plus 0.50% (which is then adjusted to monthly equivalent). The Treasury Yield for such purpose shall be

-----  
determined as of 10:00 A.M. New York City time on the first Business Day before the date of determination by reference to the yields of those actively traded "On the Run" United States Treasury securities having a maturity equal to the remaining balance of the Maximum Lease Term, as shown on the display designated on "Page 500" on the Bridge Telerate Service (or such other display as may replace Page 500 on the Bridge Telerate Service) or any other reputable online source of such market data; provided that if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Yield shall be determined by reference to the yields reported, for the latest day for which such yields have been so reported as of the first Business Day before the date of determination, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded United States Treasury securities having a maturity equal to the remaining balance of the Maximum Lease Term, and provided further that if the remaining balance of the Maximum Lease Term is not equal to the maturity of the actively traded "On the Run" United States Treasury security, such yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the yields of actively traded "On the Run" United States Treasury securities having a maturity closest to such remaining balance of the Maximum Lease Term. The Reinvestment Premium shall be determined by Lessor and shall be binding on Lessee absent manifest error.

Release of Mortgage means collectively the Deeds of Release and

-----  
Satisfactions of Mortgages, Assignment of Lease and Rents and Security Agreement, executed by NationsBank, N.A., a national banking association as Administrative Agent on behalf of the construction lenders and the holders of ownership certificates, as defined therein.

Remarketing Period has the meaning set forth in paragraph (b) of Article 28  
-----  
of the Lease.

Renaissance Business Park Phase I means the Land Parcel located in Tampa,  
-----  
Florida, and identified as such on Schedule A annexed to the Lease.

Renaissance Business Park Phase II means the Land Parcel located in Tampa,  
-----  
Florida, and identified as such on Schedule A annexed to the Lease.

Replaced Property has the meaning set forth in Section 4.5 of the  
-----  
Indenture.



Renewal Term has the meaning set forth in paragraph (b) of Article 2 of the  
-----

Lease.

Rent means collectively Additional Rent and Basic Rent.  
----

Responsible Officer means, with respect to any non-natural Person and a  
-----  
particular subject matter, only such Persons as have actual responsibility for  
the administration of such particular subject matter.

Sale and Assignment Agreement (BI Interests) means that certain Purchase,  
-----  
Assignment and Assumption Agreement, dated as of October 14, 1998, by and among  
NationsBank, N.A., as Administrative Agent, and the other sellers named therein,  
collectively as seller of the Beneficial Interest, and Beneficiary, as the  
purchasers of the Beneficial Interest.

Secured Beneficiary means BTM Capital Corporation, a Delaware corporation,  
-----  
and its successors and assigns as holders of its portion of the Beneficial  
Interest.

Series means each series of Notes as set forth on Exhibit C to the  
-----  
Indenture, as such number of Series may be reduced from time to time upon the  
prepayment in full of all Notes of a particular Series in accordance with the  
Indenture.

S&P has the meaning set forth in Article 12 of the Lease.  
---

Substitution Adjustment has the meaning set forth in Article 38 of the  
-----  
Lease.

Substitution Notice has the meaning set forth in Article 38(a) of the  
-----  
Lease.

Tangible Net Worth has the meaning set forth in Section 5.4 of the  
-----  
Guaranty.

Taxes has the meaning set forth in Section 1.1(b) of the Note Agreement.  
-----

Term of the Lease or Term means the Basic Term and any Renewal Term or  
-----  
Terms which may be effected pursuant to Article 2 of the Lease, except as may be  
terminated prior to expiration thereof pursuant to the terms of the Lease.

Term Termination Date means the last day of the Basic Term or a Renewal  
-----  
Term, as applicable.

Termination Date has the meaning set forth in paragraph (c) of Article 12  
-----  
of the Lease.

Termination Notice has the meaning set forth in paragraph (b) of Article 2  
-----  
of the Lease.

Termination Value has the meaning set forth in Schedule C annexed to the  
-----  
Lease.

Trade Fixtures has the meaning set forth in paragraph (a) of Article 11 of  
-----  
the Lease.

Transferee has the meaning set forth in Section 2.7 of the Indenture.  
-----

Trust Agreement means that certain Amended and Restated Trust Agreement  
-----  
dated as of October 14, 1998 by and between FSB and Beneficiary as the same may  
be amended or supplemented from time to time.

Trustee means First Security Bank, N.A., a national banking association,  
-----  
not in its individual capacity but solely as owner trustee under the Trust  
Agreement, together with its successors and assigns.

Unit of Notes has the meaning set forth in Section 1.1 of the Note  
-----  
Agreement.

UCC means the Uniform Commercial Code enacted and in effect in the State of  
---  
the Mortgaged Property to which it relates.

SCHEDULE A  
-----

Land Parcels  
-----

Capital One Operations Center  
-----

(Legal description to be attached)

Knolls Office Building  
-----

(Legal description to be attached)

Knolls Two Phase Three  
-----

(Legal description to be attached)

Renaissance Business Park Phase I  
-----

(Legal description to be attached)

Renaissance Business Park Phase II  
-----

(Legal description to be attached)

SCHEDULE B

Basic Rent

-----

- (1) Scheduled Payments. Basic Rent shall be payable in arrears in monthly  
-----  
installments on the same day of each calendar month on which the Basic Term  
Commencement Date occurs, such installments to be in an amount equal to the  
product of (i) the Cost of the Properties and (ii) 0.57231%.
- (2) General. Anything herein or in any Operative Document to the contrary  
-----  
notwithstanding, on each Installment Payment Date, Lessee shall pay as  
Basic Rent, without duplication with regard to clause (1) above, that  
amount which, under the circumstances and in all events, is at least  
sufficient to pay in full, as of such Installment Payment Date, (a) the  
aggregate accrued and unpaid interest on the Notes and in the case of the  
Equity Investment, the accrued and unpaid Equity Return, and (b) rent or  
any other payments of whatever character which are then due and owing under  
any of the Ground Leases, in all cases net to the Persons entitled thereto.

SCHEDULE C

Termination Value  
-----

The Termination Value on any Termination Date shall be an amount equal to (i) the Cost of the Properties in effect as of such Termination Date (or, if calculated with respect to fewer than all of the Leased Properties, the product of (x) the Allocable Percentage of the related Leased Property or Properties and (y) the Cost of the Properties in effect as of such Termination Date) plus (ii) all accrued and unpaid Basic Rent and Additional Rent hereunder (without reduction for Allocable Percentage if paid with respect to fewer than all of the Leased Properties).

SCHEDULE D

Environmental Matters  
-----

No exceptions applicable.

SCHEDULE E

Purchase Price

-----

The Purchase Price as of any Term Termination Date shall be an amount equal to the sum of (i) the Cost of the Properties in effect as of such Term Termination Date, plus (ii) all accrued and unpaid Basic Rent and Additional Rent payable hereunder, plus (iii) all applicable sales, excise and other taxes imposed as a result of the sale of the Leased Properties, other than Excluded Taxes and without duplication of the payment of Additional Rent under clause (ii) above, plus (iv) for any Term Termination Date before the end of the Maximum Lease Term, the Reinvestment Premium.

SCHEDULE F

Maximum Lessor and Lessee  
Risk Amounts  
-----

The Maximum Lessor Risk Amount shall be equal to the Cost of the Properties times the percentages set forth below opposite the related Term Termination Date plus any increase thereto which may be applicable pursuant to the definition of Maximum Lessor Risk Amount as set forth in Appendix I.

The Maximum Lessee Risk Amount shall be equal to the Cost of the Properties times the percentages set forth below opposite the related Term Termination Date less any reduction thereto which may be applicable pursuant to the definition of Maximum Lessee Risk Amount as set forth in Appendix I.

End of Year*	Maximum Lessee Risk Amount**	Maximum Lessor Risk Amount**
-----	-----	-----
5	84.071820%	15.928180%
6	89.686611	10.313389
7	89.686611	10.313389

\*Years after the Basic Term Commencement Date (determined on anniversary of Basic Term Commencement Date).

\*\*Expressed as a percentage of the Cost of the Properties.



SCHEDULE G

Permitted Encumbrances  
-----

Capital One Operations Center  
-----

Those matters set forth on Schedule B to (Name of title company) Title Insurance  
Company ALTA Owner's Policy No.(number).

Knolls Office Building  
-----

Those matters set forth on Schedule B to (Name of title company) Title Insurance  
Company ALTA Owner's Policy No.(number).

Knolls Two Phase Three  
-----

Those matters set forth on Schedule B to (Name of title company) Title Insurance  
Company ALTA Owner's Policy No.(number).

Renaissance Business Park Phase I  
-----

Those matters set forth on Schedule B to (Name of title company) Title Insurance  
Company ALTA Owner's Policy No.(number).

Renaissance Business Park Phase II  
-----

Those matters set forth on Schedule B to (Name of title company) Title Insurance  
Company ALTA Owner's Policy No.(number).

SCHEDULE H

[Form of Supplement to Lease]

-----

This is a \_\_\_\_\_ Supplement to Amended and Restated Lease Agreement, dated as of \_\_\_\_\_, 199\_ (this "Supplement") to that certain Amended and Restated Lease Agreement, dated as of October 14, 1998 (as amended, modified or supplemented to date, except by this Supplement, the "Original Lease" and the Original Lease, as amended by this Supplement, the "Lease"), between First Security Bank, N.A. and Val T. Orton, not individually but solely as owner trustee, as lessor, and CAPITAL ONE REALTY, INC., as lessee Capitalized terms used but not defined herein shall have the meanings assigned in the Lease. This Supplement is being executed and delivered on and in connection with a Lease Closing Date.

NOW, THEREFORE, intending to be legally bound, the parties to the Lease hereby agree as follows:

1. Schedules A, B, C, D, E, G, and J to the Original Lease are hereby deleted and replaced by their respective counterparts as attached hereto.
2. Except for those provisions specifically amended hereby, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Supplement to be executed under seal as of the day and year first above written.

LESSOR:

FIRST SECURITY BANK, N.A., not individually but solely as owner trustee under that certain Amended and Restated Trust Agreement dated as of October 14, 1998,

By: \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Val T. Orton, not individually but solely in his capacity as owner trustee under that certain Amended and Restated Trust Agreement dated as of October 14, 1998

LESSEE:

CAPITAL ONE REALTY, INC.

By: \_\_\_\_\_

Name: Stephen Linehan

Title: Manager of Corporate Finance

SCHEDULE I

Form of Certificate as to Insurance

-----

The undersigned hereby certifies pursuant to Article 13 of that certain Amended and Restated Lease Agreement dated as of October 14, 1998 (the "Lease") between First Security Bank, N.A. and Val T. Orton, not individually but solely as Owner Trustee,, as lessor, and Capital One Realty, Inc., as lessee ("Lessee"), as follows:

1. The undersigned is a \_\_\_\_\_ of Lessee. I am familiar with the risk management guidelines and policies for Lessee, and as such I am familiar with the insurance provided with respect to the Leased Properties (as defined in the Lease).

2. In connection with this Certificate, the undersigned has reviewed the provisions of the Lease.

3. The insurance policies described in the attached Certificates of Insurance are in full force and effect on the date hereof and satisfy all the requirements of paragraphs (a), (b), (c), (d), (e) and (f) Article 13 of the Lease.

4. Attached hereto are true and correct copies of Certificates of Insurance evidencing the above-described insurance policies currently in effect.

\_\_\_\_\_  
Name:

Title:

SCHEDULE J

Allocable Percentages  
-----

Capital One Operations Center (Glen Allen, Virginia):  
-----

30.057%

Knolls Office Building (Glen Allen, Virginia):  
-----

13.559%

Knolls Two Phase Three (Glen Allen, Virginia):  
-----

19.774%

Renaissance Business Park Phase I (Tampa, Florida):  
-----

18.192%

Renaissance Business Park Phase II (Tampa, Florida):  
-----

18.418%

SCHEDULE K

Form of Lessee Estoppel Certificate

Lessee warrants and represents to Lessor, Indenture Trustee, Beneficiary and LC Issuer as follows as of the date hereof (capitalized terms used but not defined herein are as defined in the Lease):

1. ORGANIZATION AND POWER. Lessee (a) is a corporation duly formed,

validly existing and in good standing under the laws of the State of Delaware and is duly qualified as a foreign corporation and in good standing in the State of Florida and the Commonwealth of Virginia and any other jurisdiction where such qualification is required by applicable law or is necessary for the conduct of its business, and (b) has the full corporate power, authority and legal right to lease the Leased Properties from Lessor and has the requisite corporate power and authority to carry on its business as now conducted and to execute, deliver and perform the Operative Documents to which it is a party.

2. FULL DISCLOSURE. No written statement delivered to Lessor, Indenture

Trustee or LC Issuer by Lessee in connection with the negotiation of the transactions contemplated hereby or contained in the Lease or any other Operative Document to which Lessee is a party contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained therein or herein not misleading in any material respect. There is no fact peculiar to Lessee which is not disclosed in writing which materially and adversely affects Lessee's ability to perform under the Lease or any other Operative Document to which Lessee is a party.

3. LITIGATION. There is no action, suit or proceeding pending, or to the

best of Lessee's knowledge threatened, against or affecting Lessee at law or in equity before any court, or by or before any federal, state, municipal or other governmental department, commission, board, bureau, agency, or instrumentality or arbitrator which if adversely determined (i) individually or in the aggregate would materially and adversely affect the performance by Lessee of its obligations under the Lease or any other Operative Document to which it is a party or the business and operations of Lessee, taken as a whole or (ii) would affect in any material respect the consummation or validity of the Operative Documents to which it is a party, or the transactions contemplated thereby.

4. NO DEFAULTS. No Default or Event of Default has occurred and is

continuing under the Lease. Lessee is not in default in the payment of the principal or interest on any indebtedness for borrowed money or for its deferred purchase of property or in default under any instrument or agreement under and subject to which any such indebtedness has been issued or under any lease, in each case involving the likelihood of any actions or proceedings against it

which will materially and adversely affect Lessee or its ability to perform under the Lease or any other Operative Document to which Lessee is a party.

5. NO VIOLATION. Neither the execution, delivery or performance by Lessee

-----  
of the Lease or the other Operative Documents to be delivered by Lessee nor compliance herewith or therewith (a) (i) are in contravention of, and will not result in a violation or breach of, any of the terms of Lessee's Certificate of Incorporation (or equivalent document), its By-Laws, or of any provisions relating to shares of the capital stock of Lessee, or (ii) will violate or constitute a breach of any applicable provision of law, any applicable order of any court or other agency of government, or any indenture, agreement or other instrument to which Lessee is a party, or by or under which Lessee or any of Lessee's property is bound, or be in conflict with, result in a breach of, or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or instrument, or result in the creation or imposition of any lien upon any of Lessee's property or assets or (b) results or will result in the creation or imposition of any lien, charge or encumbrance upon its property pursuant to such agreement or instrument. Neither the execution, delivery or performance by the Lessee of the Lease or the Operative Documents to be delivered by Lessee nor compliance by Lessee herewith or therewith conflicts or will conflict with or results or will result in a breach of or constitutes or will constitute a default under (i) the certificate of incorporation or by-laws of Lessee or (ii) any material agreement or instrument to which Lessee is a party or by which it is bound.

6. AGREEMENTS ARE LEGAL AND AUTHORIZED. The Lease and the other Operative

-----  
Documents to which Lessee is a party have been duly authorized by Lessee by all necessary corporate action (including any necessary action by its shareholders) and duly executed and delivered by it, and, assuming the due authorization, execution and delivery thereof by the other parties thereto, are legal, valid and binding obligations of Lessee enforceable against it in accordance with their respective terms, except as certain rights and remedies as set forth in such Operative Documents may be limited by (a) bankruptcy, reorganization and similar laws of general application relating to or affecting the enforcement of creditors' or lessors' rights and (b) general principles of equity.

7. INSURANCE. All insurance required by Article 13 of the Lease is in

-----  
effect and all premiums now due and payable in respect of such insurance have been paid.

8. CONSENTS. No consent, license, approval or authorization of, or

-----  
filing, registration or declaration with, or exemption or other action by, any governmental or public body, authority, bureau or agency (including courts) under the laws of the United States of America, the State of Delaware or the states in which any Leased Property is located, or of any other state is required in connection with the execution and delivery or performance by Lessee of this Agreement or any other Operative Document to which it is a party, except for such approvals, consents or permits which may be required as of the date hereof in connection with the construction, use and occupancy of the Leased Properties (all of which have been obtained and are in full force).

9. COMPLIANCE; TAXES. Lessee will use and occupy the Leased Properties,

-----

and each Leased Property is acceptable to Lessee for its business purposes.

There has been no material damage to any Leased Property nor are any condemnation or eminent domain proceedings pending, or to Lessee's knowledge, threatened with respect thereto. Lessee is not in default in the payment of any taxes levied or assessed against it or its assets, nonpayment of which will materially and adversely affect Lessee or its ability to perform under the Lease or any other Operative Document to which Lessee is a party.

10. USE OF EQUITY INVESTMENT. Lessee has used the Equity Investment

-----

provided to it solely for the purposes of acquiring, designing, constructing and installing, as applicable, all of the Leased Properties.

11. LEASE. Lessee has unconditionally accepted every Leased Property

-----

under the Lease, no offset exists with respect to any Basic Rent or other sums payable under the Lease and no Basic Rent under the Lease has been prepaid.

12. USE. The Permitted Encumbrances do not interfere in any material

---

respect with the intended use by Lessee of any Leased Property.

13. ERISA. Lessee is not entering into the Lease or any other Operative

-----

Document or transaction contemplated thereby, directly or indirectly, in connection with any arrangement in any way involving any employee benefit plan or related trust with respect to which it is a party-in-interest, all within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

IN WITNESS WHEREOF, the undersigned sets its hand under seal this \_\_\_\_ day of November, 1998.

CAPITAL ONE REALTY, INC.

By: \_\_\_\_\_

Name:

Title:



EXECUTION COPY

-----

## GUARANTY

-----

GUARANTY dated as of October 14, 1998 (this "GUARANTY") from CAPITAL ONE BANK, a Virginia banking corporation (the "GUARANTOR"), in favor of (i) First Security Bank, N.A., a national banking association having an address at 79 South Main Street, Salt Lake City, Utah 84111, and Val T. Orton, not individually but solely in their capacities as owner trustee of the COB Real Estate Trust 1995-1 under the Amended and Restated Trust Agreement dated as of October 14, 1998 (herein, together with their successors and assigns, collectively the "LESSOR"), (ii) First Union National Bank, in its capacity as trustee under the Indenture referred to below (herein, together with its successors and assigns as trustee, the "INDENTURE TRUSTEE") and Lawyers Title Realty Services, Inc., in its capacity as deed of trust trustee under said Indenture (the "DEED OF TRUST TRUSTEE"), (iii) the Note Purchasers referred to below, (iv) the Registered Owners from time to time of the Notes referred to below and (v) the LC Issuer referred to below. The Lessor, the Indenture Trustee, the Deed of Trust Trustee, said Note Purchasers and such Registered Owners of Notes and said LC Issuer are sometimes collectively called the "OBLIGEEES".

## PRELIMINARY STATEMENT

The Lessor is the owner of fee simple interests or leasehold interests in land parcels located in Hillsborough County, Florida and Henrico County, Virginia and respectively described in Schedule A to the Indenture, Fee and Leasehold Deed of Trust, Mortgage, Security Agreement and Fixture Filing dated as of October 14, 1998 (herein, as amended or supplemented from time to time, the "INDENTURE") from the Lessor (and the Lessee referred to below) to the Indenture Trustee and the Deed of Trust Trustee, together with all buildings, structures and other improvements located and to be located thereon (such interests in the land parcels and improvements thereon herein called the "PROPERTY"). The Lessor has entered into an Amended and Restated Lease Agreement dated as of October 14, 1998 relating to the Property (herein, together with all supplements and amendments thereto and any memorandum or short form in respect of any thereof entered into for the purpose of recording, the "LEASE"), as lessor, with Capital One Realty, Inc., a Delaware corporation having an address at 2980 Fairview Park Drive, Suite 1400, Falls Church, VA 22042, as lessee (herein, together with its successors and assigns, the "LESSEE"). The Guarantor owns all the outstanding capital stock of the Lessee.

The Lessor has financed a portion of the cost of acquiring the Property by issuing its 6.86% Senior Secured Notes due 2005 (the "NOTES") in the aggregate original principal amount of \$83,762,000 pursuant to the Note Purchase Agreement dated as of October 14, 1998 (the "NOTE PURCHASE AGREEMENT") entered into by the Lessor with the institutional investors named

in Exhibit A thereto (the "NOTE PURCHASERS"). The Notes are being issued under the Indenture and are secured by the Indenture, by an Assignment of Lease dated as of October 14, 1998 from the Lessor to the Indenture Trustee (the "ASSIGNMENT OF LEASE") and by an Assignment of Guaranty dated as of October 14, 1998 from the Lessor to the Indenture Trustee (the "ASSIGNMENT OF GUARANTY"). The Assignment of Lease and the Assignment of Guaranty are respectively consented and agreed to by the Lessee and the Guarantor. The Lessor has also granted a subordinated deed of trust and mortgage on the Property for the benefit of BTM Capital Corporation and its successors and assigns as provider of the Letter of Credit referred to in the Lease (the "LC ISSUER").

In order to induce the Lessor to accept the Lease, the Indenture Trustee to enter into the Indenture, the Note Purchasers to purchase Notes and the LC Issuer to issue said Letter of Credit, the Guarantor hereby agrees with the Obligees as follows:

1. THE GUARANTY.

1.1. GUARANTY.

The Guarantor hereby absolutely, irrevocably and unconditionally guarantees the due and punctual payment of all obligations of the Lessee now or hereafter existing under the Lease and the Assignment of Lease (collectively, the "LEASE DOCUMENTS") for the payment of Basic Rent, Additional Rent and all other amounts due under the Lease Documents and the due and punctual observance and performance of all covenants and agreements of the Lessee contained in the Lease Documents (the payment and performance obligations referred to above are herein called the "OBLIGATIONS"). With respect to the Lessee's obligations under Articles 8 and 9 of the Lease, the Guarantor further guarantees the performance of such obligations to First Security Bank, N.A. in its individual capacity. The Guarantor guarantees that the Obligations will be paid and performed strictly in accordance with the terms of the Lease Documents, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Obligee with respect thereto.

This Guaranty is a continuing guaranty of payment and performance of the Obligations and not a guaranty of collection. The Guarantor will perform its obligations hereunder at the place specified for the Lessee's performance of the Obligations unless otherwise specified.

Each and every default in any payment or performance of any Obligations shall give rise to a separate claim and cause of action hereunder and separate claims or suits may be made and brought, as the case may be, hereunder as each such default occurs.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by any Obligees upon the insolvency, bankruptcy or reorganization of the Lessee or otherwise, all as though such payment has not been made.

Notwithstanding the foregoing, this Guaranty is not a guaranty of the Notes.

1.2. GUARANTY ABSOLUTE.

This Guaranty and the liability of the Guarantor hereunder shall remain in full force and effect without regard to, and shall not be released, discharged or in any way affected or impaired by any thing, event, happening, matter, circumstance or condition whatsoever (whether or not the Guarantor shall have any knowledge or notice thereof or consent thereto), including without limitation:

(a) the legality, validity, regularity or enforceability of the Lease Documents; or

(b) any amendment or modification of any provision of either of the Lease Documents or any assignment or transfer thereof, including without limitation the renewal or extension of the time of payment of any amounts due under the Lease Documents or the granting of time in respect of such payment thereof, or of any furnishing or acceptance of security or guaranty so furnished or accepted for any of the Obligations; provided that any such extension of the time of payment of any amounts due or the granting of time in respect of such payment thereof shall also inure to the benefit of the Guarantor; or

(c) any waiver, consent, extension, granting of time, forbearance, indulgence or other action or inaction under or in respect of the Lease Documents, or any exercise or non-exercise of any right, remedy or power in respect thereof; or

(d) any bankruptcy, receivership, insolvency, organization, arrangement, readjustment, composition, liquidation or similar proceedings with respect to the Lessee or the properties or creditors of the Lessee; or

(e) the occurrence of any Lease Default or Lease Event of Default under, or any invalidity or any unenforceability of, or any misrepresentation, irregularity or other defect in, the Lease Documents or any other agreement; or

(f) any failure, neglect or omission on the part of any Obligees or any other person to realize upon any obligations or liabilities of the Lessee, or to provide for

any insurance on the Property, or to establish or maintain the priority or perfection of any interest in the Property, or to assert any claim or to exercise or enforce any right or remedy against the Lessee or any other person; or

(g) the transfer, assignment, subletting or mortgaging or the purported transfer, assignment, subletting or mortgaging of all or any part of the interest of any Oblige or the Lessee in the Property, or any invalidity or illegality of, or inability to enforce, any such transfer; or

(h) any failure of title with respect to the interest of the Lessee or any Oblige in the Property; or

(i) any failure on the part of the Lessee or the Guarantor, or any trustee or agent thereof, to perform or comply with any term of the Lease Documents or any other agreement; or

(j) any suit or other action brought by any beneficiaries or creditors of, or by, the Lessee, the Guarantor or any other person for any reason whatsoever, including without limitation any suit or action in any way attacking or involving any issue, matter or thing in respect of the Lease Documents or any other agreement; or

(k) any lack or limitation of status or of power, incapacity or disability of the Lessee or the Guarantor, or any trustee or agent thereof; or

(l) any rejection of any Lease Document to which the Lessee is a party in a bankruptcy proceeding filed by or against the Lessee or any other person; or

(m) in respect of the Lessee or the Guarantor, any change of circumstances, whether or not foreseen or foreseeable, whether or not imputable to the Lessee or the Guarantor, or other impossibility of performance through fire, explosion, accident, labor disturbance, floods, droughts, embargoes, wars (whether or not declared), civil commotion, acts of God or the public enemy, delays or failure of suppliers or carriers, inability to obtain materials or any other causes affecting performance, or any other force majeure, whether or not beyond the control of the Lessee or the Guarantor and whether or not of the kind herein before specified.

The obligations of the Guarantor set forth herein constitute the full recourse obligations of the Guarantor enforceable against it to the full extent of all its assets and properties. In order to hold the Guarantor liable hereunder, there shall be no obligation on the part of any Oblige or any other person at any time to demand or resort for payment or

performance to the Lessee or to any property or other rights or remedies whatsoever. Without limiting the foregoing, it is agreed and understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, the Lessee shall default under the terms of either of the Lease Documents and that, notwithstanding the recovery hereunder for or in respect of any given default by the Lessee under either of the Lease Documents, this Guaranty shall remain in force and effect and shall apply to each and every subsequent default.

The Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by (a) any reorganization, merger or consolidation of the Lessee or the Guarantor into or with any other corporation or entity, or the sale, lease or transfer of any other assets of the Lessee or the Guarantor, or (b) the assignment by the Lessee of any of its rights or obligations under the Lease.

### 1.3. WAIVERS, ETC.

The Guarantor waives promptness, diligence, protest, presentments and all notices and demands whatsoever with respect to any of the Obligations and this Guaranty, and all rights to require any Obligor to (a) proceed against the Lessee, (b) protect, secure, perfect or insure any Lien or any property subject thereto or (c) pursue any other remedy any Obligor may now or hereafter have against the Lessee.

The Guarantor waives any right or claim of right to cause a marshaling of Lessee's assets. No delay on the part of any Obligor in the exercise of any right, power or privilege under the Lease Documents or this Guaranty shall operate as a waiver of any such right, power or privilege. No Obligor shall be obligated to pursue or exhaust any remedies against the Lessee or any other person or collateral prior to proceeding against the Guarantor.

The Guarantor waives any defense arising by reason of the cessation from any cause whatsoever of the liability of Lessee, except that the Guarantor does not waive the defense of indefeasible payment in full and performance of the Obligations. Until the Obligations shall have been indefeasibly paid and performed in full, the Guarantor waives any right to enforce the rights it shall acquire by reason of the Guarantor's payment or performance on behalf of the Lessee, whether by way of subrogation or otherwise, any remedy which any Obligor now has or may hereafter have against the Lessee, or any benefit of rights to participate in any security now or hereafter held by any Obligor and pursuit by any Obligor of any of its remedies shall not impair this Guaranty and shall not be deemed an election of remedies. Until the Obligations shall have been indefeasibly paid in full and performed as aforesaid, the Guarantor shall not take any action to hinder or delay the exercise of any right to

remedy to the extent granted under the Lease Documents, this Guaranty or any applicable law to any Obligor in respect of the Property or the guaranty hereunder; nor exercise or pursue any rights, remedies, powers, privileges or benefits of any kind hereunder (whether available to the Guarantor hereunder or at law or in equity); nor, in proceedings under the bankruptcy laws or insolvency proceedings of any nature, shall the Guarantor prove, in competition with any Obligor, any claim in respect of any payment hereunder; nor in any such proceedings shall the Guarantor be entitled to have the benefit of any counterclaim or proof of claim or dividend or payment by or on behalf of the Lessee or the benefit of the Security.

#### 1.4. SECURITY.

The Guarantor irrevocably authorizes each Obligor, without notice or demand and without affecting its liability hereunder, from time to time to (a) exercise any rights it may have to apply any security for any of the Obligations which, now or hereafter, such Obligor may hold or in which it may have any interest (the "SECURITY") to the satisfaction, in whole or in part, of such Obligations in whatever manner such Obligor shall determine, or compromise or make any settlement or other arrangement or accommodation with the Lessee or any other person; and (b) direct the order or manner of sale of the Security as such Obligor, in its discretion, may determine.

#### 2. REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR.

The Guarantor represents and warrants to the Obligors (effective as of the Basic Term Commencement Date) that:

##### 2.1. ORGANIZATION; POWER AND AUTHORITY.

The Guarantor is a banking corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Guarantor has full power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and to execute and deliver and perform the provisions of this Guaranty.

##### 2.2. AUTHORIZATION, ETC.

This Guaranty has been duly authorized by all necessary corporate and shareholder action on the part of the Guarantor, and this Guaranty constitutes a legal, valid and binding obligation of the Guarantor enforceable against the Guarantor in

accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

#### 2.3. DISCLOSURE.

The Note Purchasers have been furnished with a copy of a Confidential Offering Memorandum, dated July 1998 (such Confidential Offering Memorandum together with any financial statements attached thereto, the "MEMORANDUM"), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the business and properties of the Guarantor and its Subsidiaries. None of this Guaranty, the Memorandum, the documents, certificates or other writings delivered to the Lessor and the Note Purchasers by or on behalf of the Guarantor in connection with the transactions contemplated hereby (including without limitation all written material furnished at the due diligence meetings held on September 10 and 11, 1998) and the financial statements listed in Schedule 2.5, taken as a whole, contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Memorandum or in the financial statements listed in Schedule 2.5 to this Guaranty, since December 31, 1997, there has been no change in the financial condition, operations, business, properties or prospects of the Guarantor or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Guarantor that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Memorandum or in the other documents, certificates and other writings delivered to the Lessor and the Note Purchasers by or on behalf of the Guarantor specifically for use in connection with the transactions contemplated hereby.

#### 2.4. ORGANIZATION AND OWNERSHIP OF SHARES OF SUBSIDIARIES; AFFILIATES.

(a) Schedule 2.4 to this Guaranty contains (except as noted therein) complete and correct lists of (i) the Guarantor's Material Subsidiaries, showing, as to each such Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Guarantor and each other Subsidiary, (ii) the Guarantor's Affiliates, other than its Subsidiaries and its directors and senior officers, and (iii) the Guarantor's directors and senior officers. If considered together as a single Subsidiary, the Guarantor's

Subsidiaries that are not Material Subsidiaries would not constitute a significant Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Material Subsidiary shown in said Schedule 2.4 as being owned by the Guarantor and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Guarantor or another Subsidiary free and clear of any Lien (except as otherwise disclosed in said Schedule 2.4).

(c) Each Material Subsidiary identified in said Schedule 2.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Material Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Material Subsidiary is a party to, or otherwise subject to any legal restriction or any agreement (other than this Guaranty, the agreements listed on said Schedule 2.4 and customary limitations imposed by corporate law statutes and bank regulatory requirements) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Guarantor or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

## 2.5. FINANCIAL STATEMENTS.

The Guarantor has delivered to each Note Purchaser copies of the consolidated financial statements of each of the Parent and Guarantor listed on Schedule 2.5 to this Guaranty. All of such financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Parent and its Subsidiaries or the Guarantor and its Subsidiaries, as the case may be, as of the respective dates specified in such Schedule and the consolidated results of their operations and changes in shareholders' equity or equity capital for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments) and except that certain financial statements are prepared in accordance with federal regulatory accounting principles.



2.6. COMPLIANCE WITH LAWS, OTHER INSTRUMENTS, ETC.

The execution, delivery and performance by the Guarantor of this Guaranty will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Guarantor or any Material Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Guarantor or any Material Subsidiary is bound or by which the Guarantor or any Material Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Guarantor or any Material Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Guarantor or any Material Subsidiary.

2.7. GOVERNMENTAL AUTHORIZATIONS, ETC.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Guarantor of this Guaranty.

2.8. LITIGATION; OBSERVANCE OF AGREEMENTS, STATUTES AND ORDERS.

(a) Except as disclosed in Schedule 2.8 to this Guaranty, there are no actions, suits or proceedings pending or, to the knowledge of the Guarantor, threatened against or affecting the Guarantor or any Subsidiary or any property of the Guarantor or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Guarantor nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority applicable to it or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

2.9. TAXES.

The Guarantor and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent

such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Guarantor or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Guarantor knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Guarantor and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Guarantor and its Subsidiaries have been determined by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

#### 2.10. TITLE TO PROPERTY; LEASES.

The Guarantor and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet described in Schedule 2.5 to this Guaranty or purported to have been acquired by the Guarantor or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business). The Lease and all other leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

#### 2.11. LICENSES, PERMITS, Y2K, ETC.

Except as disclosed in Schedule 2.11 to this Guaranty:

(a) the Guarantor and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, proprietary software, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others;

(b) to the best knowledge of the Guarantor, no product of the Guarantor infringes in any material respect any license, permit, franchise, authorization, patent, proprietary software, copyright, service mark, trademark, trade name or other right owned by any other Person; and

(c) to the best knowledge of the Guarantor, there is no Material violation by any Person of any right of the Guarantor or any of its Subsidiaries with respect to any patent, proprietary software, copyright, service mark, trademark, trade name or other right owned or used by the Guarantor or any of its Subsidiaries.

The Guarantor and its Subsidiaries are in the process of (a) reviewing and assessing all areas within their respective businesses and operations (including those affected by information received from suppliers and vendors) that could reasonably be expected to be adversely affected by the Year 2000 Problem, (b) developing a plan and timetable for addressing the Year 2000 Problem on a timely basis, and (c) to date, implementing that plan substantially in accordance with that timetable. The Guarantor reasonably believes that all of its computer applications that are material to the businesses and operations of the Guarantor and its Subsidiaries will on a timely basis be Year 2000 Compliant, except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect. The Guarantor has asked most of its material vendors about their plans for and progress in identifying and addressing problems that their computer systems may face in correctly processing date information related to the Year 2000 Problem and is developing contingency plans for any essential vendors who fail to give the Guarantor sufficient credible information of their readiness as it affects the Guarantor's ability to be Year 2000 Compliant. As used in this Section, the term "YEAR 2000 COMPLIANT" means all computer applications of the Guarantor that are material to the businesses and operations of the Guarantor and its Subsidiaries will on a timely basis be able to perform properly date-sensitive functions involving all dates on and after January 1, 2000; and the term "YEAR 2000 PROBLEM" means the risk that computer applications used by the Guarantor or any of its Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates on and after January 1, 2000.

## 2.12. COMPLIANCE WITH ERISA.

(a) The Guarantor and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Guarantor nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Guarantor or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Guarantor or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer

Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "BENEFIT LIABILITIES" has the meaning specified in section 4001 of ERISA and the terms "CURRENT VALUE" and "PRESENT VALUE" have the meaning specified in section 3 of ERISA.

(c) The Guarantor and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Guarantor's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Guarantor and its Subsidiaries is not Material.

(e) The execution and delivery of this Guaranty will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Guarantor in the first sentence of this Section 2.12(e) is made in reliance upon and subject to the accuracy of the representations of the Note Purchasers in Section 8.2 of the Note Purchase Agreement as to the sources of the funds used to pay the purchase price of the Notes to be purchased by them thereunder.

#### 2.13. OFFERING OF THE NOTES, ETC.

Neither the Guarantor nor anyone authorized to act on its behalf has offered this Guaranty or the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than the Note Purchasers and not more than 44 other institutional investors (all such other investors being "accredited investors" as defined under Rule 501(a) of the Securities Act). Neither the Guarantor nor anyone authorized to act on its behalf has taken, or will take, any action that would subject the execution and delivery of this Guaranty or the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

#### 2.14. EXISTING INDEBTEDNESS; FUTURE LIENS.

(a) Except as described therein, Schedule 2.14 to this Guaranty sets forth a complete and correct list of all outstanding Indebtedness of the Guarantor and its Subsidiaries as of September 30, 1998, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Guarantor and its Subsidiaries on a consolidated basis. Neither the Guarantor nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Guarantor or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Guarantor or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment. No financial covenants of the Guarantor in respect of any such Indebtedness that address the matters contained in Sections 4.1 and 4.2 hereof are more restrictive than the covenants contained in Sections 4.1 and 4.2 hereof.

(b) Except as disclosed in said Schedule 2.14, neither the Guarantor nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its Managed Receivables, whether now owned or hereafter acquired, to be subject to a Lien other than in connection with Securitizations of such Managed Receivables.

#### 2.15. STATUS UNDER CERTAIN STATUTES.

Neither the Guarantor nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Interstate Commerce Act, as amended, or the Federal Power Act, as amended.

#### 3. AFFIRMATIVE COVENANTS.

The Guarantor covenants that commencing on the Basic Term Commencement Date and thereafter so long as any of the Obligations are unpaid:

##### 3.1. FINANCIAL AND BUSINESS INFORMATION.

The Guarantor will deliver or otherwise make available through electronic media (provided that the Guarantor shall give prior written notice to each Obligee of such availability and shall, notwithstanding such availability, make timely delivery to each Obligee upon its request either generally or from time to time):

(a) Quarterly Statements -- within 60 days after the end of each quarterly

-----  
fiscal period in each fiscal year of the Guarantor (other than the last  
quarterly fiscal period of each such fiscal year), copies of

(i) a consolidated report of condition of the Guarantor and its  
Subsidiaries as at the end of such quarter, and

(ii) consolidated reports of income and changes in equity capital of  
the Guarantor and its Subsidiaries, for such quarter and (in the case of  
the second and third quarters) for the portion of the fiscal year ending  
with such quarter,

setting forth in each case in comparative form the figures for the corresponding  
periods in the previous fiscal year, all in reasonable detail, prepared in  
accordance with GAAP applicable to quarterly financial statements generally, and  
certified by a Senior Financial Officer as fairly presenting, in all material  
respects, the financial position of the companies being reported on and their  
results of operations and cash flows, subject to changes resulting from year-end  
adjustments;

(b) Annual Statements -- within 120 days after the end of each fiscal

-----  
year of the Guarantor, copies of

(i) a consolidated report of condition of the Guarantor and its  
Subsidiaries as at the end of such year, and

(ii) consolidated reports of income and changes in equity capital  
and cash flows of the Guarantor and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous  
fiscal year, all in reasonable detail, prepared in accordance with GAAP, and  
accompanied

(1) by an opinion thereon of independent public accountants of  
recognized national standing, which opinion shall state that such  
financial statements present fairly, in all material respects, the  
financial position of the companies being reported upon and their  
results of operations and cash flows and have been prepared in  
conformity with GAAP, and that the examination of such accountants in  
connection with such financial statements has been made in accordance  
with generally accepted auditing standards, and that such audit provides  
a reasonable basis for such opinion in the circumstances, and

(2) a certificate of such accountants stating that they have reviewed this Guaranty and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Lease Default or a Lease Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Lease Default or Lease Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit);

(c) SEC and Other Reports -- promptly upon their becoming available,  
-----

one copy of (i) each financial statement, report, notice or proxy statement sent by the Guarantor or any Subsidiary or the Parent to public securities holders generally, (ii) each regular, periodic or current report and each registration statement (without exhibits except as expressly requested by such holder and other than registration statements on Form S-8 or any successor form), and each final prospectus and all amendments thereto filed by the Guarantor or any Subsidiary or the Parent with the Securities and Exchange Commission, (iii) each call report or similar report filed with the Board of Governors of the Federal Reserve System and (iv) each press release and other statement made available generally by the Guarantor or any Subsidiary to the public (unless included as an exhibit to a current report filed with the Securities and Exchange Commission) concerning developments that are Material;

(d) Notice of Lease Default or Lease Event of Default -- promptly,  
-----

and in any event within five days after a Responsible Officer becoming aware of the existence of any Lease Default or Lease Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in clause (x) of Article 22(a) of the Lease, a written notice specifying the nature and period of existence thereof and what action the Guarantor or the Lessee is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five days  
-----

after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Guarantor or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the

regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Guarantor or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Guarantor or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Guarantor or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect; and

(f) Requested Information -- with reasonable promptness, such other

-----  
data and information relating to the business, operations, affairs, financial condition, assets or properties of the Guarantor or any of its Material Subsidiaries or relating to the ability of the Guarantor to perform its obligations under this Guaranty as from time to time may be reasonably requested by such Obligees.

### 3.2. OFFICER'S CERTIFICATES.

Each set of financial statements delivered to an Obligees pursuant to Section 3.1(a) or Section 3.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including detailed

-----  
calculations) required in order to establish whether the Guarantor was in compliance with the requirements of Sections 4.1 and 4.2 hereof, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and



(b) Event of Default -- a statement that such officer has reviewed

-----

the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Guarantor and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Lease Default or Lease Event of Default or, if any such condition or event existed or exists (including without limitation any such event or condition resulting from the failure of the Guarantor or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Guarantor shall have taken or proposes to take with respect thereto.

### 3.3. INSPECTION.

The Guarantor shall permit the representatives of each Obligee:

(a) No Lease Default -- if no Lease Default or Lease Event of Default

-----

then exists, at the expense of such Obligee and upon reasonable prior notice to the Guarantor, to visit the principal executive office of the Guarantor, to discuss the affairs, finances and accounts of the Guarantor and its Subsidiaries with the Guarantor's officers, and (with the consent of the Guarantor, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Guarantor, which consent will not be unreasonably withheld) to visit the other offices and properties of the Guarantor and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Lease Default -- if a Lease Default or Lease Event of Default

-----

then exists, at the expense of the Guarantor to visit and inspect any of the offices or properties of the Guarantor or any Subsidiary, to examine all their respective books of account, records, reports and other papers (other than information that the Guarantor is prohibited from disclosing under applicable laws), to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Guarantor authorizes said accountants to discuss the affairs, finances and accounts of the Guarantor and its Subsidiaries), all at such times and as often as may be requested (and subject to the requirement that each such representative sign the Guarantor's customary confidentiality agreement with respect to any proprietary information sought to be examined or discussed).

#### 3.4. COMPLIANCE WITH LAW.

Without limiting the requirements of Articles 6 and 9 of the Lease, the Guarantor will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

#### 3.5. INSURANCE.

Without limiting the requirements of Article 13 of the Lease, the Guarantor will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

#### 3.6. MAINTENANCE OF PROPERTIES.

Without limiting the requirements of Article 10 of the Lease, the Guarantor will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Guarantor or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Guarantor has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

#### 3.7. PAYMENT OF TAXES AND CLAIMS.

The Guarantor will and will cause each of its Subsidiaries to file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their

properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Guarantor or any Subsidiary, provided that neither the Guarantor nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Guarantor or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Guarantor or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Guarantor or such Subsidiary or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

#### 3.8. CORPORATE EXISTENCE, ETC.

Subject to Section 4.3, the Guarantor will at all times preserve and keep in full force and effect its corporate existence. The Guarantor will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Guarantor or a Subsidiary) and all rights and franchises of the Guarantor and its Subsidiaries unless, in the good faith judgment of the Guarantor, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

#### 3.9. OWNERSHIP OF LESSEE.

The Guarantor will at all times remain the beneficial owner of all of the outstanding capital stock of the Lessee.

#### 3.10. LINES OF BUSINESS.

The Guarantor will not, nor will it permit any of its Material Subsidiaries to, engage to any material extent in any line or lines of business activity other than consumer-oriented or consumer-related financial services and database marketing activities, and other financial services to the extent such other financial services are direct applications of the information-based strategies and related proprietary strategies used by the Guarantor in the conduct of its business on the date hereof.

#### 4. NEGATIVE COVENANTS.

The Guarantor covenants that commencing on the Basic Term Commencement Date and thereafter so long as any of the Obligations are unpaid:

#### 4.1. DELINQUENCY RATIO.

The Guarantor will not permit its Delinquency Ratio on the last day of any calendar month to exceed 5.5%.

#### 4.2. OTHER FINANCIAL CONDITIONS.

The Guarantor will not on any date permit

(a) its Tier 1 Capital to Managed Receivables Ratio to be less than 4.0%, provided that such Ratio may be less than 4.0% during any period of 90 consecutive days so long as (i) on the last day of the fiscal quarter ending on or immediately prior to the first day of such 90-day period, such Ratio was not less than 4.0% and (ii) at no time during such 90-day period is the such Ratio less than 3.5%;

(b) its Leverage Ratio to exceed 10.0 to 1;

(c) its Tier 1 Leverage Ratio to be less than 5.0%;

(d) its Tier 1 Capital to Risk Adjusted Assets Ratio to be less than 6.0%;

(e) its Total Capital to Risk Adjusted Assets Ratio to be less than 10.0%; or

(f) its Tangible Net Worth to be less than \$450,000,000.

#### 4.3. MERGER, CONSOLIDATION, ETC.

The Guarantor will not consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the Guarantor shall have obtained the prior written consent to such transaction from the Lessor and the Indenture Trustee (which consent shall not be unreasonably withheld), provided that no such consent shall be required in respect of a consolidation or merger with, or a conveyance, transfer or lease to, the Parent or a Subsidiary of the Parent;

(b) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Guarantor as an entirety, as the case may be, shall be a solvent corporation organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Guarantor is not such corporation, (i) such corporation shall have executed and delivered to the Indenture Trustee its

assumption of the due and punctual performance and observance of each covenant and condition of this Guaranty and (ii) shall have caused to be delivered to the Indenture Trustee an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Lessor and the Indenture Trustee, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(c) immediately after giving effect to such transaction,

(i) no Lease Default or Lease Event of Default shall have occurred and be continuing, and

(ii) Tangible Net Worth of the Guarantor or such successor, survivor or purchasing or acquiring corporation, as the case may be, shall be at least equal to Tangible Net Worth of the Guarantor immediately before giving affect to such transaction.

No such conveyance, transfer or lease of substantially all of the assets of the Guarantor shall have the effect of releasing the Guarantor or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 4.3 from its liability under this Guaranty.

## 5. DEFINITIONS, ETC.

### 5.1. DEFINITIONS IN OTHER OPERATIVE DOCUMENTS.

Capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed in the Lease (including Appendix I thereto).

### 5.2. ACCOUNTING TERMS.

All accounting terms not specifically defined herein shall have the meanings given to them in accordance with GAAP.

### 5.3. HEADINGS AND REFERENCES.

Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Guaranty. Unless otherwise provided, references to Sections, Schedules, and Exhibits shall be deemed references to Sections, Schedules and Exhibits of this Guaranty.

### 5.4. CERTAIN DEFINITIONS.

Except as otherwise specified or as the context may otherwise require, the following terms shall have the respective

meanings set forth below whenever used in this Guaranty and shall include the singular as well as the plural:

"AFFILIATE" means, with respect to any specified Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, the specified Person. As used in this definition, "CONTROL" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise). Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Guarantor.

"CAPITAL ADEQUACY GUIDELINES" means the Capital Adequacy Guidelines for State Member Banks published by the Board of Governors of the Federal Reserve System (12 C.F.R. Part 208, Appendix A and Appendix B, including related definitions in Section 208.31, in each case as amended, modified and supplemented and in effect from time to time or any replacement thereof).

"CAPITAL LEASE" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"DELINQUENCY RATIO" means, on any date and with respect to the Guarantor, the ratio (expressed as a percentage) of (a) the aggregate amount of Past Due Receivables to (b) the aggregate amount of Managed Receivables.

"ENVIRONMENTAL LAWS" means any and all present and future Federal, state, local and foreign laws, rules or regulations, and any orders or decrees, in each case as now or hereafter in effect, relating to the regulation or protection of the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes into the indoor or outdoor environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Guarantor under Section 414 of the Code.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"GOVERNMENTAL AUTHORITY" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Guarantor or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Guarantor or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"GUARANTY" means (in addition to this Guaranty) a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall have a correlative meaning.

"INDEBTEDNESS" for any Person, means: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others

secured by a Lien on the property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) non-contingent obligations of such Person in respect of letters of credit, bankers' acceptances or similar instruments issued or accepted by banks and other financial institutions for account of such Person; (e) all liabilities appearing on its balance sheet in respect of Capital Leases; and (f) Indebtedness of others Guaranteed by such Person.

"INTANGIBLES" means, as at any date and with respect to any Person, the aggregate amount (to the extent reflected in determining the consolidated stockholders' equity of such Person and its consolidated Subsidiaries) of (a) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of assets of a going concern business made within 12 months after the acquisition of such business) subsequent to September 30, 1996 in the book value of any asset of such Person or any of its consolidated Subsidiaries, (b) all Investments in unconsolidated Subsidiaries of such Person and all equity investments in Persons that are not Subsidiaries of such Person and (c) all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, anticipated future benefit of tax loss carry-forwards, copyrights, organization or developmental expenses and other intangible assets.

"LEASE" is defined in the Preliminary Statement.

"LEASE DEFAULT" means a Default under the Lease.

"LEASE EVENT OF DEFAULT" means an Event of Default under the Lease.

"LESSEE" means Capital One Realty, Inc., a Delaware corporation.

"LEVERAGE RATIO" means, on any date, the ratio of (a) the sum (determined for the Guarantor and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP) of (i) the aggregate outstanding amount of Indebtedness minus (ii) the aggregate amount of all on-balance sheet

-----

credit card loans held for securitization on such date to (b) Tangible Net Worth.

"LIEN" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).



"MANAGED RECEIVABLES" means, on any date, the sum for the Guarantor and its consolidated Subsidiaries (determined on a consolidated basis in accordance with GAAP) of (a) all on-balance sheet credit card loans and other finance receivables plus (b) all on-balance sheet credit card loans and other

-----  
finance receivables held for securitization plus (c) all securitized credit card  
-----  
loans and other finance receivables, provided that, as the term "Managed Receivables" is used in the definition of "Tier I Capital to Managed Receivables Ratio", clauses (a), (b) and (c) above shall be determined exclusive of securitized non-revolving finance receivables.

"MATERIAL" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Guarantor and its Subsidiaries taken as a whole.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Guarantor and its Subsidiaries taken as a whole, or (b) the ability of the Lessee to perform the Obligations, or (c) the ability of the Guarantor to perform its obligations under this Guaranty, or (d) the validity or enforceability of this Guaranty or the Lease Documents.

"MATERIAL SUBSIDIARY" means any Subsidiary of the Guarantor except a special purpose vehicle.

"MULTIEMPLOYER PLAN" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"OFFICER'S CERTIFICATE" means a certificate of a Senior Financial Officer or of any other officer of the Guarantor whose responsibilities extend to the subject matter of such certificate.

"PARENT" means Capital One Financial Corporation, a Delaware corporation.

"PAST-DUE RECEIVABLES" means, on any date, the sum (determined with respect to the Guarantor and its Subsidiaries on a consolidated basis in accordance with GAAP) of (a) all Managed Receivables the minimum payments on which are at least 90 days overdue on such date plus (b) all other non-

-----  
performing assets; provided that Managed Receivables that are credit card loans, whether or not at least 90 days overdue, shall not constitute, "Past-Due Receivables" to the extent of any cash balance of the account debtor on such loan on deposit with the creditor (but only to the extent such creditor is entitled under an agreement governing such credit card loan to set-off such cash balances against the obligations of the account debtor under such loan and to the extent such cash balances are not subject to any other

set-off or deduction by such creditor or any of its affiliates against a matured obligation owing by such debtor).

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"PERSON" means an individual, partnership, corporation (including a business trust), joint stock company, trust, limited liability company, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"PLAN" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Guarantor or any ERISA Affiliate or with respect to which the Guarantor or any ERISA Affiliate may have any liability.

"PROPERTY" or "PROPERTIES" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"RESPONSIBLE OFFICER" means any Senior Financial Officer and any other officer of the Guarantor with responsibility for the administration of the relevant portion of this Guaranty.

"RISK ADJUSTED ASSETS" means, on any date, the amount, for the Guarantor and its consolidated Subsidiaries (determined on a consolidated basis), of "weighted risk assets", within the meaning given to such term in the Capital Adequacy Guidelines.

"SECURITIES ACT" means the Securities Act of 1933, as amended from time to time.

"SECURITIZATION" means the transfer or pledge of assets or interests in assets to a trust, partnership, corporation or other entity, which transfer or pledge is funded by such entity in whole or in part by the issuance of instruments or securities that are paid principally from the cash flow derived from such assets or interests in assets.

"SECURITY" is defined in Section 1.4 hereof.

"SENIOR FINANCIAL OFFICER" means the chief financial officer, principal accounting officer, treasurer, assistant treasurer or comptroller of the Guarantor.

"SUBSIDIARY" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its

Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Guarantor.

"TANGIBLE NET WORTH" means, on any date, the consolidated stockholders' equity of the Guarantor and its consolidated Subsidiaries minus ----- their Intangibles, all determined on a consolidated basis in accordance with GAAP.

"TIER 1 CAPITAL" means, on any date, the amount, for the Guarantor and its consolidated Subsidiaries (determined on a consolidated basis) on such date, of "Tier I capital", within the meaning given to such term in the Capital Adequacy Guidelines.

"TIER 1 CAPITAL TO MANAGED RECEIVABLES RATIO" means, on any date, the ratio (expressed as a percentage) of (a) Tier 1 Capital to (b) Managed Receivables.

"TIER 1 CAPITAL TO RISK ADJUSTED ASSETS RATIO" means, on any date, the ratio (expressed as a percentage) of (a) Tier I Capital to (b) Risk Adjusted Assets.

"TIER 1 LEVERAGE RATIO" means, on any date, the ratio (expressed as a percentage) of (a) Tier I Capital to (b) Total Assets.

"TOTAL ASSETS" means, on any date, the amount, for the Guarantor and its consolidated Subsidiaries (determined on a consolidated basis) on such date of "average total capital consolidated assets", within the meaning given to such term in the Capital Adequacy Guidelines.

"TOTAL CAPITAL" means, on any date, the amount, for the Guarantor and its consolidated Subsidiaries (determined on a consolidated basis) on such date, of "total capital", within the meaning given to such term in the Capital Adequacy Guidelines.

"TOTAL CAPITAL TO RISK ADJUSTED ASSETS RATIO" means, on any date, the ratio (expressed as a percent) of (a) Total Capital to (b) Risk Adjusted Assets.

"WITHDRAWAL LIABILITY" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

6. MISCELLANEOUS.

6.1. EXPENSES, ETC.

The Guarantor shall pay, or cause to be paid, upon demand, any Obligee's reasonable attorneys' and collection fees and all other costs and expenses which may be incurred by any Obligee in any suit or other effort to enforce the Obligations, this Guaranty or both, by legal proceedings or through any bankruptcy court, or otherwise. If the Guarantor fails to pay any amount hereunder when due, the Guarantor shall pay interest, on demand, on such amount at the Overdue Rate accrued from the date of such demand to the date on which all such amounts due have been paid in full.

6.2. SEVERABILITY.

The Obligees are relying and are entitled to rely upon each and all of the provisions of this Guaranty; and accordingly, if any provision or provisions of this Guaranty should be held to be invalid, inapplicable, illegal, unenforceable or ineffective, then all other provisions shall continue in full force and effect and this Guaranty shall be construed as if such invalid, inapplicable, illegal, unenforceable or ineffective provision has never been contained herein.

6.3. NOTICES.

Except as provided in Section 3.1 hereof respect to information permitted to be made available by electronic media, all notifications, notices, demands, requests and other communications herein provided for or made pursuant hereto shall be in writing and shall be sent by: (a) registered or certified United States mail, return receipt requested, and such communication shall be deemed completed on the third Business Day after the same is deposited in a United States Postal Service with postage charges prepaid; (b) reputable overnight delivery service, and the giving of such communication shall be deemed completed on the immediately succeeding Business Day after the same is deposited with such delivery service; or (c) legible fax with original to follow in accordance with clause (b) above, and the giving of such communication: (i) if to the Lessor, at its address set forth below or its fax number: 801-246-5053, (ii) if to the Guarantor, at its address set forth below or its fax number: 703-205-1100, (iii) if to the Indenture Trustee, addressed to the address set forth below or its fax number: 860-247-1356 and (iv) if to any other Obligee, at such address or fax number as such Obligee shall designate in writing, and, except as otherwise set forth above, such notifications, notices, demands, requests or other communications shall be deemed given on the date of receipt.

Lessor: c/o First Security Bank, N.A.  
79 South Main Street,  
Salt Lake City, Utah 84111  
Attn: Corporate Trust Administration

Guarantor: Capital One Bank  
c/o Capital One Services, Inc.  
2980 Fairview Park Drive, Suite 1300  
Falls Church, Virginia 22042  
Attn: Director, Corporate Finance  
  
with a copy to the Legal Department

Indenture Trustee: c/o First Union National Bank  
10 State House Square  
Hartford, CT 06103  
Attn: Corporate Trust Administration

#### 6.4. SUCCESSORS AND ASSIGNS.

Wherever the term "Lessor" or the term "Lessee" is used herein, those terms shall mean, in addition to the parties described above, any assignees or successors of either permitted by the Lease if, and to the extent, such assignee or successor has properly been assigned, or succeeded to the rights and obligations of the party in question. This Guaranty shall be binding upon and shall inure to the benefit of the Obligees and their respective successors and assigns.

#### 6.5. AMENDMENTS; NO WAIVER.

No provision of this Guaranty (other than Section 3 or 4 hereof and the definitions related thereto) can be changed, waived, discharged or terminated except by an instrument in writing signed by the Lessor and the Guarantor, and consented to in writing by the Indenture Trustee or all the Obligees, expressly referring to the provision of this Guaranty to which such instrument relates. No provision of Section 3 or 4 hereof or any definition related to such provisions can be changed, waived, discharged or terminated except by an instrument in writing signed by the Lessor and the Guarantor, and consented to in writing by the Indenture Trustee or Obligees holding 66-2/3% in principal amount of the outstanding Notes, expressly referring to the provision of this Guaranty to which such instrument relates. No such waiver effected in accordance with this Section 6.5 shall extend to, affect or impair any right with respect to the Obligations which is not expressly dealt with therein. No course of dealing or delay or omission on the part of any Obligee exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto.

6.6. GOVERNING LAW.

This Guaranty shall be governed by and construed in accordance with the laws of the State of New York.

6.7. CONSENT TO JURISDICTION; SERVICE OF PROCESS; WAIVER OF JURY TRIAL.

The Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of any Florida, New York or Virginia State court or Federal court of the United States of America sitting in Florida, Virginia or the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Guaranty or the Lease Documents, or for recognition or enforcement of any judgment, and irrevocably and unconditionally consents to all claims in respect to any such action or proceeding being heard and determined in such Florida, New York or Virginia court or, to the extent permitted by law, in such Federal court.

The Guarantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Guaranty or the Lease Documents in any Florida, Virginia or New York State or Federal court. The Guarantor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

The Guarantor consents to process being served in any suit, action or proceeding of the nature referred to above by sending copy thereof by any commercial delivery service or by mailing the copy thereof by registered or certified United States mail, return receipt requested, postage prepaid, to the address of the Guarantor specified in or designated pursuant to Section 6.3 hereof. The Guarantor agrees that such service upon receipt (1) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (2) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon and personal delivery to the Guarantor. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any commercial delivery service. Nothing in this Section 6.7 shall affect the right of any Obligee to serve process in any manner permitted by law, or limit any right that any Obligee may have to bring proceedings against the Guarantor in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction and in any other jurisdiction.

THE GUARANTOR WAIVES TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS GUARANTY, THE LEASE DOCUMENTS OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HERewith OR THEREWITH.

6.8. COUNTERPARTS.

This Guaranty may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and either of the parties or signatories hereto may execute this Guaranty by signing any such counterpart.

6.9. EFFECTIVENESS.

All representations, warranties and covenants in this Guaranty shall become effective at the time of the delivery hereof on the Basic Term Commencement Date.

IN WITNESS WHEREOF, this Guaranty has been duly executed as of the date first above written.

CAPITAL ONE BANK

By /s/ Stephen Linehan  
-----  
Title: Manager of Corporate  
Finance

IN WITNESS WHEREOF, the Lessor consents and agrees to the terms and provisions of this Guaranty as of the date first above written.

FIRST SECURITY BANK, N.A., as  
Owner Trustee

By /s/ C. Scott Nielson  
-----  
Title: Vice President

/s/ Val T. Orton  
-----  
Val T. Orton, as Owner Trustee



Schedule 2.4 -- Material Subsidiaries and Affiliates  
-----

Schedule 2.5 -- Financial Statements  
-----

Schedule 2.8 - Litigation  
-----

Schedule 2.11 -- Exceptions to Licenses,  
-----  
Permits and Intellectual Property  
-----

Schedule 2.14 -- Existing Indebtedness; Future Liens  
-----

## EXHIBIT 13

## SELECTED FINANCIAL AND OPERATING DATA

	Year Ended December 31					Five-Year Compound Growth Rate
(Dollars In Thousands, Except Per Share Data)	1998	1997	1996	1995	1994(1)	
INCOME STATEMENT DATA:						
Interest income	\$ 1,111,536	\$ 717,985	\$ 660,483	\$ 457,409	\$ 258,672	33.73%
Interest expense	416,754	334,847	294,999	249,396	93,695	43.71
Net interest income	694,782	383,138	365,484	208,013	164,977	29.35
Provision for loan losses	267,028	262,837	167,246	65,895	30,727	50.99
Net interest income after provision for loan losses	427,754	120,301	198,238	142,118	134,250	22.07
Non-interest income	1,488,283	1,069,130	763,424	553,043	396,902	50.18
Non-interest expense	1,472,116	883,978	713,182	497,430	384,325	51.94
Income before income taxes	443,921	305,453	248,480	197,731	146,827	21.04
Income taxes	168,690	116,072	93,213	71,220	51,564	22.82
Net income	\$ 275,231	\$ 189,381	\$ 155,267	\$ 126,511	\$ 95,263	20.03%
Dividend payout ratio	7.46%	10.90%	13.24%	12.55%		
PER COMMON SHARE:						
Basic earnings(2)	\$ 4.20	\$ 2.87	\$ 2.34	\$ 1.93	\$ 1.44	20.26%
Diluted earnings(2)	3.96	2.80	2.32	1.91	1.44	18.85
Dividends	.32	.32	.32	.24		
Book value as of year-end	19.35	13.66	11.16	9.05	7.18	
Average common shares	65,589,643	66,069,897	66,227,631	65,690,838	66,067,250	
Average common and common equivalent shares	69,588,432	67,650,864	67,025,233	66,392,284	66,067,250	
SELECTED AVERAGE BALANCES:						
Securities	\$ 1,877,276	\$ 1,650,961	\$ 1,147,079	\$ 962,624	\$ 62,626	
Allowance for loan losses	(214,333)	(132,728)	(83,573)	(69,939)	(66,434)	29.11%
Total assets	8,330,432	6,568,937	5,568,960	4,436,055	2,629,920	29.48
Deposits	1,430,042	958,885	1,046,122	769,688	36,248	
Other borrowings	5,163,795	4,350,864	3,623,104	2,952,162	2,287,474	19.17
Preferred beneficial interests	97,793	89,529				
Stockholders'/Division equity(3)	1,087,983	824,077	676,759	543,364	239,616	57.07
SELECTED YEAR-END BALANCES:						
Securities	\$ 2,080,980	\$ 1,475,354	\$ 1,358,103	\$ 1,244,195	\$ 425,570	
Consumer loans	6,157,111	4,861,687	4,343,902	2,921,679	2,228,455	
Allowance for loan losses	(231,000)	(183,000)	(118,500)	(72,000)	(68,516)	
Total assets	9,419,403	7,078,279	6,467,445	4,759,321	3,091,980	
Deposits	1,999,979	1,313,654	943,022	696,037	452,201	
Borrowings	5,383,672	4,428,886	4,525,216	3,301,672	2,062,688	
Preferred beneficial interests	97,921	97,664				
Stockholders'/Division equity(3)	1,270,406	893,259	740,391	599,191	474,557	
MANAGED CONSUMER LOAN DATA:						
Average reported loans	\$ 5,348,559	\$ 4,103,036	\$ 3,651,908	\$ 2,940,208	\$ 2,286,684	19.30%
Average off-balance sheet loans	9,860,978	8,904,146	7,616,553	6,149,070	3,910,739	56.45
Average total managed loans	15,209,537	13,007,182	11,268,461	9,089,278	6,197,423	36.03
Interest income	2,583,872	2,045,967	1,662,990	1,192,100	733,659	42.97
Year-end total managed loans	17,395,126	14,231,015	12,803,969	10,445,480	7,378,455	29.20
Year-end total accounts (000's)	16,706	11,747	8,586	6,149	5,049	39.89
Yield	16.99%	15.73%	14.76%	13.12%	11.84%	
Net interest margin	9.95	8.86	8.16	6.27	6.90	
Delinquency rate	4.70	6.20	6.24	4.20	2.95	
Net charge-off rate	5.33	6.59	4.24	2.25	1.48	

OPERATING RATIOS:

Return on average assets	3.30%	2.88%	2.79%	2.85%	3.62%
Return on average equity	25.30	22.98	22.94	23.28	39.76
Equity to assets (average)	13.06	12.55	12.15	12.25	9.11
Allowance for loan losses to loans as of year-end	3.75	3.76	2.73	2.86	3.07

- (1) The Company's results prior to November 22, 1994, reflect operations as a division of Signet Bank. Prior to November 22, 1994, Signet Banking Corporation, the parent of Signet Bank, had provided significant financial and operational support to the Company.
- (2) Assumes 66,067,250 shares outstanding prior to November 22, 1994.
- (3) Division equity reflects an allocation of capital to Capital One Bank as a division for purposes of preparation of the financial statements of the Company. Such allocation is not subject to regulatory minimums.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INTRODUCTION

Capital One Financial Corporation (the "Corporation") is a holding company whose subsidiaries provide a variety of products and services to consumers using its Information-Based Strategy ("IBS"). The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which offers consumer lending products (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company." As of December 31, 1998, the Company had 16.7 million customers and \$17.4 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world.

The Company's profitability is affected by the net interest income and non-interest income earned on earning assets, consumer usage patterns, credit quality, the level of marketing expense and operating efficiency. The Company's revenues consist primarily of interest income on consumer loans and securities, and non-interest income consisting of gains on securitizations of loans, servicing income and fees (such as annual membership, cash advance, cross-sell, interchange, overlimit, past-due and other fee income, collectively "fees"). The Company's primary expenses are the costs of funding assets, credit losses, operating expenses (including salaries and associate benefits), marketing expenses, processing expenses and income taxes.

Significant marketing expenses (e.g., advertising, printing, credit bureau costs and postage) to implement the Company's new product strategies are incurred and expensed prior to the acquisition of new accounts while the resulting revenues are recognized over the life of the acquired accounts. Revenues recognized are a function of the response rate of the initial marketing program, usage and attrition patterns, credit quality of accounts, product pricing and effectiveness of account management programs.

### EARNINGS SUMMARY

The following discussion provides a summary of 1998 results compared to 1997 results and 1997 results compared to 1996 results. Each component is discussed in further detail in subsequent sections of this analysis.

[GRAPH OMITTED]

#### YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net income of \$275.2 million, or \$3.96 per share, for the year ended December 31, 1998, compares to net income of \$189.4 million, or \$2.80 per share, in 1997. The 45% increase in net income of \$85.9 million, or \$1.16 per share, is primarily the result of an increase in both asset and account volumes and an increase in net interest margin. Net interest income increased \$311.6 million, or 81%, as average earning assets increased 26% and the net interest margin increased to 9.62% from 6.66%. The provision for loan losses increased \$4.2 million, or 2%, as the reported net charge-off rate decreased to 4.24% in 1998 from 4.83% in 1997, offset by average reported consumer loans increasing 30%. Non-interest income increased \$419.2 million, or 39%, primarily due to the increase in average managed accounts of 39%. Increases in marketing expenses of \$221.4 million, or 98%, and salaries and benefits expense of \$187.1 million, or 65%, reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to manage the growth in the Company's accounts and products offered. Average managed consumer loans grew 17% for the year ended December 31, 1998, to \$15.2 billion from \$13.0 billion for the year ended December 31, 1997, and average accounts grew 39% for the same period to 13.8 million from 9.9 million as a result of the continued success of the Company's marketing and account management strategies.

#### YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net income of \$189.4 million, or \$2.80 per share, for the year ended December 31, 1997, compares to net income of \$155.3 million, or \$2.32 per share, in 1996. The 22% increase in net income of \$34.1 million, or \$.48 per share, is primarily the result of an increase in both asset and account volumes, offset by a decrease in net interest margin. Net

interest income increased \$17.7 million, or 5%, as average earning assets increased 20%, offset by a decrease in the net interest margin to 6.66% from 7.62%. The provision for loan losses increased \$95.6 million, or 57%, as average reported loans increased 12% and the reported charge-off rate increased to 4.83% in 1997 from 3.63% in 1996, as a result of an increase in the average age of accounts (generally referred to as "seasoning") and general economic trends in consumer credit performance. Non-interest income increased \$305.7 million, or 40%, primarily as a result of the increase in average accounts of 33%, a shift to more fee-based accounts, a change in the timing and amount ("terms") of certain fees charged and the incremental impact of securitization accounting. Increases in salaries and benefits expense of \$74.2 million, or 34%, and other non-interest expenses of \$96.6 million, or 19%, primarily reflected the incremental cost of operations to manage the growth in the Company's accounts. Average managed consumer loans grew 15% for the year ended December 31, 1997, to \$13.0 billion from \$11.3 billion for the year ended December 31, 1996, and average accounts grew 33% for the same period to 9.9 million from 7.5 million as a result of the continued success of the Company's marketing and account management strategies.

#### MANAGED CONSUMER LOAN PORTFOLIO

The Company analyzes its financial performance on a managed consumer loan portfolio basis. Managed consumer loan data adds back the effect of off-balance sheet consumer loans. The Company also evaluates its interest rate exposure on a managed portfolio basis.

The Company's managed consumer loan portfolio is comprised of reported and off-balance sheet loans. Off-balance sheet loans are those which have been securitized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"), and are not assets of the Company. Therefore, those loans are not shown on the balance sheet.

Table 1 summarizes the Company's managed consumer loan portfolio.

TABLE 1: MANAGED CONSUMER LOAN PORTFOLIO

(In Thousands)	Year Ended December 31				
	1998	1997	1996	1995	1994
<b>YEAR-END BALANCES:</b>					
Reported consumer loans	\$ 6,157,111	\$ 4,861,687	\$ 4,343,902	\$ 2,921,679	\$2,228,455
Off-balance sheet consumer loans	11,238,015	9,369,328	8,460,067	7,523,801	5,150,000
Total managed consumer loan portfolio	\$17,395,126	\$14,231,015	\$12,803,969	\$10,445,480	\$7,378,455
<b>AVERAGE BALANCES:</b>					
Reported consumer loans	\$ 5,348,559	\$ 4,103,036	\$ 3,651,908	\$ 2,940,208	\$2,286,684
Off-balance sheet consumer loans	9,860,978	8,904,146	7,616,553	6,149,070	3,910,739
Total managed consumer loan portfolio	\$15,209,537	\$13,007,182	\$11,268,461	\$ 9,089,278	\$6,197,423

As of December 31, 1998, the managed consumer loan portfolio consisted of 68% fixed and 32% variable interest rate loans. The Company's reported consumer loan portfolio as of December 31, 1998, consisted of 62% fixed and 38% variable interest rate loans.

Since 1990, the Company has actively engaged in consumer loan securitization transactions. Securitization involves the transfer by the Company of a pool of loan receivables to an entity created for securitizations, generally a trust or other special purpose entity ("the trusts"). The credit quality of the receivables is supported by credit enhancements, which may be in various forms including a letter of credit, a cash collateral guaranty or account, or a subordinated interest in the receivables in the pool. Certificates (\$11.2 billion outstanding as of December 31, 1998) representing undivided ownership interests in the receivables are sold to the public through an underwritten offering or to private investors in private placement transactions. The Company receives the proceeds of the sale. The Company retains an interest in the trusts ("seller's interest") equal to the amount of the receivables transferred to the trust in excess of the principal balance of the certificates. The Company's interest in the trusts varies as the amount of the excess receivables in the trusts fluctuates as the accountholders make principal payments and incur new

charges on the selected accounts. The securitization generally results in the removal of the receivables, other than the seller's interest, from the Company's balance sheet for financial and regulatory accounting purposes.

[GRAPH OMITTED]

The Company's relationship with its customers is not affected by the securitization. The Company acts as a servicing agent and receives a fee for doing so.

Collections received from securitized receivables are used to pay interest to certificateholders, servicing and other fees, and are available to absorb the investors' share of credit losses. Amounts collected in excess of that needed to pay the above amounts are remitted to the Company, as described in Servicing and Securitizations Income.

Certificateholders in the Company's securitization program are generally entitled to receive principal payments either through monthly payments during an amortization period or in one lump sum after an accumulation period. Amortization may begin sooner in certain circumstances, including if the annualized portfolio yield (consisting, generally, of interest and fees) for a three-month period drops below the sum of the certificate rate payable to investors, loan servicing fees and net credit losses during the period.

Prior to the commencement of the amortization or accumulation period, all principal payments received on the trusts' receivables are reinvested in new receivables to maintain the principle balance of certificates. During the amortization period, the investors' share of principal payments is paid to the certificateholders until they are paid in full. During the accumulation period, the investors' share of principal payments is paid into a principal funding account designed to accumulate amounts so that the certificates can be paid in full on the expected final payment date.

Table 2 indicates the impact of the consumer loan securitizations on average earning assets, net interest margin and loan yield for the periods presented. The Company intends to continue to securitize consumer loans.

TABLE 2: OPERATING DATA AND RATIOS

(Dollars in Thousands)	Year Ended December 31		
	1998	1997	1996
REPORTED:			
Average earning assets	\$ 7,225,835	\$ 5,753,997	\$ 4,798,987
Net interest margin(1)	9.62%	6.66%	7.62%
Loan yield	18.75	15.11	16.21
MANAGED:			
Average earning assets	\$17,086,813	\$14,658,143	\$12,415,540
Net interest margin(1)	9.95%	8.86%	8.16%
Loan yield	16.99	15.73	14.76

(1) The net interest margin is equal to net interest income divided by average earning assets.

#### RISK ADJUSTED REVENUE AND MARGIN

The Company's products are designed with the objective of maximizing revenue for the level of risk undertaken. Management believes that comparable measures for external analysis are the risk adjusted revenue and risk adjusted margin of the managed portfolio. Risk adjusted revenue is defined as net interest income and non-interest income less net charge-offs. Risk adjusted margin measures risk adjusted revenue as a percentage of average earning assets. It considers not only the loan yield and net interest margin, but also the fee income associated with these products. By deducting net charge-offs, consideration is given to the risk inherent in these differing products.

[GRAPH OMITTED]

The Company markets its card products to specific consumer segments. The terms of each card product are actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. For example, card product terms typically include the ability to reprice individual accounts upwards or downwards based on the consumer's performance. In addition, during 1998, the Company aggressively marketed low non-introductory rate cards to consumers with the best established credit profiles to take advantage of the favorable risk return characteristics of this consumer segment. Industry competitors have continuously solicited the Company's customers with similar interest rate strategies. Management believes the competition has put, and will continue to put, additional pressure on the Company's pricing strategies.

By applying its IBS and in response to dynamic competitive pressures, the Company also targets a significant amount of its marketing expense to other credit card product opportunities. Examples of such products include secured cards and other customized card products including affinity and co-branded cards, student cards and other cards targeted to certain markets that are underserved by the Company's competitors. These products do not have the immediate impact on managed loan balances of the balance transfer products but typically consist of lower credit limit accounts and balances that build over time. The terms of these customized card products tend to include annual membership fees and higher annual finance charge rates. The profile of the consumers targeted for these products, in some cases, may also tend to result in higher account delinquency rates and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the balance transfer products.

During 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due, from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. As a result, 1997 managed net interest income was reduced by \$15.1 million and managed non-interest income was reduced by \$8.0 million for the reversal of previously accrued finance charges and fee income. In addition, this modification increased managed net charge-offs by \$47.4 million in 1997. Also, during 1997, the Company began recognizing the estimated uncollectible portion of finance charge and fee income receivables, which decreased loans by \$50.2 million, managed net interest income by \$19.8 million and managed non-interest income by \$30.4 million. Risk adjusted revenue and risk adjusted margin, without these modifications, would have been \$1.3 billion and 8.92%, respectively, in 1997.

Table 3 provides income statement data and ratios for the Company's managed consumer loan portfolio. The causes of increases and decreases in the various components of risk adjusted revenue are discussed in further detail in subsequent sections of this analysis.

TABLE 3: MANAGED RISK ADJUSTED REVENUE

(Dollars in Thousands)	Year Ended December 31		
	1998	1997	1996
MANAGED INCOME STATEMENT:			
Net interest income	\$1,700,424	\$1,299,317	\$1,013,557
Non-interest income(1)	1,066,413	743,516	460,492
Net charge-offs	(810,306)	(856,704)	(477,732)
Risk adjusted revenue	\$1,956,531	\$1,186,129	\$ 996,317
RATIOS(2):			
Net interest margin	9.95%	8.86%	8.16%
Non-interest income	6.24	5.07	3.71
Net charge-offs	(4.74)	(5.84)	(3.85)
Risk adjusted margin	11.45%	8.09%	8.02%

(1) For 1997, excludes \$32 million pre-tax incremental impact on credit card securitizations income resulting from the implementation of SFAS 125.

(2) As a percentage of average managed earning assets.

[GRAPH OMITTED]

## NET INTEREST INCOME

Net interest income is interest and past-due fees earned from the Company's consumer loans and securities less interest expense on borrowings, which include interest-bearing deposits, other borrowings and borrowings from senior and deposit notes.

Reported net interest income for the year ended December 31, 1998, was \$694.8 million compared to \$383.1 million for 1997, representing an increase of \$311.6 million, or 81%. Net interest income increased as a result of growth in earning assets and an increase in the net interest margin. Average earning assets increased 26% for the year ended December 31, 1998, to \$7.2 billion from \$5.8 billion for the year ended December 31, 1997. The reported net interest margin increased to 9.62% in 1998, from 6.66% in 1997 primarily attributable to a 364 basis point increase in the yield on consumer loans to 18.75% for the year ended December 31, 1998, from 15.11% for the year ended December 31, 1997. The yield on consumer loans increased primarily due to an increase in the amount and frequency of past-due fees as compared to the prior year. In addition, the Company's continued shift to higher yielding products, offset by growth in low non-introductory rate products, contributed to the increase in yield on consumer loans during the same periods.

The managed net interest margin for the year ended December 31, 1998, increased to 9.95% from 8.86% for the year ended December 31, 1997. This increase was primarily the result of a 126 basis point increase in consumer loan yield for the year ended December 31, 1998, offset by an increase of nine basis points in borrowing costs for the same period, as compared to 1997. The increase in consumer loan yield to 16.99% for the year ended December 31, 1998, from 15.73% in 1997 principally reflected increases in the amount and frequency of changes in past-due fees and growth in higher yielding loans. The average rate paid on borrowed funds increased slightly to 6.04% for the year ended December 31, 1998, from 5.95% in 1997, reflecting the Company's shift to more fixed rate funding to match the increase in fixed rate consumer loan products.

Reported net interest income for the year ended December 31, 1997 was \$383.1 million, compared to \$365.5 million for 1996, representing an increase of \$17.6 million, or 5%. Average earning assets increased 20% to \$5.8 billion for the year ended December 31, 1997, from \$4.8 billion in 1996. The reported net interest margin decreased to 6.66% in 1997, from 7.62% in 1996 and was primarily attributable to a 110 basis point decrease in the yield on consumer loans to 15.11% for the year ended December 31, 1997, from 16.21% for 1996. The yield on consumer loans decreased due to the removal from the balance sheet through securitization of higher yielding credit card products during the fourth quarter of 1996 and a \$24.4 million reduction in reported consumer loan income as a result of modifications in the charge-off policy and finance charge and fee income recognition previously discussed. These decreases were offset by an increase in the amount of past-due fees charged from both a change in terms and an increase in the delinquency rate as compared to 1996.

The managed net interest margin for the year ended December 31, 1997, increased to 8.86% from 8.16% for the year ended December 31, 1996. This increase was primarily the result of a 97 basis point increase in consumer loan yield for the year ended December 31, 1997, offset by an 11 basis point increase in borrowing costs for the same period, as compared to 1996. The increase in consumer loan yield to 15.73% for the year ended December 31, 1997, from 14.76% in 1996 principally reflected the 1997 repricing of introductory rate loans, changes in product mix and the increase in past-due fees charged on delinquent accounts noted above. The average rate paid on borrowed funds increased slightly to 5.95% for the year ended December 31, 1997, from 5.84% in 1996, primarily reflecting a relatively steady short-term interest rate environment during 1997 and 1996.

Table 4 provides average balance sheet data, an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for each of the years ended December 31, 1998, 1997 and 1996.



TABLE 4: STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

	Year Ended December 31								
(Dollars in Thousands)	Average Balance	1998 Income/ Expense	Yield/ Rate	Average Balance	1997 Income/ Expense	Yield/ Rate	Average Balance	1996 Income/ Expense	Yield/ Rate
ASSETS:									
Earning assets									
Consumer loans(1)	\$5,348,559	\$1,003,122	18.75%	\$4,103,036	\$619,785	15.11%	\$3,651,908	\$592,088	16.21%
Federal funds sold and resale agreements	231,312	12,564	5.43	293,119	16,423	5.60	394,939	21,293	5.39
Other	1,645,964	95,850	5.82	1,357,842	81,777	6.02	752,140	47,102	6.26
Total earning assets	7,225,835	\$1,111,536	15.38%	5,753,997	\$717,985	12.48%	4,798,987	\$660,483	13.76%
Cash and due from banks	4,385			(2,636)			40,698		
Allowance for loan losses	(214,333)			(132,728)			(83,573)		
Premises and equipment, net	201,173			181,610			156,441		
Other	1,113,372			768,694			656,407		
Total assets	\$8,330,432			\$6,568,937			\$5,568,960		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest-bearing liabilities									
Deposits	\$1,430,042	\$ 67,479	4.72%	\$ 958,885	\$ 41,932	4.37%	\$1,046,122	\$ 56,272	5.38%
Other borrowings	1,376,156	88,600	6.44	631,876	39,066	6.18	454,899	28,509	6.27
Senior and deposit notes	3,787,639	260,675	6.88	3,718,988	253,849	6.83	3,168,205	210,218	6.64
Total interest-bearing liabilities	6,593,837	\$ 416,754	6.32%	5,309,749	\$334,847	6.31%	4,669,226	\$294,999	6.32%
Other	550,819			345,582			222,975		
Total liabilities	7,144,656			5,655,331			4,892,201		
Preferred beneficial interests	97,793			89,529					
Stockholders' equity	1,087,983			824,077			676,759		
Total liabilities and stockholders' equity	\$8,330,432			\$6,568,937			\$5,568,960		
Net interest spread			9.06%			6.17%			7.44%
Interest income to average earning assets			15.38			12.48			13.76
Interest expense to average earning assets			5.76			5.82			6.14
Net interest margin			9.62%			6.66%			7.62%

(1) Interest income includes past-due fees on loans of approximately \$301,979, \$132,297 and \$94,393 for the years ended December 31, 1998, 1997 and 1996, respectively.

#### INTEREST VARIANCE ANALYSIS

Net interest income is affected by changes in the average interest rate earned on earning assets and the average interest rate paid on interest-bearing liabilities. In addition, net interest income is affected by changes in the volume of earning assets and interest-bearing liabilities. Table 5 sets forth the dollar amount of the increases (decreases) in interest income and interest expense resulting from changes in the volume of earning assets and interest-bearing liabilities and from changes in yields and rates.

TABLE 5: INTEREST VARIANCE ANALYSIS

(In Thousands)	Year Ended December 31					
	1998 Increase (Decrease)	vs. 1997 Change Volume	Due to(1) Yield/Rate	1997 Increase (Decrease)	vs. 1996 Change Volume	Due to(1) Yield/Rate
<b>INTEREST INCOME:</b>						
Consumer loans	\$383,337	\$213,453	\$169,884	\$ 27,697	\$ 69,924	\$(42,227)
Federal funds sold and resale agreements	(3,859)	(3,371)	(488)	(4,870)	(5,676)	806
Other	14,073	16,856	(2,783)	34,675	36,545	(1,870)
Total interest income	393,551	206,040	187,511	57,502	123,085	(65,583)
<b>INTEREST EXPENSE:</b>						
Deposits	25,547	22,007	3,540	(14,340)	(4,422)	(9,918)
Other borrowings	49,534	47,854	1,680	10,557	10,947	(390)
Senior and deposit notes	6,826	4,713	2,113	43,631	37,446	6,185
Total interest expense	81,907	81,157	750	39,848	40,394	(546)
Net interest income(1)	\$311,644	\$113,910	\$197,734	\$ 17,654	\$ 67,129	\$(49,475)

(1) The change in interest due to both volume and yield/rates has been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the volume and yield/rate columns are not the sum of the individual lines.

#### SERVICING AND SECURITIZATIONS INCOME

In accordance with SFAS 125, the Company records gains or losses on the securitizations of consumer loan receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated excess cash flows the Company has retained over the estimated outstanding period of the receivables and are included in servicing and securitizations income. This excess cash flow essentially represents an "interest only" ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. However, exposure to credit losses on the securitized loans is contractually limited to these cash flows.

Servicing and securitizations income increased \$107.5 million, or 16%, to \$789.8 million for the year ended December 31, 1998, from \$682.3 million in 1997. This increase was primarily due to an increase of 11% in average off-balance sheet loans. Also contributing to this increase were decreased charge-offs on such loans as a result of improving consumer credit.

The increase in servicing and securitizations income of \$222.5 million, or 48%, to \$682.3 million for the year ended December 31, 1997, from \$459.8 million for 1996 was due to a number of factors, including the incremental effect of the implementation of SFAS 125 and a 17% increase in average off-balance sheet loans. The incremental effect of adopting the requirements of SFAS 125 was to increase servicing and securitizations income in 1997 by \$32.0 million (\$19.8 million net of tax). Prior to 1997, no gains were recorded due to the relatively short average life of the consumer loans securitized. Excess servicing fee income was recorded over the life of each sale transaction.

Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. Any future gains that will be recognized in accordance with SFAS 125 will be dependent on the timing and amount of future securitizations. The Company will continuously assess the performance of new and existing securitization transactions as estimates of future cash flows change.

#### OTHER NON-INTEREST INCOME

Interchange income increased \$37.5 million, or 76%, to \$86.5 million for the year ended December 31, 1998, from \$49.0 million in 1997. Service charges and other fees increased to \$612.0 million, or 81%, for the year ended December 31, 1998 compared to \$337.8 million for the year ended December 31, 1997. These increases were due to

a 39% increase in the average number of accounts for the year ended December 31, 1998, from 1997, an increase in charge volume, a shift to more fee-intensive products and changes in the terms of overlimit fees charged.

Interchange income decreased \$2.4 million, or 5%, to \$49.0 million for the year ended December 31, 1997, from \$51.4 million in 1996 as a result of the securitization of a higher percentage of more fee-intensive other credit card products in 1997 compared to 1996. Service charges and other fees increased to \$337.8 million, or 34%, for the year ended December 31, 1997 compared to \$252.2 million for the year ended December 31, 1996. This increase was due to a 33% increase in the average number of accounts for the year ended December 31, 1997, from 1996, a shift to more fee-intensive products and changes in the terms of overlimit fees charged.

[GRAPH OMITTED]

#### NON-INTEREST EXPENSE

Non-interest expense for the year ended December 31, 1998, increased \$588.1 million, or 67%, to \$1.5 billion from \$884.0 million for the year ended December 31, 1997. Contributing to the increase in non-interest expense were marketing expenses which increased \$221.4 million, or 98%, to \$446.3 million in 1998, from \$224.8 million in 1997. The increase in marketing expenses during 1998 reflects the Company's continued identification of and investments in opportunities for growth. Salaries and associate benefits increased \$187.1 million, or 65%, to \$476.4 million in 1998, from \$289.3 million in 1997, as the Company added 4,526 associates to manage the growth in the Company's accounts. This increase also reflects an additional \$45.3 million in compensation expense associated with the Company's associate stock plans compared to the prior year. All other non-interest expenses increased \$179.6 million, or 49%, to \$549.5 million for the year ended December 31, 1998, from \$369.8 million in 1997. The increase in other non-interest expense, as well as the increase in salaries and associate benefits not attributable to the Company's associate stock plans, was primarily a result of a 39% increase in the average number of accounts for the year ended December 31, 1998, which resulted in an increase in staff and other operational costs associated with the Company's growth pattern.

Non-interest expense for the year ended December 31, 1997 increased \$170.8 million, or 24%, to \$884.0 million from \$713.2 million for the year ended December 31, 1996. Contributing to the increase in non-interest expense was salaries and associate benefits expense, which increased \$74.1 million, or 34%, to \$289.3 million in 1997 compared to \$215.2 million in 1996. This increase reflected additional staff associated with the cost of operations to manage the growth in accounts and \$17.0 million in additional expense associated with the Company's associate stock plans. Also contributing to the increase in non-interest expense was marketing expenses which increased \$18.2 million, or 9%, to \$224.8 million in 1997, from \$206.6 million in 1996. All other non-interest expenses increased \$78.4 million, or 27%, to \$369.8 million in 1997 compared to \$291.4 million in 1996. The increase in other non-interest expenses was primarily the result of a 33% increase in the average number of accounts for the year ended December 31, 1997.

#### INCOME TAXES

The Company's income tax rate was 38% for the years ended December 31, 1998 and 1997, and 37.5% for the year ended December 31, 1996. The effective rate includes both state and federal income tax components.

#### ASSET QUALITY

The asset quality of a portfolio is generally a function the initial underwriting criteria used, seasoning of the accounts, levels of competition, account management activities and demographic concentration, as well as general economic conditions. Accounts tend to exhibit a rising trend of delinquency and credit losses as they season. As of December 31, 1998 and 1997, 59% and 53% of managed accounts, representing 51% and 43% of the total managed loan balance, respectively, were less than eighteen months old. Accordingly, it is likely that the Company's managed loan portfolio could experience increased levels of delinquency and credit losses as the average age of the Company's accounts increases.

Changes in the rates of delinquency and credit losses can also result from a shift in the product mix. As discussed in "Risk Adjusted Revenue and Margin," certain other customized card products have, in some cases, higher delinquency and higher charge-off rates. In the case of secured card loans, collateral, in the form of cash

deposits, reduces any ultimate charge-offs. The costs associated with higher delinquency and charge-off rates are considered in the pricing of individual products.

During 1998, general economic conditions for consumer credit stabilized and improved as industry levels of charge-offs (including bankruptcies) and delinquencies both decreased. These trends have positively impacted the Company's 1998 results.

#### DELINQUENCIES

Table 6 shows the Company's consumer loan delinquency trends for the years presented on a reported and managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. Delinquencies not only have the potential to impact earnings if the account charges off, they also are costly in terms of the personnel and other resources dedicated to resolving the delinquencies.

The 30-plus day delinquency rate for the reported consumer loan portfolio decreased to 4.70% as of December 31, 1998, from 5.51% as of December 31, 1997. The 30-plus day delinquency rate for the managed consumer loan portfolio was 4.70% as of December 31, 1998, down from 6.20% as of December 31, 1997, while the dollar amount of delinquent managed consumer loans decreased approximately \$64.2 million. Both the managed and reported consumer loan portfolio's delinquency rate decreases as of December 31, 1998, principally reflected improvements in consumer credit performance and less seasoned accounts.

Table 6: Delinquencies

(Dollars in Thousands)	1998		1997		December 31 1996		1995		1994	
	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans
<b>REPORTED:</b>										
Loans outstanding	\$ 6,157,111	100.00%	\$ 4,861,687	100.00%	\$ 4,343,902	100.00%	\$ 2,921,679	100.00%	\$2,228,455	100.00%
Loans delinquent:										
30-59 days	123,162	2.00	104,216	2.14	96,819	2.23	65,711	2.25	29,032	1.30
60-89 days	67,504	1.10	64,217	1.32	55,679	1.28	38,311	1.31	14,741	.66
90 or more days	98,798	1.60	99,667	2.05	111,791	2.57	79,694	2.73	24,445	1.10
<b>Total</b>	<b>\$ 289,464</b>	<b>4.70%</b>	<b>\$ 268,100</b>	<b>5.51%</b>	<b>\$ 264,289</b>	<b>6.08%</b>	<b>\$ 183,716</b>	<b>6.29%</b>	<b>\$ 68,218</b>	<b>3.06%</b>
<b>MANAGED:</b>										
Loans outstanding	\$17,395,126	100.00%	\$14,231,015	100.00%	\$12,803,969	100.00%	\$10,445,480	100.00%	\$7,378,455	100.00%
Loans delinquent:										
30-59 days	329,239	1.89	327,407	2.30	279,787	2.19	165,306	1.58	90,733	1.23
60-89 days	182,982	1.05	213,726	1.50	162,668	1.27	92,665	.89	45,277	.61
90 or more days	305,589	1.76	340,887	2.40	356,700	2.78	181,243	1.73	81,720	1.11
<b>Total</b>	<b>\$ 817,810</b>	<b>4.70%</b>	<b>\$ 882,020</b>	<b>6.20%</b>	<b>\$ 799,155</b>	<b>6.24%</b>	<b>\$ 439,214</b>	<b>4.20%</b>	<b>\$ 217,730</b>	<b>2.95%</b>

[GRAPH OMITTED]

#### NET CHARGE-OFFS

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges, fees and fraud losses) less current period recoveries. In 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due.

For the year ended December 31, 1998, the managed net charge-off rate decreased 126 basis points to 5.33%. For the year ended December 31, 1998, the reported net charge-off rate decreased 59 basis points to 4.24%. The decreases in managed and reported net charge-off rates were the result of improved general economic trends in consumer credit performance compared to the prior year, with less of an impact on reported net charge-offs due to

the increased level of seasoned and higher yielding products included in the reported portfolio. Table 7 shows the Company's net charge-offs for the years presented on a reported and managed basis.

The Company's objective is to optimize the profitability of each account within acceptable risk characteristics. The Company takes measures as necessary, including requiring collateral on certain accounts and other marketing and account management techniques, to maintain the Company's credit quality standards and to manage the risk of loss on existing accounts. See "Risk Adjusted Revenue and Margin" for further discussion.

TABLE 7: NET CHARGE-OFFS

(Dollars in Thousands)	1998	Year Ended December 31			1995	1994
		1997	1996			
REPORTED:						
Average loans outstanding	\$ 5,348,559	\$ 4,103,036	\$ 3,651,908	\$2,940,208	\$2,286,684	
Net charge-offs	226,531	198,192	132,590	59,618	25,727	
Net charge-offs as a percentage of average loans outstanding	4.24%	4.83%	3.63%	2.03%	1.13%	
MANAGED:						
Average loans outstanding	\$15,209,537	\$13,007,182	\$11,268,461	\$9,089,278	\$6,197,423	
Net charge-offs	810,306	856,704	477,732	204,828	91,648	
Net charge-offs as a percentage of average loans outstanding	5.33%	6.59%	4.24%	2.25%	1.48%	

#### PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb probable future losses, net of recoveries (including recovery of collateral), inherent in the existing reported loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. Management believes that the allowance for loan losses is adequate to cover anticipated losses in the reported homogeneous consumer loan portfolio under current conditions. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the reported consumer loan portfolio. Additional information on the Company's allowance for loan loss policy can be found in Note A to the Consolidated Financial Statements. Table 8 sets forth the activity in the allowance for loan losses for the periods indicated. See "Asset Quality," "Delinquencies" and "Net Charge-Offs" for a more complete analysis of asset quality.

TABLE 8: SUMMARY OF ALLOWANCE FOR LOAN LOSSES

(Dollars in Thousands)	1998	Year Ended December 31			1995	1994
		1997	1996			
Balance at beginning of year	\$ 183,000	\$ 118,500	\$ 72,000	\$ 68,516	\$ 63,516	
Provision for loan losses	267,028	262,837	167,246	65,895	30,727	
Acquisitions/other	7,503	(2,770)	(18,887)	(11,504)	(4,869)	
Charge-offs	(294,295)	(223,029)	(115,159)	(64,260)	(31,948)	
Recoveries	67,764	27,462	13,300	13,353	11,090	
Net charge-offs	(226,531)	(195,567)	(101,859)	(50,907)	(20,858)	
Balance at end of year	\$ 231,000	\$ 183,000	\$ 118,500	\$ 72,000	\$ 68,516	
Allowance for loan losses to loans at end of year	3.75%	3.76%	2.73%	2.86%	3.07%	

For the year ended December 31, 1998, the provision for loan losses increased to \$267.0 million, or 2%, from the 1997 provision for loan losses of \$262.8 million as average reported loans increased by 30%, offset by general improvements in consumer credit performance. The Company increased the allowance for loan losses by \$48.0 million during 1998 primarily due to the growth in reported loans.

For the year ended December 31, 1997, the provision for loan losses increased to \$262.8 million, or 57%, from the 1996 provision for loan losses of \$167.2 million. The allowance for loan losses as a percentage of reported consumer loans increased to 3.76% as of December 31, 1997, from 2.73% as of December 31, 1996 primarily due to increases in the net charge-off rate to 4.83% for 1997, from 3.63% in 1996, resulting from continued loan seasoning, general economic trends in consumer credit performance and the modification in charge-off policy described earlier. The provision increase also reflected the increase in reported consumer loans to \$4.9 billion as of December 31, 1997, an increase of 12% from December 31, 1996, and the continued growth of other customized card products. In consideration of these factors, the Company increased the allowance for loan losses by \$64.5 million during 1997.

#### FUNDING

The Company has established access to a wide range of domestic funding alternatives, in addition to securitization of its consumer loans. The Company primarily issues senior unsecured debt of the Bank through its \$8.0 billion bank note program, of which \$3.4 billion was outstanding as of December 31, 1998, with original terms of one to ten years. During 1998, the Bank continued to expand its fixed income investor base by launching \$300 million five-year and \$200 million ten-year benchmark underwritten senior note transactions, followed by additional issuances in response to investor interest. The Corporation also continued to access the capital markets with a \$200 million ten-year senior note.

Internationally, the Company has funding programs designed for foreign investors or to raise funds in foreign currencies. The Company has accessed the international securitization market for a number of years with both US\$ and foreign denominated transactions. Both of the Company's committed revolving credit facilities offer foreign currency funding options. The Bank has established a \$1.0 billion Euro Debt Issuance program that is targeted to non-U.S. investors. The Company funds its foreign assets by directly or synthetically borrowing or securitizing in the local currency to mitigate the financial statement effect of currency translation.

The Company has significantly expanded its retail deposit gathering efforts through both direct and broker marketing channels. The Company uses its IBS capabilities to test and market a variety of retail deposit origination strategies, as well as to develop customized account management programs. As of December 31, 1998, the Company had \$2.0 billion in interest-bearing deposits, with original maturities up to five years.

Table 9 reflects the costs of other borrowings of the Company as of and for each of the years ended December 31, 1998, 1997 and 1996.

TABLE 9: OTHER BORROWINGS

(Dollars in Thousands)	Maximun Outstanding as of any Month-End	Outstanding as of Year-End	Average Outstanding	Average Interest Rate	Year-End Interest Rate
1998					
Federal funds purchased and resale agreements	\$1,451,029	\$1,227,000	\$1,169,952	6.09%	5.53%
Other	417,279	417,279	206,204	8.44	6.58
Total		\$1,644,279	\$1,376,156	6.44%	5.80%
1997					
Federal funds purchased and resale agreements	\$ 999,200	\$ 705,863	\$ 503,843	5.54%	5.75%
Other	160,144	90,249	128,033	8.71	7.09
Total		\$ 796,112	\$ 631,876	6.18%	5.90%
1996					
Federal funds purchased and resale agreements	\$ 617,303	\$ 445,600	\$ 342,354	5.63%	6.26%
Other	207,689	85,383	112,545	8.20	6.43
Total		\$ 530,983	\$ 454,899	6.27%	6.29%

[GRAPH OMITTED]

Table 10 shows the maturities of certificates of deposit in denominations of \$100,000 or greater (large denomination CDs) as of December 31, 1998.

TABLE 10: MATURITIES OF DOMESTIC LARGE DENOMINATION CERTIFICATES -- \$100,000 OR MORE

(Dollars in Thousands)	December 31, 1998	
	Balance	Percent
3 months or less	\$ 66,174	14.67%
Over 3 through 6 months	36,730	8.14%
Over 6 through 12 months	88,889	19.71%
Over 12 months	259,283	57.48%
Total	\$451,076	100.00%

Additional information regarding funding can be found in Note E to the Consolidated Financial Statements.

#### LIQUIDITY

Liquidity refers to the Company's ability to meet its cash needs. The Company meets its cash requirements by securitizing assets and through issuing debt. As discussed in "Managed Consumer Loan Portfolio," a significant source of liquidity for the Company has been the securitization of consumer loans. Maturity terms of the existing securitizations vary from 1999 to 2008 and typically have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated and are no longer reinvested in new loans, the Company's funding requirements for such new loans increase accordingly. The occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled, which would accelerate the need for funding.

Table 11 shows the amounts of investor principal from securitized consumer loans that are expected to amortize, or be otherwise paid over the periods indicated, based on outstanding securitized consumer loans as of January 1, 1999. As of December 31, 1998 and 1997, 65% and 66%, respectively, of the Company's total managed loans were securitized.

As such amounts amortize or are otherwise paid, the Company believes it can securitize consumer loans, purchase federal funds and establish other funding sources to fund the amortization or other payment of the securitizations in the future, although no assurance can be given to that effect. Additionally, the Company maintains a portfolio of high-quality securities such as U.S. Treasuries and other U.S. government obligations, commercial paper, interest-bearing deposits with other banks, federal funds and other cash equivalents in order to provide adequate liquidity and to meet its ongoing cash needs. As of December 31, 1998, the Company had \$2.1 billion of such securities.

Liability liquidity is measured by the Company's ability to obtain borrowed funds in the financial markets in adequate amounts and at favorable rates. As of December 31, 1998, the Company, the Bank and the Savings Bank collectively had over \$1.9 billion in unused commitments, under its credit facilities, available for liquidity needs.

TABLE 11: SECURITIZATIONS -- AMORTIZATION TABLE

(Dollars in Thousands)	1999	2000	2001	2002	2003-2008
Balance at beginning of year	\$11,742,081	\$ 9,766,447	\$ 7,260,833	\$ 3,758,706	\$ 2,126,356
Less repayment amounts	(1,975,634)	(2,505,614)	(3,502,127)	(1,632,350)	(2,126,356)
Balance at end of year	\$ 9,766,447	\$ 7,260,833	\$ 3,758,706	\$ 2,126,356	\$ --

## CAPITAL ADEQUACY

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items.

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." As of December 31, 1998, there are no conditions or events since the notifications discussed above that management believes have changed either the Bank or the Savings Bank's capital category.

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains a branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1998 and 1997, the Company's Tier 1 Leverage ratio was 13.49% and 13.83%, respectively.

Additional information regarding capital adequacy can be found in Note K to the Consolidated Financial Statements.

In July 1997, the Company's Board of Directors voted to repurchase up to two million shares of the Company's common stock over the next two years to mitigate the dilutive impact of shares issuable under its benefit plans, including its Associate Stock Purchase Plan, dividend reinvestment plan and stock incentive plans. In July 1998, the Company's Board of Directors voted to increase this amount by an additional 1.5 million shares of the Company's common stock. The Company uses various strategies to reduce the cost of its share repurchase program, including the writing of put options on anticipated repurchases. For the years ended December 31, 1998 and 1997, the Company repurchased 895,800 and 1,318,641 shares, respectively, under this program. Certain treasury shares were reissued in connection with the Company's benefit plans.

## DIVIDEND POLICY

Although the Company expects to reinvest a substantial portion of its earnings in its business, the Company intends to continue to pay regular quarterly cash dividends on the Common Stock. The declaration and payment of dividends, as well as the amount thereof, is subject to the discretion of the Board of Directors of the Company and will depend upon the Company's results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Corporation will declare and pay any dividends. As a holding company, the ability of the Company to pay dividends is dependent upon the receipt of dividends or other payments from its subsidiaries. Applicable banking regulations and provisions that may be contained in borrowing agreements of the Company or its subsidiaries may restrict the ability of the Company's subsidiaries to pay dividends to the Corporation or the ability of the Corporation to pay dividends to its stockholders.

## OFF-BALANCE SHEET RISK

The Company is subject to off-balance sheet risk in the normal course of business including commitments to extend credit, reduce the interest rate sensitivity of its securitization transactions and its off-balance sheet financial instruments. The Company enters into interest rate swap agreements in the management of its interest rate exposure. The Company also enters into forward foreign currency exchange contracts and currency swaps to reduce its sensitivity to changing foreign currency exchange rates. These off-balance sheet financial instruments involve elements of credit, interest rate or foreign currency exchange rate risk in excess of the amount recognized on the balance sheet. These instruments also present the Company with certain credit, market, legal and operational risks. The Company has established credit policies for off-balance sheet instruments as it has for on-balance sheet instruments.

Additional information regarding off-balance sheet financial instruments can be found in Note O to the Consolidated Financial Statements.



## INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. To the extent that managed interest income and expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings could be affected. The Company's managed net interest income is affected by changes in short-term interest rates, primarily LIBOR, as a result of its issuance of interest-bearing deposits, variable rate loans and variable rate securitizations. The Company manages and mitigates its interest rate sensitivity through several techniques which include, but are not limited to, changing the maturity, repricing and distribution of assets and liabilities and entering into interest rate swaps.

The Company measures exposure to its interest rate risk through the use of a simulation model. The model generates a distribution of possible twelve-month managed net interest income outcomes based on (i) a set of plausible interest rate scenarios, as determined by management based upon historical trends and market expectations, (ii) all existing financial instruments, including swaps, and (iii) an estimate of ongoing business activity over the coming twelve months. The Company's asset/liability management policy requires that based on this distribution there be at least a 95% probability that managed net interest income achieved over the coming twelve months will be no more than 3% below the mean managed net interest income of the distribution. As of December 31, 1998, the Company was in compliance with the policy; more than 95% of the outcomes generated by the model produced a managed net interest income of no more than 1.8% below the mean outcome. The interest rate scenarios evaluated as of December 31, 1998, included scenarios in which short-term interest rates rose by as much as 400 basis points or fell by as much as 175 basis points over twelve months.

The analysis does not consider the effects of the changed level of overall economic activity associated with various interest rate scenarios. Further, in the event of a rate change of large magnitude, management would likely take actions to further mitigate its exposure to any adverse impact. For example, management may reprice interest rates on outstanding credit card loans subject to the right of the consumers in certain states to reject such repricing by giving timely written notice to the Company and thereby relinquishing charging privileges. However, the repricing of credit card loans may be limited by competitive factors as well as certain legal constraints.

Interest rate sensitivity at a point in time can also be analyzed by measuring the mismatch in balances of earning assets and interest-bearing liabilities that are subject to repricing in future periods.

Table 12 reflects the interests rate repricing schedule for earning assets and interest-bearing liabilities as of December 31, 1998.

TABLE 12: INTEREST RATE SENSITIVITY

(Dollars in Millions)	As of December 31, 1998, Subject to Repricing			
	Within 180 Days	Greater than 180 Days- 1 Year	Greater than 1 Year- 5 Years	Over 5 Years
<b>EARNING ASSETS:</b>				
Federal funds sold and resale agreements	\$ 262			
Interest-bearing deposits at other banks	22			
Securities available for sale	148	\$ 95	\$ 1,082	\$ 472
Consumer loans	3,111	161	2,885	
Total earning assets	3,543	256	3,967	472
<b>INTEREST-BEARING LIABILITIES:</b>				
Deposits	1,019	243	738	
Other borrowings	1,644			
Senior and deposit notes	467	470	2,123	679
Total interest-bearing liabilities	3,130	713	2,861	679
Non-rate related net assets				(855)
Interest sensitivity gap	413	(457)	1,106	(1,062)
Impact of swaps	3,264	(138)	(2,119)	(1,007)
Impact of consumer loan securitizations	(3,847)	(493)	4,966	(626)
Interest sensitivity gap adjusted for impact of securitizations and swaps	\$ (170)	\$(1,088)	\$ 3,953	\$ (2,695)
Adjusted gap as a percentage of managed assets	(.82)%	(5.28)%	19.17%	(13.07)%
Adjusted cumulative gap	\$ (170)	\$(1,258)	\$ 2,695	
Adjusted cumulative gap as a percentage of managed assets	(.82)%	(6.10)%	13.07%	0.00%

**BUSINESS OUTLOOK****EARNINGS, GOALS AND STRATEGIES**

This business outlook section summarizes the Company's expectations for earnings for the year ending December 31, 1999, and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations. Certain statements are forward looking and, therefore, actual results could differ materially. Factors which could materially influence results are set forth throughout this section and in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Part I, Item 1, Risk Factors).

The Company has set an earnings target increase of approximately 30% over 1998 earnings and a return on equity in excess of 20%. As discussed elsewhere in this report and below, the Company's actual earnings are a function of its revenues (net interest income and non-interest income on its earning assets), consumer usage and payment patterns, credit quality of its earning assets (which affects fees and charge-offs), marketing expenses and operating expenses.

**PRODUCT AND MARKET OPPORTUNITIES**

The Company's strategy for future growth has been, and is expected to continue to be, to apply its proprietary IBS to its lending business as well as to other businesses, both financial and non-financial, including telecommunications services. The Company will seek to identify new product opportunities and to make informed investment decisions regarding new and existing products. The Company's lending and other financial and non-financial products are subject to competitive pressures, which management anticipates will increase as these markets mature.

**LENDING.** Lending includes credit card and other consumer lending products. Credit card opportunities include, and are expected to continue to include, low introductory and intermediate rate balance transfer products, low non-introductory rate products, as well as other customized credit card products, such as secured cards, affinity and co-branded cards, student cards and other cards tailored for specific consumer segments. The Company expects continued growth across a broad spectrum of new and existing customized products, which are distinguished by a varied range of credit lines, pricing structures and other characteristics. For example, the Company's low non-introductory rate products, which are marketed to consumers with the best established credit profiles, are characterized by higher credit lines, lower yields and an expectation of lower delinquencies and credit losses than the traditional low introductory rate balance transfer products. On the other hand, certain other customized card

products are characterized by lower credit lines, higher yields (including fees) and in some cases, higher delinquencies and credit losses than the Company's traditional products. These products also involve higher operational costs but exhibit better response rates, less adverse selection, less attrition and a greater ability to reprice than the Company's traditional introductory rate products. More importantly, as a whole, all of these customized products continue to have less volatile returns than the traditional products in recent market conditions.

On July 31, 1998, the Company completed the acquisition of Summit Acceptance Corporation ("Summit"), a Texas corporation. Summit is an indirect automobile finance lender located in Dallas, Texas. Summit is the Company's platform to test and apply its IBS to the automobile loan market.

**TELECOMMUNICATIONS.** The Company expects to continue its efforts to market telecommunications services through its subsidiary America One Communications, Inc. ("America One"). America One's initial business, the reselling of wireless services through direct marketing channels, has recently begun to experience growth in the number of customers and accounts. As a result of the expenses necessary to build the operations to support this new business and to acquire new accounts, to date this business negatively impacts earnings.

**INTERNATIONAL EXPANSION.** The Company has expanded its existing operations outside of the United States, with an initial focus on the United Kingdom and Canada. The Company has experienced growth in the number of accounts and loan balances in its international business. To support the continued growth of its United Kingdom business and any future business in Europe, in July 1998, the Company opened a new operations center in Nottingham, England.

The Company will continue to apply its IBS in an effort to balance the mix of credit card products with other financial and non-financial products and services to optimize profitability within the context of acceptable risk. The Company's growth through expansion and product diversification will be affected by the ability to internally build or acquire the necessary operational and organizational infrastructure, recruit experienced personnel and fund these new businesses. Although management believes it has the personnel, financial resources and business strategy necessary for continued success, there can be no assurance that the Company's historical financial performance will necessarily reflect its results of operations and financial condition in the future.

#### **MARKETING INVESTMENT**

The Company expects its 1999 marketing expenses to exceed 1998's expense level, as the Company continues to invest in its various credit card products and services, and other financial and non-financial products and services. The Company cautions, however, that an increase in marketing expenses does not necessarily equate to a comparable increase in outstanding balances or accounts based on historical results. As the Company's portfolio continues to increase, additional growth to offset attrition requires increasing amounts of marketing. Intense competition in the credit card market has resulted in a decrease in credit card response rates and reduced productivity of marketing dollars invested in certain lines of business. In addition, the cost to acquire new accounts varies across product lines. With competition affecting the profitability of existing introductory rate card products, the Company has been allocating, and expects to continue to allocate, a greater portion of its marketing expense to other customized credit card products and other financial and non-financial products. Additionally, the cost to acquire an America One wireless account includes the cost of providing a free phone to the customer, and consequently is substantially more than the cost to acquire a credit card account. The Company intends to continue a flexible approach in its allocation of marketing expenses. The actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the consumer credit industry, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and the identification of market opportunities across product lines that exceed the Company's targeted rates of return on investment.

The amount of marketing expense allocated to various product segments will influence the characteristics of the Company's portfolio as the various product segments are characterized by different account growth, loan growth and asset quality characteristics. The Company currently expects continued strong account growth and loan growth in 1999. Actual growth, however, may vary significantly depending on the Company's actual product mix and the level of attrition on the Company's managed portfolio, which is primarily affected by competitive pressures.

#### **IMPACT OF DELINQUENCIES, CHARGE-OFFS AND ATTRITION**

The Company's earnings are particularly sensitive to delinquencies and charge-offs on the Company's portfolio and on the level of attrition due to competition in the credit card industry. As delinquency levels fluctuate, the resulting amount of past-due and overlimit fees, which are significant sources of revenue for the Company, will also fluctuate. Further, the timing of revenues from increasing or decreasing delinquencies precedes the related impact of higher or

lower charge-offs that ultimately result from varying levels of delinquencies. Delinquencies and net charge-offs are impacted by general economic trends in consumer credit performance, including bankruptcies, the continued seasoning of the Company's portfolio and the product mix.

The Company's expectations for 1999 earnings are based on management's belief that consumer credit quality is stabilizing. Management expects that during the first half of 1999 delinquencies and charge-offs will remain stable. Management, however, cautions that delinquency and charge-off levels are not always predictable and may vary from projections. In the case of an economic downturn or recession, delinquencies and charge-offs are likely to increase. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, remains very high. Increased competition can affect the Company's earnings by increasing attrition of the Company's outstanding loans (thereby reducing interest and fee income) and by making it more difficult to retain and attract more profitable customers.

#### YEAR 2000

THE YEAR 2000 ISSUE AND THE COMPANY'S STATE OF READINESS. The year 2000 problem is a result of computer systems using two digits rather than four digits to define an applicable year. The Company utilizes a significant number of internal computer software programs and operating systems across its entire organization. In addition, the Company depends on its external business vendors to provide external services for its operations. To the extent the software applications of the Company or its vendors contain codes that are unable to appropriately interpret the year 2000 and beyond, some level of modification, or even possibly replacement of such applications, may be necessary.

In October 1996, the Company formed a year 2000 project office to identify software systems and computer-related devices that required modification for the year 2000. Shortly after its inception, the project office developed its strategy for the Company's information technology computer-based systems. This strategy is based, in large part, on the regulatory guidelines published by the Federal Financial Institutions Examination Council. This strategy calls for five milestones:

- . awareness of the existence of information technology systems Company-wide;
- . assessment of those systems for year 2000 readiness;
- . renovation of those systems and their date coding functions;
- . validation (testing) of renovations; and
- . implementation of all renovations made.

To implement this strategy, the Company categorized its information technology ("IT") systems into year 2000 projects and by domestic lending, United Kingdom operations, America One and Summit. Approximately 63% of the projects have completed all milestones, which includes substantially all of the Company's mission critical systems. Another 22% are in the validation and implementation stages, and the remaining 15% are in the assessment and renovation stages. The Company expects to complete all project milestones by the end of the second quarter 1999. This is a change from the previously projected date of the end of first quarter 1999 and is largely due to Summit and the United Kingdom projects. In addition to these milestones, throughout 1999, the Company will conduct an internal audit certification of its testing measures and, for systems with cross functionality, perform integrated testing.

The Company is also addressing the effect of the year 2000 on other non-IT systems, which are not included as part of the IT project areas set forth above. These non-IT systems primarily consist of desk top computer applications used by the Company's associates. The Company has inventoried and assessed these applications and expects to complete renovations by the end of the second quarter of 1999, a change from the original projected completion of the end of first quarter 1999.

In addition, the Company utilizes outside business vendors in its day-to-day operations and is assessing the overall year 2000 readiness of its external business vendors and year 2000 compliance of specific vendor systems used in the Company's operations. These vendors include credit bureaus, collection agencies, utilities and other related service providers, third party processors, the U.S. postal service, telephone companies, technology vendors, and banks that are creditors of the Company or which provide cash management, trustee, paying agent, stock transfer agent or other services. These vendors also include third parties that the Company uses to outsource certain operations for America One, the United Kingdom and Summit. In assessing overall compliance, the Company requests information from its vendors about their actions to become year 2000 compliant, placing extensive focus on

its high priority vendors. The Company, however, must rely on the actions of and the information provided by its vendors and cannot guarantee that vendor systems will, in fact, be compliant. For high priority vendors that the Company determines may not be taking appropriate and timely action or have failed to provide sufficient information, the Company will accelerate contingency planning efforts. The Company has increased its contingency efforts to accelerate the vendors' compliance efforts and/or internally build systems for America One's billing systems and the UK and Summit account processing systems. The Company will continue to actively monitor the efforts of all of its vendors and take actions to mitigate year 2000 issues resulting from any failure of its vendors to be year 2000 compliant.

**THE COMPANY'S CONTINGENCY PLAN.** The Company has established contingency planning projects for its critical business units. The Company's general contingency planning strategy has been refined to include the achievement of four milestones: (i) inventory and assessment of year 2000 risks, (ii) business impact analysis, (iii) developing contingency plans to mitigate the risks, and (iv) testing and validation of these contingency plans. The Company has completed all of the inventory and assessment milestones and a large majority of the business impact analysis milestones for all of its domestic lending and America One projects. The Company expects all of its domestic lending plans to be developed by the end of the first quarter of 1999, with testing and validation to be ongoing throughout the year. The Company has increased its contingency planning efforts for its United Kingdom operations and for Summit and America One. The Company will be developing these contingency planning efforts throughout 1999, and anticipates that the execution of those plans will be completed in the fourth quarter 1999, with testing and validation to be ongoing.

**THE COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES.** As of December 31, 1998, the Company had spent approximately \$5.5 million for year 2000 remediation of its IT systems. The Company estimates that it will incur an additional \$1.5 million in 1999. This includes an increase of approximately \$1.0 million from previous estimates primarily due to accelerated contingency planning for America One. In addition, the Company estimates that it will incur an additional \$2.0 million in 1999, which represents the early purchase of systems which will be used to conduct its integrated testing. Costs associated with non-IT systems, which are not included, are not expected to be material.

**THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES.** Although the Company expects to have all of its system modifications completed and tested extensively by the onset of the new millennium, unforeseen problems could arise from not being year 2000 compliant. The Company's business is heavily reliant on computer technologies and problems could arise resulting in delays and malfunctions that may impact the Company's operations, liquidity and financial results. In addition, the Company cannot guarantee that all of its vendors will have completed system renovations and be compliant by the year 2000. Although the Company is developing contingency plans to mitigate the risks from third party vendors and systems, the failure of third parties to provide the Company with products, services or systems that meet year 2000 requirements could materially impact the Company's business and operations. For example, failure of the U.S. postal service, the Company's local and long distance carriers or its material third party processors to be year 2000 compliant could cause disruption or delay in the Company's ability to solicit new customers and service the accounts of its existing customers.

The estimated year 2000 costs and the Company's expectations that its systems, and those of its third-party partners and vendors, will be year 2000 compliant are forward looking statements. These statements are based on management's reasonable estimates and assumptions about future events and are subject to risks and uncertainties. Although the Company believes it has taken the necessary precautionary measures to assure the year 2000 will not adversely affect its business, there is no guarantee that the Company's year 2000 expectations will be achieved and actual results could differ materially.

#### **CAUTIONARY FACTORS**

The Company's strategies and objectives outlined above, and the other forward looking statements contained in this section, involve a number of risks and uncertainties. The Company cautions readers that any forward looking information is not a guarantee of future performance and that actual results could differ materially. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: continued intense competition from numerous providers of products and services which compete with the Company's businesses; with respect to financial products, changes in the Company's aggregate accounts or consumer loan balances and the growth rate thereof, including changes resulting from factors such as shifting product mix, amount of actual marketing expenses made by the Company and attrition of accounts and loan balances; an increase in credit losses (including increases due to a worsening of general economic conditions);

the ability of the Company to continue to securitize its credit cards and consumer loans and to otherwise access the capital markets at attractive rates and terms to fund its operations and future growth; difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services or expansion internationally; financial, legal, regulatory or other difficulties that may affect investment in, or the overall performance of, a product or business, including changes in existing laws to regulate further the credit card and consumer loan industry and the financial services industry, in general; the amount of, and rate of growth in, the Company's expenses (including salaries and associate benefits and marketing expenses) as the Company's business develops or changes or as it expands into new market areas; the availability of capital necessary to fund the Company's new businesses; the ability of the Company to build the operational and organizational infrastructure necessary to engage in new businesses or to expand internationally; the ability of the Company to recruit experienced personnel to assist in the management and operations of new products and services; the ability of the Company and its suppliers to successfully address year 2000 compliance issues; and other factors listed from time to time in the Company's SEC reports, including, but not limited to, the Annual Report on Form 10-K for the year ended December 31, 1998 (Part I, Item 1, Risk Factors).

SELECTED QUARTERLY FINANCIAL DATA

(Unaudited)	1998				1997			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter (1)	Third Quarter	Second Quarter	First Quarter
SUMMARY OF OPERATIONS (IN THOUSANDS):								
Interest income	\$298,947	\$283,109	\$271,438	\$258,042	\$203,551	\$178,970	\$166,870	\$168,594
Interest expense	115,765	106,055	101,714	93,220	89,023	81,816	83,611	80,397
Net interest income	183,182	177,054	169,724	164,822	114,528	97,154	83,259	88,197
Provision for loan losses	54,580	67,569	59,013	85,866	94,356	72,518	46,776	49,187
Net interest income after provision for loan losses	128,602	109,485	110,771	78,956	20,172	24,636	36,483	39,010
Non-interest income	456,476	386,955	328,953	315,899	316,098	280,933	229,042	243,057
Non-interest expense	467,870	383,527	331,836	288,883	242,373	226,003	202,055	213,547
Income before income taxes	117,208	112,913	107,828	105,972	93,897	79,566	63,470	68,520
Income taxes	44,539	42,907	40,975	40,269	35,680	30,236	24,118	26,038
Net income	\$ 72,669	\$ 70,006	\$ 66,853	\$ 65,703	\$ 58,217	\$ 49,330	\$ 39,352	\$ 42,482
PER COMMON SHARE:								
Basic earnings	\$ 1.11	\$ 1.07	\$ 1.02	\$ 1.00	\$ .89	\$ .75	\$ .59	\$ .64
Diluted earnings	1.04	1.00	.96	.96	.86	.73	.58	.63
Dividends	.08	.08	.08	.08	.08	.08	.08	.08
Market prices								
High	125 7/16	129 15/16	125 3/8	81 7/8	54 3/16	45 3/4	39 7/8	43 5/8
Low	51 3/4	83 15/16	82 5/16	50 9/16	44 1/8	32 13/16	31 3/8	33 1/4
Average common shares (000s)	65,663	65,726	65,537	65,428	65,535	66,185	66,428	66,336
Average common and common equivalent shares (000s)	69,685	70,012	69,527	68,415	67,532	67,574	67,608	67,704
AVERAGE BALANCE SHEET DATA: (IN MILLIONS)								
Consumer loans	\$ 5,758	\$ 5,623	\$ 5,213	\$ 4,786	\$ 4,508	\$ 3,847	\$ 3,997	\$ 4,059
Allowance for loan losses	(231)	(216)	(213)	(197)	(174)	(123)	(119)	(120)
Securities	2,155	1,626	1,826	1,922	1,831	1,690	1,563	1,521
Other	1,511	1,473	1,280	1,025	899	1,143	1,117	939
Total assets	\$ 9,193	\$ 8,506	\$ 8,106	\$ 7,536	\$ 7,064	\$ 6,557	\$ 6,558	\$ 6,399
Interest-bearing deposits	\$ 1,886	\$ 1,369	\$ 1,193	\$ 1,266	\$ 1,172	\$ 852	\$ 818	\$ 993
Other borrowings	1,606	1,496	1,319	1,077	823	595	695	411
Senior and deposit notes	3,742	3,819	3,906	3,683	3,614	3,686	3,769	3,809
Other liabilities	649	575	553	462	465	485	380	357
Preferred beneficial interests	98	98	98	98	98	98	98	65
Stockholders' equity	1,212	1,149	1,037	950	892	841	798	764
Total liabilities and stockholders' equity	\$ 9,193	\$ 8,506	\$ 8,106	\$ 7,536	\$ 7,064	\$ 6,557	\$ 6,558	\$ 6,399

The above schedule is a tabulation of the Company's unaudited quarterly results for the years ended December 31, 1998 and 1997. The Company's common shares are traded on the New York Stock Exchange under the symbol COF. In addition, shares may be traded in the over-the-counter stock market. There were 9,692 and 10,585 common stockholders of record as of December 31, 1998 and 1997, respectively.

(1) Includes the effect of the modifications in charge-off policy and finance charge and fee income recognition which reduced interest income by \$24.4 million and non-interest income by \$48.9 million. See Note A to Consolidated Financial Statements.



MANAGEMENT'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROLS  
OVER FINANCIAL REPORTING

The Management of Capital One Financial Corporation is responsible for the preparation, integrity and fair presentation of the financial statements and footnotes contained in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles and are free of material misstatement. The Company also prepared other information included in this Annual Report and is responsible for its accuracy and consistency with the financial statements. In situations where financial information must be based upon estimates and judgments, they represent the best estimates and judgments of Management.

The Consolidated Financial Statements have been audited by the Company's independent public accountants, Ernst & Young LLP, whose independent professional opinion appears separately. Their audit provides an objective assessment of the degree to which the Company's Management meets its responsibility for financial reporting. Their opinion on the financial statements is based on auditing procedures which include reviewing accounting systems and internal controls and performing selected tests of transactions and records as they deem appropriate. These auditing procedures are designed to provide reasonable assurance that the financial statements are free of material misstatement.

Management depends on its accounting systems and internal controls in meeting its responsibilities for reliable financial statements. In Management's opinion, these systems and controls provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with Management's authorizations. As an integral part of these systems and controls, the Company maintains a professional staff of internal auditors that conducts operational and special audits and coordinates audit coverage with the independent auditors.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the internal auditors, the independent auditors and Management to review the work of each and ensure that each is properly discharging its responsibilities. The independent auditors have free access to the Committee to discuss the results of their audit work and their evaluations of the adequacy of accounting systems and internal controls and the quality of financial reporting.

There are inherent limitations in the effectiveness of internal controls, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to reliability of financial statements and safeguarding of assets. Furthermore, because of changes in conditions, internal control effectiveness may vary over time.

The Company assessed its internal controls over financial reporting as of December 31, 1998, in relation to the criteria described in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company believes that as of December 31, 1998, in all material respects, the Company maintained effective internal controls over financial reporting.

/s/ RICHARD D FAIRBANK

Richard D. Fairbank  
Chairman and Chief Executive Officer

/s/ NIGEL W. MORRIS

Nigel W. Morris  
President and Chief Operating Officer

/s/ DAVID M. WILLEY

David M. Willey  
Senior Vice President, Finance and Accounting

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Capital One Financial Corporation

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital One Financial Corporation at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, in 1997 the Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

/s/ ERNST & YOUNG LLP

Washington, D.C.  
January 19, 1999

## CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)	December 31	
	1998	1997
<b>ASSETS:</b>		
Cash and due from banks	\$ 15,974	\$ 5,039
Federal funds sold and resale agreements	261,800	173,500
Interest-bearing deposits at other banks	22,393	59,184
Cash and cash equivalents	300,167	237,723
Securities available for sale	1,796,787	1,242,670
Consumer loans	6,157,111	4,861,687
Less: Allowance for loan losses	(231,000)	(183,000)
Net loans	5,926,111	4,678,687
Premises and equipment, net	242,147	162,726
Interest receivable	52,917	51,883
Accounts receivable from securitizations	833,143	588,781
Other	268,131	115,809
Total assets	\$9,419,403	\$7,078,279
<b>LIABILITIES:</b>		
Interest-bearing deposits	\$1,999,979	\$1,313,654
Other borrowings	1,644,279	796,112
Senior notes	3,739,393	3,332,778
Deposit notes		299,996
Interest payable	91,637	68,448
Other	575,788	276,368
Total liabilities	8,051,076	6,087,356
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>GUARANTEED PREFERRED BENEFICIAL INTERESTS</b>		
IN CAPITAL ONE BANK'S FLOATING RATE		
JUNIOR SUBORDINATED CAPITAL INCOME SECURITIES:	97,921	97,664
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$.01 per share; authorized		
50,000,000 shares, none issued or outstanding		
Common stock, par value \$.01 per share; authorized		
300,000,000 shares, 66,556,792 and 66,557,230		
issued as of December 31, 1998 and 1997, respectively	666	666
Paid-in capital, net	599,498	513,561
Retained earnings	679,838	425,140
Cumulative other comprehensive income	60,655	2,539
Less: Treasury stock, at cost; 896,970 and 1,188,134 shares		
as of December 31, 1998 and 1997, respectively	(70,251)	(48,647)
Total stockholders' equity	1,270,406	893,259
Total liabilities and stockholders' equity	\$9,419,403	\$7,078,279

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data)	1998	1997	1996
INTEREST INCOME:			
Consumer loans, including fees	\$1,003,122	\$ 619,785	\$592,088
Federal funds sold and resale agreements	12,564	16,423	21,293
Other	95,850	81,777	47,102
Total interest income	1,111,536	717,985	660,483
INTEREST EXPENSE:			
Deposits	67,479	41,932	56,272
Other borrowings	88,600	39,066	28,509
Senior and deposit notes	260,675	253,849	210,218
Total interest expense	416,754	334,847	294,999
Net interest income	694,782	383,138	365,484
Provision for loan losses	267,028	262,837	167,246
Net interest income after provision for loan losses	427,754	120,301	198,238
NON-INTEREST INCOME:			
Servicing and securitizations	789,844	682,345	459,833
Service charges and other fees	611,958	337,755	252,192
Interchange	86,481	49,030	51,399
Total non-interest income	1,488,283	1,069,130	763,424
NON-INTEREST EXPENSE:			
Salaries and associate benefits	476,389	289,322	215,155
Marketing	446,264	224,819	206,620
Communications and data processing	150,220	98,135	76,841
Supplies and equipment	112,101	82,874	60,053
Occupancy	45,337	37,548	22,330
Other	241,805	151,280	132,183
Total non-interest expense	1,472,116	883,978	713,182
Income before income taxes	443,921	305,453	248,480
Income taxes	168,690	116,072	93,213
Net income	\$ 275,231	\$ 189,381	\$155,267
Basic earnings per share	\$4.20	\$2.87	\$2.34
Diluted earnings per share	\$3.96	\$2.80	\$2.32
Dividends paid per share	\$ .32	\$ .32	\$ .32

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Per Share Data)	Common Shares	Stock Amount	Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income	Treasury Stock	Total Stockholder's Equity
Balance, December 31, 1995	66,174,567	\$662	\$469,830	\$121,703	\$ 6,996		\$ 599,191
Comprehensive income:							
Net income				155,267			155,267
Other comprehensive income, net of income tax:							
Unrealized losses on securities, net of income tax benefit of \$2,647					(4,916)		(4,916)
Foreign currency translation adjustments					(132)		(132)
Other comprehensive income					(5,048)		(5,048)
Comprehensive income							150,219
Cash dividends -- \$.32 per share				(20,573)			(20,573)
Issuances of common stock	139,858	1	3,108				3,109
Exercise of stock options	11,500		186				186
Common stock issuable under incentive plan			7,728				7,728
Other items, net	(664)		531				531
Balance, December 31, 1996	66,325,261	663	481,383	256,397	1,948		740,391
Comprehensive income:							
Net income				189,381			189,381
Other comprehensive income, net of income tax:							
Unrealized gains on securities, net of income taxes of \$481					532		532
Foreign currency translation adjustments					59		59
Other comprehensive income					591		591
Comprehensive income							189,972
Cash dividends -- \$.32 per share				(20,638)			(20,638)
Purchases of treasury stock						\$(52,314)	(52,314)
Issuances of common stock	101,800	1	2,755			2,201	4,957
Exercise of stock options	130,290	2	2,614			1,466	4,082
Common stock issuable under incentive plan			24,772				24,772
Other items, net	(121)		2,037				2,037
Balance, December 31, 1997	66,557,230	666	513,561	425,140	2,539	(48,647)	893,259
Comprehensive income:							
Net income				275,231			275,231
Other comprehensive income, net of income tax:							
Unrealized gains on securities, net of income taxes of \$37,170					60,648		60,648
Foreign currency translation adjustments					(2,532)		(2,532)
Other comprehensive income					58,116		58,116
Comprehensive income							333,347
Cash dividends \$.32 per share				(20,533)			(20,533)
Purchases of treasury stock						(91,672)	(91,672)
Issuances of common stock			35,381			26,745	62,126
Exercise of stock options	1,500		(23,683)			43,323	19,640
Common stock issuable under incentive plan			70,038				70,038
Other items, net	(1,938)		4,201				4,201
Balance, December 31, 1998	66,556,792	\$666	\$599,498	\$679,838	\$60,655	\$(70,251)	\$1,270,406

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Year Ended December 31		
	1998	1997	1996
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 275,231	\$ 189,381	\$ 155,267
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	267,028	262,837	167,246
Depreciation and amortization, net	108,173	72,674	61,235
Stock compensation plans	70,056	24,878	7,921
(Increase) decrease in interest receivable	(141)	26,707	(23,017)
Increase in accounts receivable from securitizations	(133,771)	(86,261)	(143,141)
Increase in other assets	(121,951)	(49,964)	(31,379)
Increase (decrease) in interest payable	22,667	(11,914)	6,431
Increase in other liabilities	293,266	97,914	89,964
Net cash provided by operating activities	780,558	526,252	290,527
<b>INVESTING ACTIVITIES:</b>			
Purchases of securities available for sale	(1,251,713)	(1,275,900)	(947,478)
Proceeds from sales of securities available for sale	112,277	483,592	773
Proceeds from maturities of securities available for sale	606,532	450,787	490,040
Proceeds from securitizations of consumer loans	4,616,972	2,114,695	2,695,000
Net increase in consumer loans	(6,144,640)	(2,875,908)	(4,264,026)
Recoveries of loans previously charged off	67,764	27,462	13,300
Additions of premises and equipment, net	(153,024)	(51,602)	(74,871)
Net cash used for investing activities	(2,145,832)	(1,126,874)	(2,087,262)
<b>FINANCING ACTIVITIES:</b>			
Net increase in interest-bearing deposits	686,325	370,632	246,985
Net increase (decrease) in other borrowings	735,288	265,129	(278,820)
Issuances of senior and deposit notes	1,323,700	529,977	2,105,864
Maturities of senior and deposit notes	(1,218,162)	(891,436)	(603,500)
Issuance of preferred beneficial interests		97,428	
Dividends paid	(20,533)	(20,638)	(20,573)
Purchases of treasury stock	(91,672)	(52,314)	
Net proceeds from issuances of common stock	12,143	6,509	3,109
Proceeds from exercise of stock options	629	4,082	186
Net cash provided by financing activities	1,427,718	309,369	1,453,251
Increase (decrease) in cash and cash equivalents	62,444	(291,253)	(343,484)
Cash and cash equivalents at beginning of year	237,723	528,976	872,460
Cash and cash equivalents at end of year	\$ 300,167	\$ 237,723	\$ 528,976

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Currencies in Thousands, Except Per Share Data)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Capital One Financial Corporation (the "Corporation") and its subsidiaries. The Corporation is a holding company whose subsidiaries provide a variety of products and services to consumers. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which offers consumer lending products (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company."

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") that require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. All significant intercompany balances and transactions have been eliminated. Certain prior years' amounts have been reclassified to conform to the 1998 presentation.

The following is a summary of the significant accounting policies used in preparation of the accompanying Consolidated Financial Statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks. Cash paid for interest for the years ended December 31, 1998, 1997 and 1996, was \$393,565, \$346,761 and \$288,568, respectively. Cash paid for income taxes for the years ended December 31, 1998, 1997 and 1996, was \$202,112, \$131,052 and \$107,065, respectively.

SECURITIES AVAILABLE FOR SALE

Debt securities for which the Company does not have the positive intent and ability to hold to maturity are classified as securities available for sale. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization or accretion is included in other interest income.

CONSUMER LOANS

During 1997, the Company began recognizing the estimated uncollectible portion of finance charge and fee income receivables, which decreased loans and pre-tax income by \$50,200 in 1997. Previously, the accrued interest and fee portions of a charged off loan balance were deducted from current period income at the time of charge-off. In addition, during 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due, from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. As a result, 1997 pre-tax income was decreased by \$23,141 for the reversal of previously accrued finance charges and fee income, and reported charge-offs were increased by \$11,477. Bankrupt consumers' accounts are generally charged off within thirty days of receipt of the bankruptcy petition. Annual membership fees and direct loan origination costs are deferred and amortized over one year on a straight-line basis. Deferred fees (net of deferred costs) were \$140,242 and \$98,619 as of December 31, 1998 and 1997, respectively.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb probable future losses, net of recoveries (including recovery of collateral), inherent in the existing reported portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the allowance for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and charge-offs including bankrupt, deceased and recovered amounts; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; credit evaluations and underwriting policies.

## SECURITIZATIONS

The Company records gains or losses on the securitization of consumer loan receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an "interest only"("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. The I/O strip is carried at fair value, with changes in the fair value reported as a component of cumulative other comprehensive income. Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. The gains on securitizations and other income from securitizations are included in servicing and securitizations income.

In June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"("SFAS 125"), which was effective January 1, 1997. The Company prospectively adopted the requirements of SFAS 125 for the securitization of consumer loans. The incremental effect of applying the new requirements was to increase servicing and securitizations income in 1997 by \$32,000 (\$19,840, net of tax). Prior to 1997, no gains were recorded due to the relatively short average life of the consumer loans securitized. Excess servicing fee income was recorded over the life of each sale transaction.

## OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The nature and composition of the Company's assets and liabilities and off-balance sheet items expose the Company to interest rate risk. The Company's foreign currency denominated assets and liabilities expose it to foreign currency exchange rate risk. To mitigate these risks, the Company uses certain types of derivative financial instruments. The Company enters into interest rate swap agreements ("interest rate swaps") in the management of its interest rate exposure. All of the Company's interest rate swaps are designated and effective as hedges of specific existing or anticipated assets, liabilities or off-balance sheet items. The Company enters into forward foreign currency exchange contracts ("f/x contracts") and currency swaps to reduce its sensitivity to changing foreign currency exchange rates. All of the Company's f/x contracts and currency swaps are designated and effective as hedges of specific assets or liabilities. The Company does not hold or issue derivative financial instruments for trading purposes.

Swap agreements involve the periodic exchange of payments over the life of the agreements. Amounts paid or received on interest rate and currency swaps are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. As of December 31, 1998, the related amount payable to counterparties was \$2,463. As of December 31, 1997, the related amount receivable from counterparties was \$2,771. Changes in the fair value of interest rate swaps are not reflected in the accompanying financial statements, where designated to existing or anticipated assets, liabilities or off-balance sheet items and where swaps effectively modify or reduce interest rate sensitivity.

F/x contracts represent an agreement to exchange a specified notional amount of two different currencies at a specified exchange rate on a specified future date. Changes in the fair value of f/x contracts and currency swaps are recorded in the period in which they occur as foreign currency gains or losses in other non-interest income, effectively offsetting the related gains or losses on the items to which they are designated.

Realized and unrealized gains or losses at the time of maturity, termination, sale or repayment of a derivative contract are recorded in a manner consistent with its original designation. Amounts are deferred and amortized as an adjustment to the related income or expense over the original period of exposure, provided the designated asset, liability or off-balance sheet item continues to exist, or in the case of anticipated transactions, is probable of occurring. Realized and unrealized changes in the fair value of swaps or f/x contracts, designated with items that no longer exist or are no longer probable of occurring, are recorded as a component of the gain or loss arising from the disposition of the designated item.

Interest rate and foreign currency exchange rate risk management contracts are generally expressed in notional principal or contract amounts that are much larger than the amounts potentially at risk for nonperformance by counterparties. In the event of nonperformance by the counterparties, the Company's credit exposure on derivative financial instruments is limited to the value of the contracts that have become favorable to the Company. The Company actively monitors the credit ratings of its counterparties. Under the terms of certain swaps, each party



may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating.

#### PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed generally by the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are as follows: buildings and improvements -- 5-39 years; furniture and equipment -- 3-10 years; computers and software -- 3 years.

#### MARKETING

The Company expenses marketing costs as incurred.

#### CREDIT CARD FRAUD LOSSES

The Company experiences fraud losses from the unauthorized use of credit cards. Transactions suspected of being fraudulent are charged to non-interest expense after a sixty-day investigation period.

#### INCOME TAXES

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 established new rules for the reporting and display of comprehensive income and its components. In 1998, the Company adopted the requirements of SFAS 130, which require unrealized gains or losses on securities available for sale and foreign currency translation adjustments to be included in other comprehensive income. Prior to the adoption of SFAS 130, such amounts were reported separately in stockholders' equity. The adoption of SFAS 130 had no impact on the Company's net income or total stockholders' equity. As of December 31, 1998, 1997 and 1996, cumulative other comprehensive income net of tax consisted of \$63,260, \$2,612 and \$2,080 in unrealized gains on securities available for sale and \$(2,605), \$(73) and \$(132) in foreign currency translation adjustments, respectively. The provisions of SFAS 130 were applied retroactively.

#### EARNINGS PER SHARE

Earnings per share are calculated in accordance with SFAS No. 128, "Earnings per Share" ("SFAS 128"). Pursuant to SFAS 128, basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options and restricted stock. Diluted earnings per share is based on the weighted average number of common and common equivalent shares, dilutive stock options or other dilutive securities outstanding during the year.

#### SEGMENTS

The Company maintains three distinct business segments: lending, telecommunications and "other." The lending segment is comprised primarily of credit card lending activities. The telecommunications segment consists primarily of direct marketing cellular service. "Other" consists of various, non-lending new business initiatives.

Management measures the performance of its business segments on a managed basis and makes resource allocation decisions based upon several factors, including managed revenue generated by the segment, net of direct costs before marketing expenses. Lending is the Company's only reportable business segment, based on the definitions provided in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Substantially all of the Company's reported assets, revenues and income are derived from the lending segment in all periods presented.

All lending revenue is generated from external customers and is predominantly derived in the United States. Lending revenues from international operations comprised less than 6% of total managed lending revenues for the year ended December 31, 1998.

NOTE B - SECURITIES AVAILABLE FOR SALE

Securities available for sale as of December 31, 1998, 1997 and 1996 were as follows:

	Maturity Schedule				Market Value Totals	Amortized Cost Totals
	1 Year or Less	1-5 Years	5-10 Years	Over 10 Years		
DECEMBER 31, 1998						
Commercial paper	\$117,395				\$ 117,395	\$ 117,395
U.S. Treasury and other U.S. government agency obligations	125,831	\$1,072,109	\$17,051		1,214,991	1,196,313
Collateralized mortgage obligations			25,877	\$401,443	427,320	426,485
Mortgage backed securities		8,337		7,265	15,602	15,210
Other	76	1,360	589	19,454	21,479	21,356
Total	\$243,302	\$1,081,806	\$43,517	\$428,162	\$1,796,787	\$1,776,759
DECEMBER 31, 1997						
Commercial paper	\$187,145				\$ 187,145	\$ 187,145
U.S. Treasury and other U.S. government agency obligations	400,929	\$ 589,899	\$ 2,506		993,334	989,707
Collateralized mortgage obligations				\$ 18,969	18,969	18,629
Mortgage backed securities		13,278		9,960	23,238	22,966
Other		330	526	19,128	19,984	20,008
Total	\$588,074	\$ 603,507	\$ 3,032	\$ 48,057	\$1,242,670	\$1,238,455
DECEMBER 31, 1996						
Commercial paper	\$ 84,297				\$ 84,297	\$ 84,297
U.S. Treasury and other U.S. government agency obligations	393,583	\$ 354,680			748,263	745,174
Collateralized mortgage obligations				\$ 20,834	20,834	20,479
Mortgage backed securities				11,607	11,607	11,849
Other				12,850	12,850	12,850
Total	\$477,880	\$ 354,680		\$ 45,291	\$ 877,851	\$ 874,649

	Weighted Average Yields			
	1 Year or Less	1-5 Years	5-10 Years	Over 10 Years
DECEMBER 31, 1998				
Commercial paper	6.52%			
U.S. Treasury and other U.S. government agency obligations	5.87%	5.63%	5.20%	
Collateralized mortgage obligations			5.68%	5.78%
Mortgage backed securities		7.27%		6.33%
Other	5.83%	3.81%	6.43%	6.26%
Total	6.19%	5.64%	5.50%	5.81%

# NOTE C - ALLOWANCE FOR LOAN LOSSES

The following is a summary of changes in the allowance for loan losses:

	Year Ended December 31 1998	1997	1996
Balance at beginning of year	\$ 183,000	\$ 118,500	\$ 72,000
Provision for loan losses	267,028	262,837	167,246
Acquisitions/other	7,503	(2,770)	(18,887)
Charge-offs	(294,295)	(223,029)	(115,159)
Recoveries	67,764	27,462	13,300
Net charge-offs	(226,531)	(195,567)	(101,859)
Balance at end of year	\$ 231,000	\$ 183,000	\$ 118,500

# NOTE D - PREMISES AND EQUIPMENT

Premises and equipment as of December 31, 1998 and 1997 were as follows:

	1998	1997
Land	\$ 10,168	\$ 7,849
Buildings and improvements	126,205	90,960
Furniture and equipment	254,070	182,142
Computer software	41,084	28,693
In process	23,325	2,297
	454,852	311,941

Less: Accumulated depreciation and amortization	(212,705)	(149,215)
-------------------------------------------------	-----------	-----------

Total premises and equipment, net	\$ 242,147	\$ 162,726
-----------------------------------	------------	------------

Depreciation expense was \$75,005, \$63,537 and \$39,284, for the years ended December 31, 1998, 1997 and 1996, respectively.

# NOTE E - BORROWINGS

Borrowings as of December 31, 1998 and 1997 were as follows:

	1998		1997	
	Outstanding	Year-End Interest Rate	Outstanding	Year-End Interest Rate
INTEREST-BEARING DEPOSITS	\$1,999,979	4.77%	\$1,313,654	4.49%
OTHER BORROWINGS				
Federal funds purchased and resale agreements	\$1,227,000	5.53%	\$ 705,863	5.75%
Other	417,279	6.58	90,249	7.09
Total	\$1,644,279		\$ 796,112	
SENIOR NOTES				
Bank fixed rate	\$3,268,182	6.29%	\$2,793,778	7.03%
Bank variable rate	146,998	5.89	414,000	6.19
Corporation	324,213	7.17	125,000	7.25
Total	\$3,739,393		\$3,332,778	

# DEPOSIT NOTES

Fixed rate	\$ 224,996	6.71%
Variable rate	75,000	6.15
Total	\$ 299,996	

As of December 31, 1998, the aggregate amount of interest-bearing deposits with accounts exceeding \$100 was \$451,076. In September 1997, the Savings Bank completed the purchase of the national retail deposit franchise of JCPenney National Bank. Retail deposit balances acquired under the agreement were approximately \$421,000.

In November 1996, the Company entered into a four-year, \$1,700,000 unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a \$1,375,000 Tranche A facility available to the Bank and the Savings Bank, including an option for up to \$225,000 in multi-currency availability, and a \$325,000 Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to \$100,000 in multi-currency availability. The borrowings of the Savings Bank are limited to \$750,000. All borrowings under the Credit Facility are based on varying terms of the London InterBank Offered Rate ("LIBOR"). The Bank has irrevocably undertaken to honor any demand by the lenders to repay any borrowings which are due and payable by the Savings Bank but which have not been paid. The facility is structured as a four-year commitment and is available for general corporate purposes. The commitment terminates on November 24, 2000; however, it may be extended for an additional one-year period. As of December 31, 1998 and 1997, the Company had no outstandings under the Credit Facility.

In August 1997, the Company entered into a three-year, \$350,000 equivalent unsecured revolving credit arrangement (the "UK/Canada Facility") to finance the Company's expansion in the United Kingdom and Canada. The UK/Canada Facility is comprised of two tranches: a Tranche A facility in the amount of (Pounds)156,458 (\$249,800 equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C\$139,609 (\$100,200 equivalent based on the exchange rate at closing). An amount of (Pounds)34,574 or C\$76,910 (\$55,200 equivalent based on the exchange rates at closing) may be transferred between the Tranche A facility and the Tranche B facility, respectively, upon the request of the Company. All borrowings under the UK/Canada Facility are based on varying terms of LIBOR. The Corporation serves as the guarantor of all borrowings under the UK/Canada Facility. The facility is structured as a three-year commitment and will be available for general corporate purposes. The commitment terminates on August 29, 2000; however, it may be extended for two additional one-year periods. As of December 31, 1998, the Company had a total of \$166,345 outstanding under the UK/Canada Facility. There were no outstandings under the UK/Canada Facility as of December 31, 1997.

In April 1997, the Bank increased the aggregate amount of bank notes available under its bank note program. Under the program, the Bank from time to time may issue up to \$8,000,000 of senior bank notes at fixed rates or variable rates tied to LIBOR with maturities from thirty days to thirty years. The bank note program also permits the issuance of up to \$200,000 of subordinated bank notes (none issued as of December 31, 1998 and 1997) with maturities from five to thirty years.

In October 1997, the Bank established a program for the issuance of debt instruments to be offered outside of the United States. Under this program, the Bank from time to time may issue instruments in the aggregate principal amount of \$1,000,000 equivalent outstanding at any one time (\$5,000 and none outstanding as of December 31, 1998 and 1997, respectively). Instruments under this program may be denominated in any currency or currencies.

The Corporation has two shelf registration statements under which the Corporation from time to time may offer and sell (i) senior or subordinated debt securities, consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock. The amount of securities registered is limited to a \$625,000 aggregate public offering price or its equivalent (based on the applicable exchange rate at the time of sale) in one or more foreign currencies, currency units or composite currencies as shall be designated by the Corporation. The Corporation issued \$200,000 of ten-year fixed rate senior notes in July 1998 and \$125,000 of seven-year fixed rate senior notes in December 1996. The remaining amount of securities available for issuance under the Corporation's shelf registrations is \$300,000.

In April 1996, the Bank established a deposit note program under which the Bank from time to time may issue up to \$2,000,000 of deposit notes with maturities from thirty days to thirty years.

In January 1997, Capital One Capital I, a subsidiary of the Bank created as a Delaware statutory business trust, issued \$100,000 aggregate amount of Floating Rate Junior Subordinated Capital Income Securities that mature on February 1, 2027. The securities represent a preferred beneficial interest in the assets of the trust. The net proceeds of the offering of \$97,428 were lent to the Bank for general corporate purposes. As of December 31, 1998, the interest rate on these securities was 6.77%.

Interest-bearing deposits and senior notes as of December 31, 1998, mature as follows (all other borrowings mature in 1999):

	Interest-Bearing Deposits	Senior Notes	Total
1999	\$1,262,224	\$ 799,371	\$2,061,595
2000	264,687	780,082	1,044,769
2001	208,628	898,924	1,107,552
2002	36,652	111,682	148,334
2003	227,788	469,854	697,642
Thereafter		679,480	679,480
Total	\$1,999,979	\$3,739,393	\$5,739,372

#### NOTE F - ASSOCIATE BENEFIT AND STOCK PLANS

The Company sponsors a contributory Associate Savings Plan in which substantially all full-time and certain part-time associates are eligible to participate. The Company matches a portion of associate contributions and makes discretionary contributions based upon the Company meeting a certain earnings per share target. The Company's contributions to this plan were \$16,357, \$10,264 and \$9,048 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company has three stock-based compensation plans. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its stock-based compensation plans. In accordance with APB 25, no compensation cost has been recognized for the Company's fixed stock options, since the exercise price equals the market price of the underlying stock on the measurement date of grant, nor for the Associate Stock Purchase Plan (the "Purchase Plan"), which is considered to be noncompensatory.

For the performance-based option plans discussed below, compensation cost is measured as the difference between the exercise price and the target stock price required for vesting and is recognized over the estimated vesting period.

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") requires, for companies electing to continue to follow the recognition provisions of APB 25, pro forma information regarding net income and earnings per share, as if the recognition provisions of SFAS 123 were adopted for stock options granted subsequent to December 31, 1994. For purposes of pro forma disclosure, the fair value of the options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions and is amortized to expense over the options' vesting period.

	Year Ended December 31		
ASSUMPTIONS	1998	1997	1996
Dividend yield	.32%	.82%	.90%
Volatility factors of expected market price of stock	40%	40%	32%
Risk-free interest rate	5.44%	6.27%	5.90%
Expected option lives (in years)	5.2	4.5	6.0

#### PRO FORMA INFORMATION

Net income	\$287,637	\$186,003	\$151,853
------------	-----------	-----------	-----------

Basic earnings per share	\$	4.39	\$	2.82	\$	2.29
Diluted earnings per share	\$	4.13	\$	2.74	\$	2.27

Under the 1994 Stock Incentive Plan, the Company has reserved 10,620,880 common shares as of December 31, 1998, for issuance in the form of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock and incentive stock. The exercise price of each stock option issued to date equals the market price of the Company's stock on the date of grant. Each option's maximum term is ten years. The number of shares available for future grants was 726,223; 97,814 and 1,508,352 as of December 31, 1998, 1997 and 1996, respectively. Other than the performance-based options discussed below, options generally vest annually over three to five years and expire beginning November 2004. All options vest immediately upon a change in control of the Company.

In June 1998, the Company's Board of Directors approved a grant to senior management ("EntrepreneurGrant III"). Included in this grant as of December 31, 1998, were 870,632 performance-based options granted to certain key managers (including 666,680 options to the Company's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO")) at the then market price of \$101.31 per share. The Company's CEO and COO gave up 100,000 and 66,670 vested options (valued at \$8,760 in total), respectively, in exchange for their EntrepreneurGrant III options. Other members of senior management gave up future cash compensation for each of the next three years in exchange for the options. All options made under this grant will vest if the Company's stock reaches \$175 per share for at least ten trading days in a thirty consecutive calendar day period by June 11, 2001, or immediately upon a change in control of the Company.

In April 1998, upon stockholder approval, a 1997 stock option grant to senior management became effective at the December 18, 1997, market price of \$48.75 per share. This grant included 1,143,221 performance-based options granted to certain key managers (including 685,755 options to the Company's CEO and COO), which vested in April 1998 when the market price of the Company's stock remained at or above \$84.00 for at least ten trading days in a thirty consecutive calendar day period. The grant also included 223,900 options which vest in full, regardless of the stock price, on December 18, 2000, or immediately upon a change in control of the Company.

In April 1998, the Company granted 445,084 options to all associates not granted options in the above mentioned grants. Certain associates were granted options in exchange for giving up future compensation. Other associates were granted a set number of options. These options were granted at the then market price of \$95.13 per share and vest, in full, on April 30, 2001, or immediately upon a change in control of the Company.

In April 1996, upon stockholder approval, a 1995 stock option grant to the Company's CEO and its COO became effective. This grant was for performance-based options to purchase 2,500,000 common shares at the September 15, 1995, market price of \$29.19 per share. Vesting of the options was dependent on the fair market value of the common stock remaining at or above specified levels for at least ten trading days in any thirty consecutive calendar day period. Fifty percent of the options vested in January 1997 when the Company's stock reached \$37.50 per share; 25% vested in October 1997 when the stock reached \$43.75 per share; and the remaining 25% vested in January 1998 when the stock reached \$50.00 per share.

The Company recognized \$70,038, \$24,772 and \$7,728 of compensation cost relating to its associate stock plans for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company maintains a non-associate directors stock incentive plan. This plan authorizes a maximum of 500,000 shares of the Company's common stock for the automatic grant of restricted stock and stock options to eligible members of the Company's Board of Directors. As of December 31, 1998, 1997 and 1996, 347,500; 382,500 and 417,500 shares were available for grant under this plan, respectively. The options vest after one year and their maximum term is ten years. The exercise price of each option equals the market price of the Company's stock on the date of grant. As of December 31, 1998, there was no outstanding restricted stock under this plan.

A summary of the status of the Company's options as of December 31, 1998, 1997 and 1996, and changes for the years then ended is presented below:

	1998		1997		1996	
	Options (000s)	Weighted Average Exercise Price Per Share	Options (000s)	Weighted Average Exercise Price Per Share	Options (000s)	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	7,125	\$27.67	5,894	\$23.92	3,315	\$19.67
Granted	3,450	83.90	1,590	40.88	2,694	29.04
Exercised	(742)	20.27	(215)	20.76	(12)	16.40
Canceled	(120)	51.96	(144)	30.16	(103)	21.82
Outstanding at end of year	9,713	\$47.96	7,125	\$27.67	5,894	\$23.92
Exercisable at end of year	5,966	\$30.47	3,815	\$24.43	1,196	\$18.98
Weighted average fair value of options granted during the year		\$35.45		\$16.03		\$11.22

The following table summarizes information about options outstanding as of December 31, 1998:

Range of Exercise Prices	Number Outstanding (000s)	Options Weighted Average Remaining Contractual Life	Options Outstanding Weighted Average Exercise Price Per Share	Options Exercisable (000s)	Options Exercisable Weighted Average Exercise Price Per Share
\$16.00 - \$24.99	1,688	5.93 years	\$ 16.43	1,358	\$16.53
\$25.00 - \$33.99	3,179	6.73	29.10	3,133	29.12
\$34.00 - \$49.99	2,639	8.72	44.46	1,465	46.04
\$50.00 - \$123.99	2,207	9.60	103.43	10	65.95

Under the Company's Purchase Plan, associates of the Company are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. The amounts deducted are applied to the purchase of unissued common or treasury stock of the Company at 85% of the current market price. An aggregate of 1,000,000 common shares has been authorized for issuance under the Purchase Plan, of which 586,556 shares were available for issuance as of December 31, 1998.

On November 16, 1995, the Board of Directors of the Company declared a dividend distribution of one Right for each outstanding share of common stock. Each Right entitles a registered holder to purchase from the Company one one-hundredth of a share of the Company's authorized Cumulative Participating Junior Preferred Stock (the "Junior Preferred Shares") at a price of \$150, subject to adjustment. The Company has reserved 1,000,000 shares of its authorized preferred stock for the Junior Preferred Shares. Because of the nature of the Junior Preferred Shares' dividend and liquidation rights, the value of the one one-hundredth interest in a Junior Preferred Share purchasable upon exercise of each Right should approximate the value of one share of common stock. Initially, the Rights are not exercisable and trade automatically with the common stock. However, the Rights generally become exercisable and separate certificates representing the Rights will be distributed, if any person or group acquires 15% or more of the Company's outstanding common stock or a tender offer or exchange offer is announced for the Company's common stock. Upon such event, provisions would also be made so that each holder of a Right, other than the acquiring person or group, may exercise the Right and buy common stock with a market value of twice the \$150 exercise price. The Rights expire on November 29, 2005, unless earlier redeemed by the Company at \$0.01 per Right prior to the time any person or group acquires 15% of the outstanding common stock. Until the Rights become exercisable, the Rights have no dilutive effect on earnings per share.

In July 1997, the Company's Board of Directors voted to repurchase up to two million shares of the Company's common stock to mitigate the dilutive impact of shares issuable under its benefit plans, including its Purchase Plan, dividend reinvestment plan and stock incentive plans. In July 1998, the Company's Board of Directors voted to increase this amount by an additional 1.5 million shares of the Company's common stock. For the years ended December 31, 1998 and 1997, the Company repurchased 895,800 and 1,318,641 shares, respectively, under this program. Certain treasury shares were reissued in connection with the Company's benefit plans.

## NOTE G - OTHER NON-INTEREST EXPENSE

	Year Ended December 31		
	1998	1997	1996
Professional services	\$ 66,591	\$ 47,671	\$ 43,968
Collections	59,503	23,216	9,783
Bankcard association assessments	23,163	16,074	15,045
Fraud losses	10,278	16,749	26,773
Other	82,270	47,570	36,614
Total	\$241,805	\$151,280	\$132,183

## NOTE H - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997, were as follows:

	1998	1997
Deferred tax assets:		
Allowance for loan losses	\$ 75,738	\$ 60,900
Finance charge and fee income receivables	45,605	17,570
Stock incentive plans	35,949	11,466
State taxes, net of federal benefit	7,310	2,694
Other	37,078	16,890
Subtotal	201,680	109,520
Valuation allowance	(14,168)	
Total deferred tax assets	187,512	109,520
Deferred tax liabilities:		
Securitizations	29,728	26,822
Tax-deferred revenue	10,255	10,167
Other	7,814	9,133
Total deferred tax liabilities	47,797	46,122
Net deferred tax assets before unrealized gains on securities available for sale	139,715	63,398
Unrealized gains on securities available for sale	(38,772)	(1,602)
Net deferred tax assets	\$100,943	\$ 61,796

During 1998, the Company established a valuation allowance related to certain federal, state and international loss carryforwards acquired or generated during the year. The net operating losses expire between 2002 and 2018.

Significant components of the provision for income taxes attributable to continuing operations were as follows:

	Year Ended December 31		
	1998	1997	1996
Federal taxes	\$244,536	\$138,877	\$119,027
State taxes	471	393	1,715
Deferred income taxes	(76,317)	(23,198)	(27,529)
Income taxes	\$168,690	\$116,072	\$ 93,213



The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rate to income tax expense was:

	Year Ended December 31		
	1998	1997	1996
Income tax at statutory federal tax rate	35.00%	35.00%	35.00%
Other, primarily state taxes	3.00	3.00	2.50
Income taxes	38.00%	38.00%	37.50%

#### NOTE I - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(Shares in Thousands)	Year Ended December 31		
	1998	1997	1996
Numerator:			
Net income	\$275,231	\$189,381	\$155,267
Denominator:			
Denominator for basic earnings per share --			
Weighted average shares	65,590	66,070	66,228
Effect of dilutive securities:			
Stock options	3,996	1,578	790
Restricted stock	2	3	8
Dilutive potential common shares	3,998	1,581	798
Denominator for diluted earnings per share --			
Adjusted weighted average shares	69,588	67,651	67,026
Basic earnings per share	\$ 4.20	\$ 2.87	\$ 2.34
Diluted earnings per share	\$ 3.96	\$ 2.80	\$ 2.32

Options to purchase 2,145,281; 949,484 and 20,725 shares of common stock during 1998, 1997 and 1996, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, their inclusion would be antidilutive.

#### NOTE J - PURCHASE OF SUMMIT ACCEPTANCE CORPORATION

On July 31, 1998, the Company acquired Summit Acceptance Corporation ("Summit"), based in Dallas, Texas. Summit is an indirect automobile finance lender with approximately 180 employees and managed loans of approximately \$263,000 as of the purchase date. The acquisition price of \$53,585 was paid through the issuance of approximately 476,000 shares of the Company's common stock from treasury. The acquisition has been accounted for as a purchase business combination. The purchase price has been allocated based on estimated fair values at the date of acquisition, resulting in goodwill of approximately \$68,000 to be amortized on a straight-line basis over fifteen years. The results of Summit have been included in the Consolidated Financial Statements since the date of acquisition.

# NOTE K - REGULATORY MATTERS

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items. The inability to meet and maintain minimum capital adequacy levels could result in the regulators taking actions that could have a material effect on the Company's consolidated financial statements. Additionally, the regulators have broad discretion in applying higher capital requirements. Regulators consider a range of factors in determining capital adequacy, such as an institution's size, quality and stability of earnings, interest rate risk exposure, risk diversification, management expertise, asset quality, liquidity and internal controls.

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the table below. As of December 31, 1998, there were no conditions or events since the notifications discussed above that management believes would have changed either the Bank or the Savings Bank's capital category.

	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well- Capitalized" Under Prompt Corrective Action Provisions
DECEMBER 31, 1998			
Capital One Bank			
Tier 1 Capital	11.38%	4.00%	6.00%
Total Capital	13.88	8.00	10.00
Tier 1 Leverage	10.24	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	9.46%	1.50%	6.00%
Total Capital	13.87	12.00	10.00
Core Capital	9.46	8.00	5.00
DECEMBER 31, 1997			
Capital One Bank			
Tier 1 Capital	10.49%	4.00%	6.00%
Total Capital	13.26	8.00	10.00
Tier 1 Leverage	10.75	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	11.26%	1.50%	6.00%
Total Capital	17.91	12.00	10.00
Core Capital	11.26	8.00	5.00

(1) Until June 30, 1999, the Savings Bank is subject to capital requirements that exceed minimum capital adequacy requirements, including the requirement to maintain a minimum Core Capital ratio of 8% and a Total Capital ratio of 12%.

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains a branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1998 and 1997, the Company's Tier 1 Leverage ratio was 13.49% and 13.83%, respectively.

Additionally, certain regulatory restrictions exist which limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of December 31, 1998, retained earnings of the Bank and the Savings Bank of \$117,191 and \$16,189, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators. The Savings Bank, however, is required to give the OTS at least thirty days advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

# NOTE L - COMMITMENTS AND CONTINGENCIES

As of December 31, 1998, the Company had outstanding lines of credit of approximately \$49,200,000 committed to its customers. Of that total commitment, approximately \$31,800,000 was unused. While this amount represented the total available lines of credit to customers, the Company has not experienced, and does not anticipate, that all of its customers will

exercise their entire available line at any given point in time. The Company generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

Certain premises and equipment are leased under agreements that expire at various dates through 2008, without taking into consideration available renewal options. Many of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost of living index. Total rental expense amounted to \$18,242, \$13,644 and \$12,603 for the years ended December 31, 1998, 1997 and 1996, respectively.

Future minimum rental commitments as of December 31, 1998, for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

1999	\$ 19,097
2000	17,943
2001	16,687
2002	15,884
2003	14,934
Thereafter	24,980
Total	\$109,525

In connection with the transfer of substantially all of Signet Bank's credit card business to the Bank in November 1994, the Company and the Bank agreed to indemnify Signet Bank (which was acquired by First Union on November 30, 1997) for certain liabilities incurred in litigation arising from that business, which may include liabilities, if any, incurred in the purported class action case described below.

During 1995, the Company and the Bank became involved in a purported class action suit relating to certain collection practices engaged in by Signet Bank and, subsequently, by the Bank. The complaint in this case alleges that Signet Bank and/or the Bank violated a variety of California state statutes and constitutional and common law duties by filing collection lawsuits, obtaining judgements and pursuing garnishment proceedings in the Virginia state courts against defaulted credit card customers who were not residents of Virginia. This case was filed in the Superior Court of California in the County of Alameda, Southern Division, on behalf of a class of California residents. The complaint in this case seeks unspecified statutory damages, compensatory damages, punitive damages, restitution, attorneys' fees and costs, a permanent injunction and other equitable relief.

In early 1997, the California court entered judgement in favor of the Bank on all of the plaintiffs' claims. The plaintiffs appealed the ruling to the California Court of Appeals First Appellate District Division 4. In early 1999, the Court of Appeals affirmed the trial court's ruling in favor of the Bank on six counts, but reversed the trial court's ruling on two counts of the plaintiffs' complaint. The Bank intends to petition for further appellate review of the ruling on the two remaining counts.

Because no specific measure of damages is demanded in the complaint of the California case and the trial court entered judgement in favor of the Bank before the parties completed any significant discovery, an informed assessment of the ultimate outcome of this case cannot be made at this time. Management believes, however, that there are meritorious defenses to this lawsuit and intends to defend it vigorously.

The Company is commonly subject to various other pending and threatened legal actions arising from the conduct of its normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of any pending or threatened action will not have a material adverse effect on the consolidated financial condition of the Company. At the present time, however, management is not in a position to determine whether the resolution of pending or threatened litigation will have a material effect on the Company's results of operations in any future reporting period.

#### NOTE M - RELATED PARTY TRANSACTIONS

In the ordinary course of business, executive officers and directors of the Company may have consumer loans issued by the Company. Pursuant to the Company's policy, such loans are issued on the same terms as those prevailing at the time for comparable loans to unrelated persons and do not involve more than the normal risk of collectibility.

#### NOTE N - SECURITIZATIONS

The Company securitized \$4,616,972 (\$245,752 international), \$2,114,695 and \$2,695,000 of consumer loan receivables for the years ended December 31, 1998, 1997 and 1996, respectively. As of December 31, 1998, receivables under securitizations outstanding consisted of \$1,309,518 of retained ("seller's") interests and \$11,742,081 of investors' undivided interests, maturing from 1999 to 2008.

The terms of securitizations require the Company to maintain a certain level of assets, retained by the trust, to absorb potential credit losses. The amount available to absorb potential credit losses was included in accounts receivable from securitizations and was \$263,426 and \$231,809 as of December 31, 1998 and 1997, respectively.

#### NOTE O - OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company has entered into interest rate swaps to effectively convert certain interest rates on bank notes from variable to fixed. The pay-fixed, receive-variable swaps, which had a notional amount totaling \$157,000 as of December 31, 1998, will mature from 2001 to 2007 to coincide with maturities of the variable bank notes to which they are designated. The Company has also entered into amortizing notional interest rate swaps to effectively convert certain interest rates on fixed rate consumer loans from fixed to variable, thereby reducing the interest rate sensitivity of loan securitizations. These pay-fixed, receive-variable interest rate swaps, which had an amortizing notional amount totaling \$2,877,000 as of December 31, 1998, will amortize through 2004 and 2005 to coincide with the estimated attrition of the fixed rate consumer loans to which they are designated. The Company also had a pay-fixed, receive-variable interest rate swap with an amortizing notional amount of C\$225,000, which will amortize through 2003 to coincide with the estimated attrition of the fixed rate Canadian dollar consumer loans to which it is designated.

The Company has also entered into currency swaps that effectively convert fixed rate pound sterling interest receipts to fixed rate U.S. dollar interest receipts on pound sterling denominated assets. These currency swaps had notional amounts totaling \$260,000 as of December 31, 1998, and mature from 2001 to 2005, coinciding with the repayment of the assets to which they are designated.

The Company has entered into f/x contracts to reduce the Company's sensitivity to foreign currency exchange rate changes on its foreign currency denominated assets and liabilities. As of December 31, 1998, the Company had f/x contracts with notional amounts totaling \$1,005,000, which mature in 1999 to coincide with the repayment of the assets to which they are designated.

In 1997, the Company entered into swaps to effectively offset certain pay-variable, receive-fixed swaps which were designated to fixed rate bank notes and securitization liabilities. The offsetting swaps had maturities and terms which paid-fixed and received variable rates to match the original swaps. As of December 31, 1998 and 1997, the original swaps had notional amounts totaling \$291,000 and \$1,041,000, respectively. The offsetting swaps also had notional amounts totaling \$291,000 and \$1,041,000 as of December 31, 1998 and 1997, respectively. As of December 31, 1998, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through the swaps' maturities in 1999 and 2000.

# NOTE P - SIGNIFICANT CONCENTRATION OF CREDIT RISK

The Company is active in originating consumer loans, primarily in the United States. The Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and willingness to repay. Loans are made primarily on an unsecured basis; however, certain loans require collateral in the form of cash deposits. International consumer loans are originated primarily in Canada and the United Kingdom. The geographic distribution of the Company's consumer loans was as follows:

GEOGRAPHIC REGION	Year Ended December 31 1998		1997	
	Loans	Percentage of Total	Loans	Percentage of Total
South	\$ 5,868,386	33.74%	\$ 5,061,414	35.57%
West	3,609,952	20.75	3,361,556	23.62
Northeast	3,032,061	17.43	2,835,256	19.92
Midwest	2,992,334	17.20	2,533,469	17.80
International	1,892,393	10.88	439,320	3.09
	17,395,126	100.00%	14,231,015	100.00%
Less securitized balances	(11,238,015)		(9,369,328)	
Total	\$ 6,157,111		\$ 4,861,687	

# NOTE Q - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following discloses the fair value of financial instruments as of December 31, 1998 and 1997, whether or not recognized in the balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. As required under GAAP, these disclosures exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments as of December 31, 1998 and 1997:

## CASH AND CASH EQUIVALENTS

The carrying amounts of cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks approximated fair value.

## SECURITIES AVAILABLE FOR SALE

The fair value of securities available for sale was determined using current market prices. See Note B.

## CONSUMER LOANS

The net carrying amount of consumer loans, including the Company's seller's interest in securitized consumer loan receivables, approximated fair value due to the relatively short average life and variable interest rates on a substantial number of these loans. This amount excluded any value related to account relationships.

## INTEREST RECEIVABLE

The carrying amount approximated fair value.

## INTEREST ONLY STRIPS

The fair value of the I/O strips was determined using discounted cash flow calculations. Cash flows are estimated based on the latest forecast for the activity related to securitized loans.

**BORROWINGS**

The carrying amounts of interest-bearing deposits, other borrowings and deposit notes approximated fair value. The fair value of senior notes was \$3,769,000 and \$3,351,000 as of December 31, 1998 and 1997, respectively, and determined based on quoted market prices.

**INTEREST PAYABLE**

The carrying amount approximated fair value.

**OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

The fair value was the estimated net amount that the Company would have (paid)/received to terminate the interest rate swaps, currency swaps and f/x contracts at the respective dates, taking into account the forward yield curve on the swaps and the forward rates on the currency swaps and f/x contracts. As of December 31, 1998 and 1997, the estimated fair value was \$(64,713) and \$5,800, respectively.

**NOTE R - RECENT ACCOUNTING PRONOUNCEMENTS**

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on the earning and financial position of the Company.

In March 1998, the America Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which is required to be adopted in the years beginning after December 15, 1998. The Company plans to adopt SOP 98-1 on January 1, 1999. SOP 98-1 will require the capitalization of certain costs incurred after the date of adoption in connection with developing or obtaining software for internal use. The Company currently expenses such costs as incurred. As a result of adopting the new SOP, the Company expects to capitalize certain internal use software costs in 1999 that otherwise would have been expensed as incurred; however, the effect on 1999 net income is not expected to be material. The expected impact of the adoption of SOP 98-1 is based on estimates of future activity, which could change materially in the near term.

**NOTE S - CAPITAL ONE FINANCIAL CORPORATION (PARENT COMPANY ONLY)**  
**CONDENSED FINANCIAL INFORMATION**

BALANCE SHEETS	December 31	
	1998	1997
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 10,887	\$ 203
Investment in subsidiaries	1,211,255	818,518
Loans to subsidiaries(1)	375,396	207,507
Other	62,316	5,001
<b>Total assets</b>	<b>\$1,659,854</b>	<b>\$1,031,229</b>
<b>LIABILITIES:</b>		
Senior Notes	\$ 324,213	\$ 125,000
Borrowings from subsidiaries	54,000	3,300
Other	11,035	9,670
<b>Total liabilities</b>	<b>389,448</b>	<b>137,970</b>
Stockholders' equity	1,270,406	893,259
<b>Total liabilities and stockholders' equity</b>	<b>\$1,659,854</b>	<b>\$1,031,229</b>

STATEMENTS OF INCOME	1998	1997	1996
Interest from temporary investments	\$ 12,485	\$ 11,352	\$ 2,296
Interest expense	18,212	11,067	3,013
Dividends, principally from bank subsidiaries	260,000	228,000	117,400
Non-interest income	893	56	
Non-interest expense	2,700	409	571
Income before income taxes and equity in undistributed earnings from subsidiaries	252,466	227,932	116,112
Income tax benefit	2,863	25	490
Equity in undistributed earnings of subsidiaries	19,902	(38,576)	38,665
Net income	\$ 275,231	\$ 189,381	\$ 155,267
STATEMENTS OF CASH FLOWS	1998	1997	1996
OPERATING ACTIVITIES:			
Net income	\$ 275,231	\$ 189,381	\$ 155,267
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(19,902)	38,576	(38,665)
(Increase) decrease in other assets	(56,682)	(2,183)	2,079
Increase in other liabilities	1,365	3,290	6,380
Net cash used for investing activities	200,012	229,064	125,061
INVESTING ACTIVITIES:			
Increase in investment in subsidiaries	(172,119)	(83,366)	(119,502)
Increase in loans to subsidiaries	(167,889)	(102,507)	(105,000)
Net cash used for investing activities	(340,008)	(185,873)	(224,502)
FINANCING ACTIVITIES:			
Increase in borrowings from subsidiaries	50,900	3,300	
Issuance of senior notes	199,213		125,000
Dividends paid	(20,533)	(20,638)	(20,573)
Purchases of treasury stock	(91,672)	(52,314)	
Net proceeds from issuances of common stock	12,143	6,509	3,109
Proceeds from exercise of stock options	629	4,082	186
Net cash provided by (used for) financing activities	150,680	(59,061)	107,722
Increase (decrease) in cash and cash equivalents	10,684	(15,870)	8,281
Cash and cash equivalents at beginning of year	203	16,073	7,792
Cash and cash equivalents at end of year	\$ 10,887	\$ 203	\$ 16,073

## DIRECTORS AND OFFICERS

### CAPITAL ONE FINANCIAL CORPORATION BOARD OF DIRECTORS

Richard D. Fairbank  
Chairman and Chief Executive Officer  
Capital One Financial Corporation

Nigel W. Morris  
President and Chief Operating Officer  
Capital One Financial Corporation

W. Ronald Dietz\*  
Managing Partner  
Customer Contact Solutions, LLC

James A. Flick, Jr.\*  
President and Chief Executive Officer  
Dome Corporation

Patrick W. Gross\*  
Founder and Chairman, Executive Committee  
American Management Systems, Inc.

James V. Kimsey\*\*  
Founding CEO and Chairman Emeritus  
America Online, Inc.

Stanley I. Westreich\*\*  
President  
Westfield Realty, Inc.

\* Audit Committee

\*\* Compensation Committee

### CAPITAL ONE FINANCIAL CORPORATION EXECUTIVE OFFICERS

Richard D. Fairbank  
Chairman and Chief Executive Officer

Nigel W. Morris  
President and Chief Operating Officer

Marjorie M. Connelly  
Sr. Vice President, Credit Card Operations

Matthew J. Cooper  
Sr. Vice President

James P. Donehey  
Sr. Vice President and Chief Information Officer

John G. Finneran, Jr.  
Sr. Vice President, General Counsel and Corporate  
Secretary

Dennis H. Liberson  
Sr. Vice President, Human Resources

William J. McDonald  
Sr. Vice President, Brand Management

Peter A. Schnall  
Sr. Vice President, Marketing and Analysis

David M. Willey  
Sr. Vice President, Finance and Accounting



## CORPORATE INFORMATION

### CORPORATE OFFICE

2980 Fairview Park Drive, Suite 1300  
Falls Church, VA 22042-4525  
(703) 205-1000  
[www.capitalone.com](http://www.capitalone.com)

### ANNUAL MEETING

Thursday, April 29, 1999, 10:00 a.m. Eastern Time  
Fairview Park Marriott Hotel  
3111 Fairview Park Drive  
Falls Church, VA 22042

### PRINCIPAL FINANCIAL CONTACT

Paul Paquin  
Vice President, Investor Relations  
Capital One Financial Corporation  
2980 Fairview Park Drive, Suite 1300  
Falls Church, VA 22042-4525  
(703) 205-1039

Copies of Form 10-K filed with the Securities  
and Exchange Commission are available without  
charge upon written request to Paul Paquin  
at the above address.

### COMMON STOCK

Listed on New York Stock Exchange  
Stock Symbol COF  
Member of S&P 500

### CORPORATE REGISTRAR/TRANSFER AGENT

First Chicago Trust Company of New York  
c/o Equiserve.com  
P.O. Box 2500  
Jersey City, NJ 07303-2500  
Telephone: (800) 446-2617  
Fax: (201) 222-4892  
For hearing impaired:  
(201) 222-4955  
E-mail: [fctc@em.fcnb.com](mailto:fctc@em.fcnb.com)  
Internet: [www.equiserve.com](http://www.equiserve.com)

### INDEPENDENT AUDITORS

Ernst & Young LLP

CAPITAL ONE FINANCIAL CORPORATION  
SIGNIFICANT SUBSIDIARIES OF REGISTRANT

1. Capital One Bank -- Incorporated in the Commonwealth of Virginia
2. Capital One, F.S.B. -- Federal Savings Bank
3. Capital One Services, Inc. -- Incorporated in the State of Delaware
4. America One Communications, Inc. -- Incorporated in the State of Delaware

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Capital One Financial Corporation of our report dated January 19, 1999, included in the 1998 Annual Report to Stockholders of Capital One Financial Corporation.

We also consent to the incorporation by reference in the following Registration Statements of Capital One Financial Corporation of our report dated January 19, 1999, with respect to the consolidated financial statements of Capital One Financial Corporation incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 1998:

Registration Statement Number -----	Form ----	Description -----
33-80263	Form S-8	Marketing and Management Services Agreement
33-86874	Form S-8	Employee Stock Purchase Plan
33-86876	Form S-8	Employee Savings Plan
33-86986	Form S-8	1994 Stock Incentive Plan
33-91790	Form S-8	1995 Non-Employee Directors Stock Incentive Plan
33-97032	Form S-8	Amendment to 1994 Stock Incentive Plan
33-99748	Form S-3	Dividend Reinvestment and Stock Purchase Plan
333-3580	Form S-3	Debt Securities, Preferred Stock and Common Stock in the amount of \$200 million
333-42853	Form S-8	1994 Stock Incentive Plan
333-45453	Form S-8	Associate Savings Plan
333-51639	Form S-8	1994 Stock Incentive Plan, Tier 5 Special Option Program
333-51637	Form S-8	1994 Stock Incentive Plan
333-57317	Form S-8	1994 Stock Incentive Plan, 1998 Special Option Program
333-58577	Form S-3	Debt Securities, Preferred Stock and Common Stock in the amount of \$500 million
333-60831	Form S-3	Acquisition of Summit Acceptance Corporation
333-70305	Form S-8	1994 Stock Incentive Plan, Supplemental Special Option Program

ERNST &amp; YOUNG LLP

Washington, D.C.  
March 25, 1999



YEAR	YEAR	YEAR
DEC-31-1998	DEC-31-1997	DEC-31-1996
JAN-01-1998	JAN-01-1997	JAN-01-1996
DEC-31-1998	DEC-31-1997	DEC-31-1996
22,393	59,184	30,252
261,800	173,500	450,000
0	0	0
1,796,787	1,242,670	877,851
0	0	0
0	0	0
6,157,111	4,861,687	4,343,902
(231,000)	(183,000)	(118,500)
9,419,403	7,078,279	6,467,445
1,999,979	1,313,654	943,022
1,644,279	796,112	530,983
667,425	344,816	258,816
3,739,393	3,632,774	3,994,233
0	0	0
0	0	0
666	666	663
1,269,740	892,593	739,728
9,419,403	6,467,445	
1,003,122	619,785	592,088
0	0	0
108,414	98,200	68,395
1,111,536	717,985	660,483
67,479	41,932	56,272
416,754	334,847	294,999
694,782	383,138	365,484
267,028	262,837	167,246
0	0	0
1,472,116	883,978	713,182
443,921	305,453	248,480
443,921	305,453	248,480
0	0	0
0	0	0
275,231	189,381	155,267
4.20	2.87	2.34
3.96	2.80	2.32
15.38	12.48	13.76
0	0	0
98,798	99,667	111,791
0	0	0
0	0	0
183,000	118,500	72,000
(294,295)	(223,029)	(115,159)
67,764	27,462	13,300
231,000	183,000	118,500
198,419	174,659	116,429
32,581	8,341	2,071
0	0	0